सत्यमेव जयते

Tax Administration Reform in India
Spirit, Purpose and Empowerment

Recommendations, Feedback & Way Forward

Tax Administration Reform Commission
Ministry of Finance, Government of India

February 2015

Govt. of India
Ministry of Finance
Tax Administration Reform Commission
NBCC Plaza, 3rd Floor, Pushp Vihar, Saket, New Delhi-110017

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F. No. TARC/Report/36/2014-15

Date 20/02/2015

To

Shri Arun Jaitley
Hon'ble Minister of Finance
Government of India

Sir,

We submit herewith the Recommendations, and Feedback of the Tax Administration Reform Commission (TARC).

Dr. Parthasarathi Shome
Chairman

Y. G. Parande
Member

Sunita Kaila
Member

M. K. Zutshi
Member

S. S. N. Moorthy
Member

S. Mahalingam
Member

M. R. Diwakar
Member

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Preface

This final volume written by the TARC has three objectives. First, under one cover it lists all its recommendations relating to the entire terms of reference covering various areas of the Indian tax administration. To include the menu of recommendations at one place was viewed as essential so that the interested reformer does not have to plough through the pages of the TARC's findings covered in four spacious reports.

Second, in a unique venture, the TARC decided to visit the field in a town hall approach to receiving feedback on its recommendations from officers spread out in the field. It thus visited Ahmedabad, Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai, New Delhi and Patna. Officers presented their views in an open and useful manner and the TARC responded and answered queries to the extent feasible. The discussions were rich enough to be shared with the wider audience and also to indicate the trend of thinking among officers. In some areas, views were by and large similar; in others they varied considerably. These are reported here in some detail. They revealed why fundamental tax administration reform would benefit from decisions made at the top policy making level while recognising the importance of full preparation for change by the people, or staff, of the tax administration.

Third, after recommending much structural reform and providing a roadmap for achieving the reform in the first Executive Summary volume that was published with the first report, the TARC felt that it would be useful to describe in some detail the first action areas with which the tax departments could begin the task of reform. These areas are addressed in this volume.

The most important actors for this volume are the field officers who made excellent presentations and participated openly with the TARC in lively deliberations. No less important were the ones made by various associations of both Group A and Group B officers in different functional areas in regional centres as well at the national level. The TARC, noting the quality of some of the explanations provided, tweaked or amplified some of its recommendations based on new or added information provided by the field.

At the conclusion of the TARC process, it places on the table of Government a report with many recommendations on the reform of the Indian tax administration that has been agreed unanimously by its Chairman and entire Membership comprising national and international experience, representation from the highest ex-officials of the Indian tax administration, and the highest management levels of the Indian private sector with life-long experience in the field of taxation and tax administration. It looks forward to anticipating the right policy action reflecting its critical findings, conclusions and recommendations.

The TARC appreciates the contributions made by its staff at all levels in the form of administrative and intellectual support.

Dr. Parthasarathi Shome
Chairman
Tax Administration Reform Commission

New Delhi

20th February 2015

Tax Administration Reform Commission

Chairman

Dr. Parthasarathi Shome	Level of Minister of State

Members - full time

Y. G. Parande	Ex-Member, CBEC
Sunita Kaila	Ex-Member, CBDT

Members - part time

M.K. Zutshi	Ex-Chairman, CBEC
S.S.N. Moorthy	Ex-Chairman, CBDT
S. Mahalingam	Ex-Chief Financial Officer and Executive Director, TCS
M.R. Diwakar	Ex-Vice President, Taxation, Murugappa Group

Secretariat

Sanjay Kumar	Secretary
Sukalyan Banerjee	Under Secretary

Research Consultants

Md. Tarique Hasan Khan

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Administrative Support

Tejpal	Consultant (Administration)
Deepak Chauhan	Consultant (Administration)
Jagdish	Assistant
Ankur Verma	Steno/Assistant

List of Annexures

Glossary of Technical Terms

AAR	Authority for Advance Ruling
AAR	Authority for Advance Ruling
ACP	Accredited Clients Programme
ADCIT	Additional Commissioner of Income Tax
AEO	Authorized Economic Operator
AO	Assessing Officer
APA	Advance Pricing Agreement
APAR	Annual Performance Appraisal Report
APIS	Advanced Passenger Information System
ASK	Aayakar Seva Kendra
ATM	Automatic Teller Machine
BCTT	Banking Cash Transaction Tax
CAC	Common assessment Center
CAG	Comptroller & Auditor General
CBDT	Central Board of Direct Taxes
CBEC	Central Board of Excise and Customs
CBIN	Common Business Identification Number
CEIB	Central Economic Intelligence Bureau
CENVAT	Central Value Added Tax
CFO	Chief Financial Officer
CGST	Central Goods and Services Tax
CIO	Chief Information Officer
CIT	Corporate Income Tax

CPC	Central Processing Centre
CPC-TDS	Central Processing Centre for Tax Deducted at Source
CPMS	Comprehensive Performance Management System
CVC	Central Vigilance Commission
DGFT	Directorate General of Foreign Trade
DGHRD	Directorate General of Human Resource Development
DICI	Directorate of Intelligence and Criminal Investigation
DoPT	Department of Personnel & Training
DRI	Directorate of Revenue Intelligence
DRP	Dispute Resolution Panel
DRP	Dispute Resolution Panel
DW & BI	Data Warehouse and Business Intelligence
EIB	Economic Intelligence Bureau
EPFO	Employees Provident Fund Organisation
FBT	Fringe Benefits Tax
FIU	Financial Intelligence Unit
FTC	Foreign Tax Credit
FTC	Foreign Tax Credit
GC	Governing Council
GST	Goods and Services Tax
HNWI	High Net Worth Individual
ICAI	Institute of Chartered Accountants of India
ICD	Inland Container Depot
ICT	Information and Communication Technology
IEO	Independent Evaluation Office

IPR	Intellectual Property Rights
IRITS	Indian Revenue IT Services
IRS	Indian Revenue Service
ITAT	Income Tax Appellate Tribunal
ITBA	Income Tax Business Application
ITD-MS	Integrated Taxpayer Data Management System
JAG	Junior Administrative Grade
KAI	Knowledge, Analysis and Intelligence
KAIC	Knowledge, Analysis and Intelligence Centre
KYC	Know Your Customer
LBS	Large Business Service
LBSNAA	Lal Bahadur Shastri National Academy of Administration
LTU	Large Taxpayer Units
M&E	Monitoring and Evaluation
MoU	Memoranda of Understanding
NACEN	National Academy of Customs, Excise and Narcotics
NADT	National Academy of Direct Taxes
NMS	Non-filing Monitoring System
OSCPA	On Site Post Clearance Audit
OSPCA	On-site Post Clearance Audit
PAN	Permanent Account Number
PAN	Permanent Account Number
PMU	Programme Management Units
RBI	Reserve Bank of India
RFD	Result Framework Document

