DIRECT TAX CODE

- Direct Tax code is a reform of direct tax system
- Objectives of Direct Tax code are:-
  - Simplification and consolidation of all direct tax laws of central government
  - To make tax system more effective and efficient.

Simplification of direct tax laws:-
- Tax laws would be re-written in simple language
- Exemptions and reductions would be reduced
- Cross references will be reduced
- Explicit Language will be used.

Consolidation of tax laws:-
- All tax laws dealing with direct taxes would be merged.
- E.g. Income Tax Acct, 1961; Wealth Tax Act, 1957; Gift Tax Act, 1958.

- **Implementation of DTC**
  - Government published a discussion paper on DTC in 2009
  - Government issued DTC bill in parliament in 2010
  - Like all technical bills this bill too was referred to standing committee on finance headed by Mr Yashwant Sinha
  - Government wanted to implement DTC from 1 Apr 2012 but due to delay in report being submitted by the standing committee it was not possible.
  - It is not a very controversial bill as state governments are not involved in it.

Process of clearance of bill submitted to standing committee is:-
1. Submission of report to the parliament
2. Discussion on the bill
3. Voting on the bill
4. Passing of the bill

- **DTC Proposals**
  - **Increase in Income tax** slabs. (Government adopted the proposed tax slabs in financial year 2012 – 2013)
  - **Corporate Income Tax** or Corporation Tax – For both domestic and foreign firms, tax rate should be 30% and no surcharge will be applicable. Currently there is 5% surcharge applicable on domestic firms and for foreign firms tax is 40% along with 2% surcharge is also applicable.
  - **Minimum Alternate Tax** rate should be 20%. Currently the tax rate of MAT is 18.5%.
  - **Savings Scheme** should be under EET. Presently these schemes are under EEE.
  - Few schemes like PF, Gratuity, pension funds etc would still come under EEE.
  - **GAAR – General Anti Avoidance Rule**
    - It is a provision in direct tax system
    - It provided discretionary power to tax official to deny and tax benefit to any firm.
    - Tax officials can violate certain provision of Income Tax Act and Double Taxation Avoidance Act
    - **Advantage** – Will reduce tax avoidance; to check the misuse of DTAA; Impose restrictions on round-tripping.
    - **Disadvantages** – It provides discretionary powers to tax officials; Corruption may increase; Uncertainty will increase; Credit worthiness will decrease.

EET	EEE
E – Exempt	E – Exempt
E – Exempt	E – Exempt
T – Tax	E – Exempt

- First exempt on Investment like PF, fixed deposits
- Second exempt on Accruals i.e. the income earned from the investments
- Third exempt is for withdrawal i.e. investment withdrawal is exempt
- Under DTC Withdrawal will be taxed.

- Guidelines issued by government in implementation of GAAR
  - It was postponed for 1 year
  - Approving panel should be established having 3 high ranking Income Tax officials
  - GAAR will be invoked only for large transactions.
- Parthasarathi Shome committee recommendations
  - GAAR should be postponed for 3 years i.e. 1st April 2016.
  - Whether GAAR has to be invoked or not should be decided by approving committee.
  - Threshold limit to be set as 3 crore.
  - Capital gains tax should be abolished and advanced ruling should be allowed.
  - Tax residency certificates by governments of other countries should be accepted
  - The prime objective of GAAR should be to check misuse of tax and it should be invoked only in contravention cases.
  - If Specific anti avoidance rules is present then GAAR should not be invoked.
  - Shome panel also recommended that retrospective amendment should be made only in rarest of rare cases.

TAX REFORMS

- In 1991 banking sector reforms were adopted and Narsimham committee was set up. Also in the same year Tax reforms committee was set up under the chairmanship of Dr Raja J Chelliah.
- Chelliah committee recommendations:-
  - Tax rates in respect of all the taxes should be reduced.
  - Number of tax slabs should be reduced.
  - Service tax should be introduced (It was introduced in 1994)
  - Government should convert Modvat into full-fledged VAT.
  - Capital gains tax should be indexed to inflation
  - Wealth tax should be imposed only on non-productive wealth.
  - Specific taxes should be converted into ad valorem taxes.
- 2 task forces were set up in 2002 under the chairmanship of Dr Vijay Kelkar. Its recommendations were:-
  - Income tax exemption limit should be decreased.
  - MAT should be abolished
  - Dividend distribution tax should be abolished for companies and shareholders
  - Long term capital gains tax on listed securities should be abolished

  Direct tax

  - Service tax should be expanded in a comprehensive manner
  - Most of the excise should be replaced by Cenvat
  - Custom duty should be reduced to the rates prevailing in ASEAN countries.
  - State level VAT should be adopted in a uniform manner in all the states

  Indirect tax

PUBLIC FINANCE AND FISCAL ISSUES

- **Budget**
  - It is an annual financial statement of the estimated receipts and expenditure of the government during a financial year.
  - Budget is compulsory as per Article 112
  - It is compulsory for even for states according to article 202
  - Objectives:-
    - Transparency
    - Accountability

        - To ensure advance planning
        - Legislative control over executive
    - Types of Budget:-
        - Zero based Budget (ZBB)
            - This was given by Peter Pyhrr and was introduced in India in 1987
            - No consideration is given to previous expenditure
            - Government expenditure must be spent on most efficient programs
        - Performance Budget or Performance and Program Budget
            - Demand of grants should have Quantitative objectives, programs and criteria for assessment of performance
        - Outcome Budget (reformed version of Performance Budget)
            - Annual targets of each program are sub-divided into quarterly targets
            - Appropriation Bill is passed in May
            - Outcome Bill is presented by ministries after Appropriation Bill is passed in May.