

DIRECT TAX CODE

- > Direct Tax code is a reform of direct tax system
- Objectives of Direct Tax code are:
 - o 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

- o Government published a discussion paper on DTC in 2009
- o 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 roundtripping.
 - Disadvantages It provides discretionary powers to tax officials; Corruption may increase; Uncertainty will increase; Credit worthiness will decrease.

| EET | <u>EEE</u> |
|-------------------------------------|--|
| E – Exempt E – Exempt T – Tax | E – Exempt E – Exempt 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.

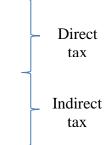
- Guidelines issued by government in implementation of GAAR
 - It was postponed for 1 year
 - Approving panel should be established having 3 high ranking Income Tax officials
 - GAAR will be invoked only for large transactions.
- Parthasarathi Shome committee recommendations
 - GAAR should be postponed 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
 - o 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
 - \circ $\:$ 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.