RMD	Risk Management Division
RMS	Resource Management System
ROC	Registrar of Companies
RS	Revenue Secretary
RTA	Regional Trade Agreement
SAFE	Safe framework of standards to secure and facilitate global trade
SEBI	Securities & Exchange Board of India
SEZ	Special Economic Zone
SGST	State Goods and Services Tax
SLA	Service Level Agreement
SME	Small and Medium Enterprises
SOP	Standard Operating Procedures
SPRM	Strategic Planning and Risk Management
SPV	Special Purpose Vehicle
TAN	TDS Account Number
TARC	Tax Administration Reform Commission
TC	Tax Council
TDS	Tax Deduction at Source
TPA	Tax Policy and Analysis
TPL	Tax Policy and Legislation
TPO	Transfer Pricing Officer
TRU	Tax Research Unit
UPSC	Union Public Service Commission
VAT	Value Added Tax
WCO	World Customs Organisation

Recommendations, Feedback & Way Forward

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Recommendations, Feedback & Way Forward

I. Introduction

A tax administration is a litmus test of how good or bad the rest of public administration is. Its problems are a microcosm of those afflicting the rest. Hence, successfully reorganising a tax administration should point to how the rest should be organised. In other words, reforming a tax administration paves the way for reforming the rest of the administration. In this light, the lament that the TARC heard frequently from tax administrators that the tax administration should not suffer the first glare or correction is incorrect.

The tax administration should progress from a position of the sovereign right to revenue to that of a public service oriented facilitator of the taxpayer and protector of his rights. Collection of revenue, driven solely by rigidly mandated targets should be eschewed. And the complex web of intricate regulations and procedures and poorly drafted and ill-considered laws that have led to uncertainty in business climate and unwarranted risk in economic activity must be quickly and steadfastly eradicated.

The practice of issuing 'precautionary demands' as a counter to adverse views from the CAG has taken away the zeal to combat views opposed to that of an Assessing Officer (AO) from the tax administration, thus leading to lack of trust in the AO. Besides, senior officers seem to be aware of field practices and have instituted 'vigilance' including anonymous tipping off to keep staff on their toes, but the result has been deep demoralisation at the lack of trust.

Reform must come from two directions. For taxpayers, the compliance costs have to be drastically reduced and some lightening of the most egregious taxes is called for. For tax officers, the inducements could be a hike in pay and bonuses reflecting performance. The criteria and modalities will have to be designed and spelt out, perhaps linked to quality collections. The objective has to be to get all stakeholders – tax officers and taxpayers – to operate in ways that promote the overall goals of efficiency and equity in tax collection by facilitating taxpayers with a customer focus while, at the same time, segmenting taxpayers to reduce tax evasion.

The importance of expanding and deepening the tax policy and analysis wing cannot be over-emphasised since policy and administration decisions are not based on what is understood or recognised as appropriate or acceptable analysis in an international benchmarking of other tax administrations. In effect, the recommended Tax Policy and Analysis (TPA) unit would be the Finance Minister's revenue secretariat, formulating sound tax policies with due impact assessments, analysis of the trade-offs involved and monitoring realistic revenue targets. Evaluation of action taken through an Independent Evaluation Office (IEO) is also of the essence.

The TARC has analysed all aspects of tax administration reform as reflected in its terms of reference in a continuing series of chapters in four volumes. They comprise many immediately needed and feasible reform measures as well as longer terms structural reforms. This summing up of the TARC reports is arranged as follows. First, the recommendations that the TARC has made under each term of reference

are listed so that all recommendations appear under one cover. Second, the TARC met the two Boards and visited several tax offices to receive feedback on its recommendations from field officers and staff associations at all levels as well as policy level staff. Cities visited include Ahmedabad, Bengaluru, Chennai, Hyderabad, Kolkata, Mumbai, New Delhi, and Patna. The thrust of the feedback thus received on selected TARC recommendations is also summarised. Finally, the areas for immediate reform action are summarised.

II. List of TARC's recommendations

First Report

Terms of reference:

- *To review the existing organizational structure and recommend appropriate enhancements with special reference to deployment of workforce commensurate with functional requirements, capacity building, vigilance administration, responsibility and accountability of human resources, key performance indicators, staff assessment, grading and promotion systems, and structures to promote quality decision-making at high policy levels.*

- *To review the existing business processes of tax administration including the use of information and communication technology and recommend measures best suited to the Indian context.*

- *To review the existing mechanism of dispute resolution, time involved for resolution, and compliance cost and recommend measures for strengthening the process. This includes domestic and international taxation.*

- *To review existing mechanism and recommend measures for improved taxpayer services and taxpayers education programme. This includes mechanism for grievance redressal, simplified and timely disbursal of duty drawback, export incentives, rectification procedures and refunds etc.*

Chapter II – Customer Focus

- There should be a dedicated organisation for delivery of taxpayer services with customer focus for each of the Boards. There should be an exclusive Member in each Board for taxpayer services. The taxpayer services vertical under each Board would be headed by an officer of the rank of Principal Chief Commissioner, who would be responsible for the delivery of taxpayer services. This implies dedicated resources and personnel for this vertical. (Section II.6.c)

- Taxpayer service delivery will be located under one umbrella for large taxpayers, i.e., the CBDT and CBEC will jointly function for large taxpayers through Principal DG (LBS). For other taxpayers, i.e., medium and small, the operations of the CBDT and CBEC will continue in separate chains. (Section II.6.c)

- Officers and staff at all levels of tax administration should be trained for customer orientation. Further, for people posted in this vertical, the training in customer focus needs to be more specialised and intensive. This training should be appropriate to the areas in which such officers are deployed such as customer relationship, measurement of customer satisfaction, taxpayer education, etc. (Section II.6.a)

- In line with the international practice of spending 10-15 per cent of the administration's budget, a minimum of 10 per cent of the tax administration's budget must be spent on taxpayer services. At least 10 per cent of the budget for tax administration should be allocated and spent for ICT-based taxpayer services. (Section II.6.a)

- Sufficient funds must be allocated to conduct customer research, including, in particular, on customer surveys. (Section II.6.b)

- In redressing taxpayer grievances, the decision of the Ombudsperson should be binding on tax officers. To bring independence and effectiveness to the office of the Ombudsperson, non-government professionals should also be inducted in the post. (Section II.6.b)

- Pre-filled tax returns should be provided to all individuals. The taxpayer will have the option to accept the tax return as it is or modify it. In either event, the filing process would be completed with the submission of the tax return electronically. (Section II.6.b)

- There is an urgent need to revisit the present citizen's charter to make it more meaningful and customer focused. The citizen's charter should be renamed the taxpayer's charter to focus on all categories of taxpayers. (Section II.6.c)

- There should be regular stakeholder consultations on the issues of tax disagreements and tax law changes. The Commission recommends a permanent body for stakeholder engagement. The recent experience of the Forum through which many issues were resolved between stakeholders and the tax departments should become a continuing activity. (Section II.6.b)

- There should be a system for online tracking of dak/grievances/applications for refunds, etc. It should be made mandatory to receive all *dak* through a central system generating a unique ID. The ASK software implemented by the CBDT provides such a mechanism in a limited manner. This needs to be extended to all offices. The functionality to enable the taxpayer to track the status of his application/grievance online should be added to the ASK system. A similar system for online receipt of application should be enabled on the indirect tax side. (Section II.6.c)

