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.

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.

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.

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- 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
  - 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

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

Direct tax

Indirect tax
- 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.