- Continuous benchmarking of the tax administration, particularly in relation to the delivery of taxpayer services, with that of other tax administrations should be done to highlight the area of focus. (Section II.6.c)

Chapter III - Structure and Governance

- The two Boards must embark on selective convergence immediately to achieve better tax governance, and, in the next five years, move towards a unified management structure with a common Board for both direct and indirect taxes, called the Central Board of Direct and Indirect Taxes. For a unified management structure, apart from the common Board, the functions that can easily support the framework would be in the areas of human resource management and vigilance, finance, ICT, infrastructure and logistics, and compliance verification. (Section III.4.e)

- The convergence can begin for the large business segment by setting up of a large business service (LBS) unit, which will be integrated and operated jointly by the two Boards. This will be taxpayer segmentation by the tax administration, and joining LBS will not be at the option of the taxpayer. All the core tax functions will be managed jointly by officers of the two Boards. (Section III.4.b)

- The tax administration needs to have greater functional and financial autonomy and independence from governmental structures, given their special needs. (Section III.7)

- The post of revenue secretary should be abolished. The present functions of the Department of Revenue should be allocated to the two Boards. This would empower the tax departments to carry out their assigned responsibilities efficiently. (Section III.7)

- A Governing Council, headed by chairperson of the two Boards, by rotation, and with participation from outside the government, should be set up at the apex level to oversee the functioning of the two Boards. (Section III.4.c)

- An Independent Evaluation Office (IEO) should be set up. Its main work would be to monitor the performance of the tax administration, promote accountability, evaluate the impact of tax policies and assess all factors that affect tax administration. IEO will report to the Governing Council so as to ensure its independence. (Section III.4.c)

- A Tax Council should be set up to develop a common tax policy, analysis and legislation for both direct and indirect taxes. The council will be headed by the Chief Economic Adviser of the Ministry of Finance. (Section III.4.d)

- A common Tax Policy and Analysis (TPA) unit, comprising tax administrators, economists, and other specialists such as statisticians, tax law experts, operation research specialists and social researchers, should be set up for both Boards. The existing TPL in the CBDT and TRU in the CBEC should be subsumed in the common TPA. TPA will report to the Tax Council through the concerned member of each Board. TPA will be responsible for all three major components of tax policy formulation – policy development, technical analysis, and statutory drafting. (Section III.4.d)

- Each rule, regulation and other tax policy measure such as exemptions should be reviewed periodically to see whether they remain relevant to the contemporary socio-economic conditions and meet changing requirements. For this, a robust process should be institutionalised. As a first step, a thorough review of existing rules, regulations and notifications should be undertaken. Going forward, it should be a standard practice to insert a sunset clause in each rule, regulation and notification. (Section III.4.d)

- The present Boards are not aligned to various needs nor are they geared to respond to emerging and future challenges in an effective and efficacious manner. Keeping that in mind, the two Boards should be expanded to have ten Members, apart from the Chairperson. (Sections III.5)

- The two Boards will be responsible only for policy dimensions of tax administration, while the directorates under them would be responsible for operations in the field formations. These directorates would have a vertical and horizontal alignment with functions, and would interact with each other in a matrix-like structure of responsibilities and accountability. (Section III.5)

- The field formations are currently organised to handle all key functions in a particular geographic region. In order to bring about a functional orientation, field offices will need to be restructured along the core functions of taxpayer services, compliance, audit, dispute management, enforcement and recovery, etc. (Section III.5)

- A functional orientation would promote specialisation in the respective area of tax administration. For these reasons, specialisation should be encouraged by selecting suitable officers and providing them sufficient tenures to develop specialised knowledge in key sectors. (Section III.5.d)

- A common approach to develop a robust and comprehensive enterprise risk management framework should be adopted by the two Boards. This should be approved by the Governing Council to bring coherence. (Section III.5.a.i)

- There should be one Knowledge, Analysis and Intelligence (KAI) centre for both the Boards and its role should be recognised and used for policy and operational effectiveness. (Section III.6)

Chapter IV - People Function

- Both the departments should shift all their key operations to the digital platform so that performance can be reliably measured. (Section IV.3.d)

- A system of limited departmental competitive examinations should be introduced by earmarking 33 per cent of the vacancies in the promotions quota in Group B and Group A, so that relatively more meritorious and younger officers in the feeder grades can get a fast track in promotions. (Section IV.3.c)

- Recruitment needs to be made on the basis of carefully drawn recruitment plans that balance the short and long-term needs and career aspirations of officers. (Section IV.3.c)

- Provision should be made for the lateral entry of experts in key roles and specialised areas. While they may be on contract for 5 years, subject to their suitability and willingness, they should be able to integrate with the organisation at the end of the contract period. (Section IV.3.c)

- The CBEC needs to develop a human resource management system, as has been done by the CBDT; collaboration and knowledge exchange between the two DGs (HRD) will enable the CBEC to get such a system going in a shorter time. (Section IV.3.b)

- A comprehensive performance management system needs to be set up for both tax administrations by revisiting and reconstructing the RFD. (Section IV.3.d)

- Key performance indicators, detailing the performance areas, objectives, key initiatives, performance indicators and performance targets, should be arrived at using the Balanced Scorecard methodology. (Section IV.3.d)

- The performance appraisal process needs to be made more wholesome and reliable by making it more open and by introducing a mid-year review. (Section IV.3.d)

- The tax administrations should extend the performance appraisal system to elements of 360° appraisal to include feedback from subordinates. (Section IV.3.d)

- The outcome of discussions during the performance appraisal process should result in the superior taking responsibility for juniors by putting in place an improvement plan to overcome their weaknesses. (Section IV.3.d)

- Performance needs to be recognised through non-pecuniary measures such as giving important assignments in chosen areas of work or specialisation. (Section IV.3.d)

- To facilitate renewal of talent and professional growth, officers should be allowed to move outside the departments for defined periods of time. (Section IV.3.d)

- The career of IRS officers should be divided into three phases:

    - The first 9-10 years should be spent rotating through different functional areas to gain familiarity

    - The next 8-9 years should be in two or more specialist areas

    - Persons showing the ability for top leadership will go into the third phase and constitute the pool from which selection will be made for top positions (Section IV.3.d)

- A common assessment centre for the two Boards needs to be set up by the people function to make a thorough, all round assessment of officers at the first transition point. (Section IV.3.d)

- In view of a different promotion system being recommended, the UPSC should be consulted for exempting these promotions in the IRS from their purview like some other services; e.g., the Indian Foreign Service, Indian Railway Services and Indian Audit and Accounts Services are exempted. However, if the UPSC is willing to be associated with the altered promotion scheme, that option should be considered. (Section IV.3.d)

- A formal mentorship programme may be set up, with carefully selected mentors. (Section IV.3.d)

- The transfer and posting policy should be recast to promote specialisation and accommodation of individuals' choices in professional growth and should bring about predictability, stability and certainty to placements. Personal difficulties of officers should receive due consideration. (Section IV.3.e)

- DGs (HRD) should assist the Boards in transfers and postings and they should be member secretaries of the placement committees. The administration section should have no role to play. (Section IV.3.e)

- Learning and development should occupy a central place in people advancement and all officers must undergo a minimum of 10 days of training every year. (Section IV.3.f)

- NADT and NACEN infrastructure should be substantially upgraded and the academies need to keep themselves updated in terms of the contemporariness of course content, pedagogy and use of ICT in training. They should be treated on par with LBSNAA. Their budgets should match the stipulation of the National Training Policy, i.e., 2.5 per cent of the salary budget of the departments should be earmarked for training and should be treated as plan expenditure. (Section IV.3.f)

- More emphasis in training needs to be given on customer focus and value education. (Section IV.3.f)

- A code of ethics needs to be developed, congruent with the values in the vision and mission statement. (Section IV.4.a)

- There should be a more proactive approach to preventive vigilance. (Section IV.4.b)

- The provisions of Rule 56(j) of the Fundamental Rules should be effectively utilised for weeding out officers who are inefficient or of doubtful integrity. The criterion for review should be changed to completion of 20 years of service. (Section IV.3.d)

- The CVC should have a Member who has been an officer of either of the IRSs and there should be at least one Joint Secretary/Additional Secretary level officer posted in the secretariat of the CVC. (Section IV.4)

- No cognizance should be taken of anonymous complaint as laid down in the existing DoPT instruction. (Section IV.4.d)

Chapter V - Dispute Management

- For clarity in law and procedures, a process based on best practices outlined in Section V.4.b should be followed. (Section V.4.b)

- Retrospective amendment should be avoided as a principle. (Section V.3.e)

- The fundamental approach should be collaborative and solution oriented. (Section V.3.d)

- Both the Boards must immediately launch a special drive for review and liquidation of cases currently clogging the system by setting up dedicated task forces for that purpose. The review and liquidation should be completed within one year and the objective should be to decide all cases pending in departmental channels for longer than a year as on the start date of the action plan. (Section V.6)

- Dispute management should be a functionally independent structure with adequate infrastructural support. (Section V.4.a)

- Officers posted in the dispute vertical must receive adequate induction training and on-the job training in different areas. (Section V.4.a)

- To minimise the potential for disputes, clear and lucid interpretative statements on contentious issues should be issued regularly. These would be binding on the tax department. (Section V.4.b)

- The current practice of raising demands irrespective of merits should be discontinued. The call book in the CBEC should be abolished. (Section V.4.b)

- The process of pre-dispute consultation before issuing a tax demand notice should be put into practice.(Section V.4.b)

- Disputes must get resolved in time according to the times lines mentioned for decisions in the respective enactments. The law should also prescribe the consequences of not adhering to time lines, which would be that the case in question would lapse in favour of the taxpayer. (Section V.5)

- Ordinarily, an appeal should not be filed against the orders of Commissioner (Appeals), except where the orders are ex-facie perverse. (Section V.5)||

- The present structure of Commissioner (Appeals) should be changed to two forums, namely, single Commissioner (Appeals) and 3-member Commissioner (Appeals) panels. If the case is not decided within the prescribed time frame, the taxpayer's appeal would be deemed to have been allowed. (Section V.5)

- The DRP in income tax should be made full-time panels. Their mandate should be expanded to include corporate cases of residents as well. The same mechanism should be introduced in indirect taxes also, where a collegium of three Commissioners will decide complex cases involving an extended period of limitation, related party transactions and taxability of services. (Section V.4.e)

- There should be a DRP for indirect taxes also on the same lines as in the I-T Act and in conjunction with the recommendation made above. (Section V.4.e)

- The jurisdiction of the AAR should be made available for domestic cases also. More benches of the AAR should be established at Mumbai, Bangalore, Chennai and Kolkata, with the principal bench at Delhi. (Section V.4.c)

- The Settlement Commission should act as part of taxpayer services, and be made available to the taxpayer to settle disputes at any stage. There should also be an increase in the number of benches of the Settlement Commission. It should be manned by serving officers to enhance its accountability. (Section V.5)

- Appeals to high courts and the Supreme Court should only be on a substantial question of law. (Section V.5)

- Authorised representatives from the departments should be carefully selected and given sufficient incentives and necessary infrastructural support to perform their duties effectively. They should also be given specialised training before they are asked to appear for the department. The administration of the DR function should also be in the dispute management vertical. (Section V.5)

- On disposal of a case by Supreme Court/High Court and if the judgment is accepted by the Department, an instruction should be issued to all authorities to withdraw appeals in any pending case involving the same issue. (Section V.6)

Chapter VI - Key Internal Processes

Registration

- The present permanent account number (PAN) should be developed as a common business identification number (CBIN), to be used by other government departments such as customs, central excise, service tax, DGFT and EPFO. A better regulatory system should be put in place to enhance its robustness and reliability. (Section VI.1.c)

- Both central excise and service tax should be covered under a single registration as both the taxes are administered by the same department and cross-utilisation of credit is permitted between central excise and service tax under the CENVAT credit rules. (Section VI.1.c)

- It is necessary to provide for de-registration, cancellation or surrender of registration numbers and PAN. (Section VI.1.c)

Tax payments

- Banks should be left to authorise their branches to collect taxes, and the present process of selection of banks needs to be purely standards-based and transparent. (Section VI.2.c)

- Payment gateways should be increased for better customer convenience. (Section VI.2.c)

Filing of tax returns

- I-T returns should also include wealth tax return so that the taxpayer need not separately file wealth tax returns. These returns should also be processed together in the CPC at Bengaluru. (Section VI.3.a)

- The disclosures in the return should include a brief mention of the issues on which there has been on-going litigation between the tax administration and the taxpayer, and should indicate the factual and legal position adopted while computing taxable income for a year. This is to protect taxpayers from allegation of non-disclosure, suppression, escapement of income, etc., which often results in the initiation of penal provisions. (Section VI.3.a)

- Taxpayers should give information on their compliance experience at the time of filing returns; this information should be used to improve taxpayer service bringing in customer focus. (Section VI.3.a)

- Territorial jurisdiction should be dispensed with and industry-based assessment should be introduced in line with recommendations in Chapter III of this report. (Section VI.3.a)

- The CBEC should set up centralised processing units in line with the CPC, Bengaluru, and CPC-TDS at Ghaziabad for processing central excise and service tax returns. (Section VI.3.a)

- There should be a common return for excise and service tax. (Section VI.3.a)

- The CBEC should set up an e-portal and all invoices should be issued from that portal. This portal should be linked and made compatible with SAP ERP systems, which a majority of companies use for their own invoicing. E-invoice would simplify credit/refund procedures, which would become automatic. (Section VI.3.a)

Scrutiny in direct taxes and audit in indirect taxes

- Hearing in all tax cases by personal presence should be avoided, and data can be sought through an e-system. The taxpayer can upload the data on the e-system. Personal hearing should be sought only in complex cases. (Section VI.4.a)

- There should be specialisation in scrutiny/audit work as recommended in Chapters III and IV of the report. Capability should be developed through training and re-training. The two Boards should also develop a standard audit protocol, with clear emphasis that AOs must follow the principles of natural justice and respect the taxpayer rights to privacy and dignity. (Section VI.4.a)

- Audit Commissionerates in the CBEC should undertake integrated audit covering central excise and service tax together and onsite customs post-clearance audit (OSPCA) in the case of accredited clients (ACP), as the records and books to be verified are common to all the taxes administered by the CBEC. In major cities where exclusive Central Excise or Service Tax Commissionerates are functional, the audit function should be assigned to a specific Audit Commissionerate for carrying out integrated audit of customs, central excise and service tax. (Section VI.4.a)

- Joint audits should be undertaken by field formations of the CBDT and the CBEC to shorten examination processes and reduce costs, both for the tax administration and for taxpayers. This may require a change in procedures for the CBDT as at present, the I-T Act does not have a provision for open audit as is done in indirect taxes. (Section VI.4.a)

- Broad-based selection filters for the risk assessment matrix should be put in place. There is also a need to set up a standard operating procedure which recognises the iterative method, testing them ex-post, to develop effective and efficacious parameters for the risk assessment matrix. (Section VI.4.a)

Tax deducted at source

- The insistence on manual filing of TDS certificates before AO for verification of refunds claim should be done away with. (Section VI.7.a)

- The tax deductor's duties and obligations in terms of meeting information compliance requirements and depositing the deducted amount are onerous and they are not compensated for that. Therefore, some compensation for them should be considered. This can be in terms of a small commission to be deducted as business expenses by them to fulfil their obligations. (Section VI.7.a)

- The CPC-TDS should allow correction in the name of the deductees to avoid multiple submissions of TDS forms. Even a single error requires the deductor to submit the entire return afresh. The process of uploading the entire file for one or two corrections is cumbersome and disproportionate to the gravity of the error. This adversely impacts taxpayer services. Subject to the required checks and validations, there is need to widen the scope of online error rectification service. (Section VI.7.a)

- A passbook scheme for TDS may be adopted with some safeguards. Once TDS is deducted from a payment, TDS should get credited to the taxpayer's account. This should be like an account with running balance, to be utilised by the taxpayer at his option to set off his tax liabilities. (Section VI.7.a)

- To assist small and marginal tax deductors in preparing and filing their TDS returns, either existing tax return preparers or a separate system of TDS return preparers should be initiated with more training and a better remuneration structure than at present. (Section VI.7.a)

Refunds

- Refunds should be issued within a strict time frame. There should be a separate budgetary head for refund of direct tax and indirect taxes in the annual budget out of which refunds should be issued so that there is transparency. Adequate allocation should be made by the government under this head. (Section VI.6.d)

- Refunds sanctioned should be paid along with the applicable interest automatically as is done in the case of income tax and not on demand by the taxpayers. As in the case of direct taxes and customs duty drawback, the refund and interest payment should be directly credited to the bank account of the taxpayer. (Section VI.6.d)

- The rate of interest on refunds should be the same as the interest charged by the tax department. This would ensure equity between the two interests and would not disadvantage the taxpayer unduly. (Section VI.6.d)

- Refunds arising after a favourable appeal should be paid in time or the tax payer should be allowed to set-off the advance tax liability or self-assessment tax liability of subsequent years against the refunds due. (Section VI.6.d)

- The test to determine whether there is unjust enrichment in indirect taxes should be limited to cases of refunds where there is direct passing on of amounts claimed as refunds. In any other situation, this concept should not be applied. (Section VI.6.d)

- Refund claims subjected to pre-audit verification should be issued within a specified time. The post-audit verification of refund claims should be risk-based. (Section VI.6.d)

- An easier and simplified scheme should be introduced for service exporters. The entire refund filing and processing mechanism should be online. (Section VI.6.d)

Foreign tax credit

- The CBDT should come out with clear FTC guidelines, which should also cover the timing differences between different tax jurisdictions. (Section VI.8.a)

Tax collections

- There should be a separate vertical for tax collection as recommended in Chapter III of this report. To improve the efficiency of debt collection activities, both the Boards should work on setting up risk assessment models to compute risk scores for each new tax debt case that reflects the likelihood of the taxpayer paying their debt based on objective criteria. (Section VI.9.b)

- Stay of demand information should be uploaded electronically on the central server of the departments so that tax collectors can have system generated prior intimations regarding the expiry of stay orders. (Section VI.9.b)

- The power to write off dues should be raised at different levels of the organisation and made uniform for both direct and indirect taxes. Full powers should be vested in the respective Principal DGs in charge of recovery in the respective Boards. Write off should be done in concurrence with the CFO at the headquarters level and his nominee at the regional/zonal level. (Section VI.9.b)

Related party transactions

- Both Boards should frame detailed documentation requirements for transfer pricing as well as customs valuation, bearing in mind that such documentation should be reasonable. This will bring certainty and predictability for the taxpayers. (Section VI.10)

- There is a need to align the process in India with global best practices and to do away with the current process. With self-assessment in place, import transactions should only be subjected to post-clearance audit. Valuation risks would be an important component of the risk matrix for audit selection. (Section VI.11)

Trade and business facilitation

- As a trade facilitation measure, on-site post clearance audit should be developed fully to enable Indian customs to move closer to international best practices. Intervention in cargo clearance should be made on the basis of a risk matrix. (Section VI.12)

- Documentation requirements for non-resident taxpayers for a certificate under Section 197 of the I-T Act should be well-publicised. The taxpayer should be told a priori of the time that will be taken for the issue of the certificate. That time period should be reasonable. A certificate issued in an earlier year from any other tax office in India to an assessee/payer should be attached with other documentation. There should also be a facility for electronic filing of these papers so that the need for the physical presence of the taxpayer, to the extent possible, is obviated. (Section VI.13)

- The system of E-invoicing similar to that prevalent in most Latin American countries should be introduced. Using this system, a taxpayer should generate an electronic invoice

through the Department's system. Sufficient preparation and consultation with industry and trade associations should be done before introducing this system. (Section VI.13)

Enforcement Administration

- There should be a dedicated structure for prosecution matters for more focused attention to this important area so that the unexploited potential for creating deterrence against tax evasion is realised. (Section VI.14)

- The working of the Directorate of Intelligence and Criminal Investigation should be ICT based and should be given a good complement of personnel and other resources to enable it to realise the potential. (Section VI.14)

Non-profit sector

- CBDT needs to put in the public domain a national database of the non-profit sector to bring transparency. (Section VI.16)

Manual of tax departments

- Departmental manuals should be annually updated and put up on the website for easy downloading by both taxpayers and tax officers. (Section VI.17)

Chapter VII – Information and Communication Technology

- To fully realise the potential of ICT, it must get embedded in the DNA of the organisation. Both the design of policies and implementation should make full use of ICT. (Section VII.3.a)

- The leadership must ensure that where systems are available, employees should not have the option to work in a paper environment. (Section VII.3.a)

- Both Boards must commit themselves to achieve a fully digitised environment and work towards comprehensive ICT system(s) in which everyone from the top leader to the last person on the frontline works in a digital environment. (Section VII.3.a)

- The Boards must regularly use maturity frameworks to assess their ICT maturity and map out the path towards greater maturity. (Section VII.3.a)

- Automation should follow business process re-engineering to avoid the danger of getting trapped in an outdated mode of governance. (Section VII.3.a)

- All decisions should be taken with ICT compatibility in mind. Similarly, all legislation should be ICT-compatible. (Section VII.3.b)

- The Boards must create structures and processes to enhance working relationships between business owners and DG (Systems) to ensure that ICT initiatives are aligned with business needs, priorities and capabilities. (Section VII.3.b and d)

- Boards should adopt a robust ICT governance framework and practices, and rigorous programme and project management frameworks. (Section VII.3.b)

- Project planning and approvals must include the required number and quality of human resources. (Section VII.1.b)

- Movement of personnel should have a linkage with project implementation and there should be a process of knowledge transfer. (Section VII.1.b)

- A service-oriented architecture and approach should be adopted to promote integrated systems, and ensure greater "value for money" and customer focus. (Section VII.3.b)

- HR policies must be aligned with the need for specialisation and officers should be allowed to grow in the areas in which they specialise. Routine transfers should be avoided. (Section VII.3.d)

- Special training in key areas of ICT should be arranged for officers of the DG (Systems). (Section VII.3.e)

- DG (Systems) should ensure proper training for operational staff at the roll out of any new application. (Section VII.3.e)

- DG (Systems) should have the authority and funding to depute officers for specialised courses, seminars and events and engage with professional networks and academic institutions. (Section VII.3.e)

- The discussions for data sharing between the CBDT and CBEC should be speeded up and sharing must begin quickly. (Section VII.4)

- A shared knowledge, analysis and intelligence centre, headed by an expert professional, should be set up for advanced data analytics and research. The SPV can support it by providing the platform, tools and technologies, and expertise. (Section VII.4)

- A common special purpose vehicle (SPV) should be set up for servicing the ICT needs of the Boards. (Section VII.5.a)

- It should be incorporated as a company with limited liability under the Companies Act with a private ownership of 51 per cent and government ownership of at least 26 per cent. It should have operational independence and institutional flexibility even as government retains strategic control (Section VII.5.c)

- The SPV should preferably have a net worth of around Rs.300 crore. This will ensure that the SPV is well-capitalised, can hire the best people at competitive salaries, and invest adequately in infrastructure to manage large-scale national projects. (Section VII.5.d)

- The relationship between the departments and the SPV should be a complementary one. The tax administration would develop an overall strategy with the ICT inputs provided by the DG (Systems). The SPV will develop the ICT strategy within the framework of the overall strategy, which will be approved by the Boards. The DG (Systems) of the two Boards will continue to exist, and will perform more strategic roles and be the Boards' interface with the SPV. (Section VII.5.e)

- The SPV should aim to be financially self-sustaining through an appropriate business model. (Section VII.5.f)

- It should be operationally aligned and maintain relationships with the concerned entities in DG (Systems) to ensure effective ICT service delivery. (Section VII.5.h)

- The Boards, DG (Systems) and the SPV together should work out the plan for the transformation to "digital by default" status. The plan should begin with a visioning exercise to define the end state and should be programme, as opposed to project, oriented. (Section VII.5.h)

Second Report

Terms of reference:

- *To review the existing mechanism and recommend measures for "Capacity building" in emerging areas of Customs administration relating to Border Control, National Security, International Data Exchange and securing of supply chains.*

- *To review the existing mechanism and recommend measures for strengthening of Database and inter-agency information sharing, not only between Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC) but also with the banking and financial sector, Central Economic Intelligence Bureau (CEIB), Financial Intelligence Unit (FIU), Enforcement Directorate etc. and use of tools for utilization of such information to ensure compliance.*

Chapter VIII – Customs Capacity Building

Governance

- The CBEC should immediately commence work on the development of a customs vision and strategic plan, setting out the strategic goals and implementation strategy that will ensure its place among the "best in class" customs administrations. The strategy must enhance customer focus and proactively promote voluntary compliance and should include measures like customer guidance in the form of self-assessment check-lists, manuals

containing standard operating procedures and a fully updated, user-friendly, reliable website. Active guidance should be provided to importers through lucid and detailed publications furnishing detailed guidance about the valuation regime. (Section VIII.4.a)

- The implementation will have to be backed by a robust performance management framework to enable the CBEC to measure the progress and benchmark itself with best international practices in the spirit of continuous improvement. (Section VIII.4.a)

- The CBEC should aim at developing systems, structures and processes that ensure a consistent and uniform response across the organisation, whether in the area of customer services or enforcement. The strategy should reflect the changing role of customs beyond exclusive revenue orientation and focus on capacity building in emerging areas of importance. (Section VIII.4.a)

- The control paradigm must shift from high levels of pre-clearance interdictions to intelligence led, risk-based interventions by exception, supply chain management and post-clearance audit. (Section VIII.4.a)

- The CBEC needs to develop an enterprise wide risk management framework in the context of which tools like the risk management system (RMS) need to be operated. The spirit of the compliance management philosophy that underlies the principle of self-assessment needs to be internalised in the organisation. (Sections VIII.4.a and VIII .4.b)

- The Risk Management Division should be strengthened. The risk management module for container selection needs to be integrated with the CBEC's other operational systems. The CBEC should progressively move away from a local approach in risk management to a strong national approach and move towards setting up a national targeting facility such as the ones set up in the US, Australia and New Zealand. (Section VIII.4.d)

- In critical areas, identified on the basis of analysis and other evidence, the CBEC needs to undertake compliance improvement plans, implement them effectively, measure and evaluate results as feedback and continue the process in a cyclical manner. (Section VIII.4.a)

- The CBEC needs to build capacity for more meaningful contribution to trade policy, based on credible research and analysis. (Section VIII.4.c)

Customs core clearance processes

- The CBEC should revamp its core clearance processes and aim at aligning with the best international practices to ensure that cargo moves seamlessly through Indian ports and airports and build substantial capacities in the area of post-clearance audit. It should abandon the "gatekeeper" approach underlying the current control mechanism as it is ineffective and promotes rent seeking. (Section VIII.4.e)

- The CBEC should move to a model of centralised assessment for compliance verification, adopting the centres of excellence concept. There needs to be a thrust on full digitisation of processes, dematerialisation of documents and documents management system. (Section VIII.4.e)

- The regime of advance filing needs to be effectively implemented ensuring high data quality. (Section VIII.4.e)

- Greater capacity in the form of adequate skilled and expert resources needs to be developed for post-clearance audit. The results of audit need to be fed back into risk management. Audit should also pay attention to data quality. (Section VIII.4.c)

- Related party transactions should be handled as part of post-clearance audit and the Directorate of Valuation should be strengthened to become a centre of excellence in this area by building strong expertise. (Section VIII.4.e)

- The automation of international express cargo and international post offices should be expedited. (Section VIII.4.e)

- Development of an advanced passenger information system (APIS) incorporating modern identity management and entity analytics solutions should be fast-tracked. (Section VIII.4.f)

- Capacity building through extensive training and close engagement with industry is also needed in the area of IPR. (Section VIII.4.r)

Enforcement and anti-smuggling

- Greater capacity needs to be built in customs to counter trade-based money laundering by greater use of analytics and strong co-ordination among the DRI, RMD, FIU and Directorate of Enforcement. (Section VIII.4.e)

- To motivate officers in anti-smuggling operations in remote areas, a package of special facilities should be developed. (Section VIII.4.o)

- Specialised training facilities for anti-smuggling operations, tailored to specific requirements, should be created. (Section VIII.4.o)

- There is need for greater infusion of technological and analytical capacities in enforcement functions. Stronger focus is required on prosecutions in cases of commercial frauds. (Section VIII.4.o)

Technology and logistics

- The CBEC should commence work on building a new generation system to replace the current ICT systems. There should be extensive reliance on a service-oriented architecture

in designing the new system and it should ensure interoperability of customs and other agencies involved in border management, a fully distributed, open, wireless and mobile operational environment and solutions for structured and unstructured data. The system must enhance the ability of customs and other entities to work together. (Section VIII.4.l)

- Customs should leverage the adoption of the emerging "internet of things" by the logistics industry to real-time tracking of movement of goods across the supply chain, including to CFSs, ICDs, SEZs, etc., and eliminate dilatory, costly and unreliable paper-based processes. (Section VIII.4.l)

- The process of induction of non-intrusive inspection technologies such as container scanners, X-Ray scanners, etc., needs to be expedited. (Section VIII.4.m)

- A strong capacity for innovative adoption of the latest technologies through experimentation and pilots needs to be created. (Section VIII.4.l)

- Recruitment of crew for the recent acquisition of 109 modern patrol craft needs to be expedited. Similarly, expedited action should be taken to operationalise the telecommunications set up. (Section VIII.4.n)

- The Directorate of Logistics needs to be strengthened and the required expertise in technology, procurement and contract management needs to be created and sustained in the directorate. It should regularly engage with industry and technical institutions to keep its knowledge current. (Section VIII.4.n)

SAFE framework and trade facilitation

- There should be clear ownership on the part of the CBEC of the facilitation programmes undertaken by it. It should undertake immediate steps to achieve the facilitation targets set out in its own circular dated September 2, 2011. (Section VIII.4.g)

- The CBEC needs to take a robust and pragmatic view in relation to the denial of ACP status to clients on account of show-cause notices and should not deny such status to other wise compliant clients where there is no wilful fraud or evasion. (Section VIII.4.g)

- The CBEC should follow best international practice by regularly undertaking and publishing time release studies. (Section VIII.4.g)

- The CBEC should be enabled, through appropriate administrative and legal empowerment, to play a leadership role among the various border agencies to ensure proper co-ordination at the border, ensure trade facilitation, allow greater participation of all agencies in a common risk management framework and enable the development and implementation of a single window. (Section VIII.4.h)

- The SAFE and AEO programmes need greater visible commitment from the CBEC and there needs to be much greater communication of the benefits of the programmes among stakeholders to induce them to join the programmes. (Sections VIII.4.j and VIII.4.k)

- The CBEC needs to revisit the AEO programme to align it better with the differing needs of various players in the supply chain and create better incentives to improve compliance. (Section VIII.4.k)

- The CBEC needs to create an institutional mechanism for direct engagement with senior management in trade and industry. (Section VIII.4.g)

- The CBEC needs to undertake review of key business processes in the spirit of continuous improvement to simplify and streamline them. (Section VIII.4.e)

- RTAs and trade remedies

- A Directorate of Origin should be set up in the CBEC to handle regional trade agreement (RTA) related issues. It should develop specialised expertise on rules of origin and related areas. (Section VIII.4.p)

- Posting of customs officers in the Directorate General of Anti-dumping will ensure enhanced co-ordination and better management of anti-dumping measures. (Section VIII.4.q)

- The Directorate of Safeguard needs to be strengthened and should be enabled to play a more proactive role in the propagation of safeguard measures in industry, particularly among SMEs. (Section VIII.4.q)

- There is need to develop non-preferential rules of origin to ensure proper application of anti-dumping and safeguard measures. (Section VIII.4.q)

International co-operation

- The Directorate of International Co-operation should be created and adequately staffed in view of the high importance of international co-operation in customs functioning. A clear framework needs to be created for international data exchange and dedicated resources assigned. (Sections VIII.4.s and VIII.4.t)

- In consultation with the relevant ministries, the CBEC should initiate a programme for cross-border co-operation with India's neighbours, which can lead to joint border control as envisaged in the Revised Kyoto Convention. This can begin with an institutionalised arrangement for regular border meetings between designated customs officials to deal with day-to-day operational issues that create difficulties for trade. (Section VIII.4.i)

Capacity building

- The CBEC needs to revisit its transfer policies that, at present, prevents specialisation, dilutes accountability and affects its performance. It needs to address the issue of people development in a properly constructed competency framework. (Section VIII.4.u)

- Urgent steps are required for bridging the skill gap of Groups B and C officials through effective training and competency building. (Section VIII.4.u)

- NACEN needs to substantially upgrade its curricula and training methodology through the greater infusion of technology and a widening of its training coverage. It will also have to build capacity for the delivery of training to all levels in emerging areas of customs administration. (Section VIII.4.u)

- NACEN should embark on e-training, virtual classes, webinars, etc., so that the training coverage is enlarged and delivered at the place of work. Adequate infrastructure and allocation of financial resources will be part of this capacity building. (Section VIII.4.u)

- The CBEC should consider undertaking capacity building by joining the WCO's Columbus programme, which is specifically tailored for customs capacity building. (Section VIII.4.v)

Chapter IX – Information Exchange

Common framework

- There is an imminent need to institute a robust framework to address data and information exchange. This framework should have elements such as provisions for process or making requests for data or information, time-bound responses to such requests, consequences for not sharing and for unauthorised use, developing common standards, layered authorisations, feedback mechanism on exchange of data or information and strengthening provisions for data privacy and confidentiality. (Section IX.4.b)

- To enable inter-agency data and information sharing in a systemic manner, a specific legislation should be enacted, proving for general rules for exchange of data and information, with provisions for confidentiality, process of sharing, process of making requests, time bound responses to such requests, consequences for not sharing or unauthorised usage, authorised usage, safe storage, disposal, etc. (Section IX.6.b)

- While the adoption and use of a common framework may not be sufficient to solve all the present challenges facing data and information exchange by agencies in India, it will encourage agencies to develop a common, long-term vision for collection, use, storage, and disposal of data and information, thus getting rid of the silo structure. (Section IX.4.a)

- All collaborating organisations – the CBDT, CBEC, FIU, CEIB, RBI and SEBI – need to create a common catalogue of data or information. This will contain information on data,

such as source of data, data structure, data definition, quality of data, frequency of update on the data, etc. (Section IX.5.a)

- The focus of all collaborating organisations must be on organising the data within its own inventory and thereafter, having a common database. (Section IX.4.a)

- Openness and willingness to share must be made the cornerstone for building the catalogue. The catalogues will be shared between the collaborating organisations. A common framework would promote the practice of "one data, many users". (Section IX.6.a)

Common standards and taxonomy

- A consistent approach on data across agencies will allow better collation of data and information, making its use easy. A common taxonomy, based on such an approach, will standardise data description, data context and data sharing. Common standards and taxonomy facilitate data exchange between different organisations and enable better reporting and analysis. (Section IX.5.b)

- Key requirements for common taxonomy must include de minimis standardisation of data description, data context and data sharing.(Section IX.5.b)

- A common standard for data sharing/exchange with a third party is important. All stakeholders need to be brought on a common platform. A steering committee should be formed to provide the platform where all stakeholders bring their data catalogue, scoping of data, data availability, periodicity of data exchange, etc. (Section IX.5.b)

- A common identification number (CBIN), as recommended in the first report of the TARC, will create a common platform and standard. A robust regulatory mechanism will be required to oversee that data collection is coherent and relatively accurate. Further, a periodic evaluation of the database must be carried out to see that CBIN continues to provide a common standard and platform.(Section IX.5.c)

Third-party exchange

- All collaborating organisations must categorise the data or information into what can be granted general accessibility and what can be considered for limited sharing or for somewhat spontaneous sharing. The categorisation must be known a priori to the other organisations. (Section IX.5.g)

- This categorisation will help the organisations in being specific in their requests. These requests must be mutually respected. (Section IX.5.g)

- The data or information exchange with third parties must be on a digital platform in a seamless manner and exchange of data or information through physical media, i.e., through paper, compact disc, external drive, etc., should be avoided. (Section IX.5.c)

- SLAs/MoUs with third parties should be entered into to develop a common framework of data or information for exchange. (Section IX.5.c)

- Data or information exchange must necessarily be done through a common utility, tailored to the specific data availability or framework for data creation or collection by a particular organisation, so that data matching with the CBDT's and CBEC's existing data is seamless and the error percentage is minimal. (Section IX.5.c)

- For data or information exchange through SLAs/MoUs to be effective, each organisation will have to inform other stakeholders about its contact person. Any request to that organisation can be directed towards this person. If a change occurs in the contact person, this will have to be informed on a real-time basis so that stakeholders are not inconvenienced. (Section IX.5.c)

- Organisational difficulties in data or information exchange through this utility can be discussed in a Steering Committee, set up for the purpose, comprising all collaborating agencies. (Section IX.5.c)

Data storage

- Algorithms must be developed to make sense of the amorphous data and information coming from various sources into structured data so as to execute and deliver the objectives and purpose of collecting the data. (Section IX.6.d)

- Key components for developing analytics and algorithms will include a service-oriented architecture to re-use processes and technology, and hence, enforcing technology standards compliance. This architecture must be such as to allow organisations to seamlessly "plug in" additional technologies to meet future business needs. Other components of the technology will be master data management to provide a single source of reliable data to leverage across all business processes and business process management to build, test, deploy, and share workflows, as well as document and re-use data across business processes. (Section IX.6.f)

- There will be a portal of the SPV for access to data or information. Access to the SPV portal can be granted only to persons who are authorised and the portal will have a log of all such accesses. The terms of usage of the SPV portal will govern aspects relating to disclosure and authorisation. (Section IX.6.c)

- The SPV will also develop SLAs/MoUs for data or information exchange between different collaborating organisations. These SLAs/MoUs will be triggered when further information or data are required, in addition to what is accessible on the portal. SLAs/MoUs will normally contain procedures for making requests, response time for such requests, reasons for refusing data or information access, mechanisms for audit so as to assess data or information usage, safeguard mechanisms for access rights, storage and disposal, archiving of data or information to enable their re-use, frequency of requests and special provisions

for time-critical responses to requests that have imminent bearing on national security, public safety, etc. (Section IX.6.e)

- In line with the recommendations in the first report for the creation of an SPV, the SPV will facilitate sharing and utilisation of data or information from one portal with common standards and taxonomy so that the present disparate data assets can be leveraged. (Section IX.6.c)

- The consolidation of multiple data warehouses and other operational data stores that consolidates and integrates multiple sets of data and information will be an optimal approach to provide a single view of the inflow and outflow of data or information. An integrated enterprise data warehouse will also enable cross functional analysis. (Section IX.6.k)

Data usage

- The most critical aspect of establishing a data analytics infrastructure is to establish a mechanism to process and structure data so that it is ready for analysis. Therefore, it will be imperative for all collaborating agencies to evaluate the quality of data available for a meaningful analysis. (Section IX.5.e)

- Information must be collected and managed in a way that promotes its re-use either by the same organisation or by some other organisation. This 'collect once, use many times' approach helps save valuable time and cost and avoids duplication of efforts by multiple agencies. (Section IX.5.h)

- For re-use of data to be part of lifecycle management, all agencies must have an eye on the future use of data or information and not just on their immediate requirements. (Section IX.5.h)

- A joint Steering Committee, comprising officials of both the CBDT and CBEC and the Directorates of Systems of the two Boards, will have the mandate to work out details of the data life cycle – planning, collecting or creating, organising or storing, access, usage, maintenance, re-use, and sharing with a common vision and purpose. (Section IX.5.a)

Safeguard and security

- Safeguards must be instituted to ensure the confidentiality of data or information exchanged, and prevent unauthorised access or use of data or information. The agency receiving information and the agency providing information need to establish safeguard processes for evaluating the confidentiality and security related protocol of the data and information shared. This safeguard protocol will need to clearly articulate access rights and further sharing rights and be made available upfront to the other party. (Sections IX.5.d and IX.5.i) cc)

- Data or information should not be open to everybody in the organisation. Access to data or information should be layered depending on the job role, responsibility and the nature of information. (Section IX.5.f)

- The agencies can enforce effective access control so that authorised personnel are equipped with the least privilege needed to perform their official duties. These access controls could be set up in the data warehouses based on personnel clearances and accordingly, personnel can be given restricted or general access. (Section IX.5.f)

- There should be additional checks in the form of layered authorisations. The receiving party must share the extent of information security tools and processes established. (Section IX.5.d)

- Key features for security of data will include policies on user authentication, access and policy control. Integrity checks needs to be performed before and after use, transfer or backup of data. Data integrity can be verified through one-way cryptographic hash functions, digital signatures and cryptographic binding. Adopting and incorporating best practices around data security is imperative to maintain data integrity and privacy, prevent fraudulent use and allow easy and efficient use of data and information. (Section IX.6.l)

Audit and accountability

- A robust audit and accountability policy must be developed to address the purpose and scope of information sharing, roles and responsibilities of dedicated teams, authorisation layers access to data, review of the safeguards put in place by an agency receiving information and the secure storage, disposal and confidentiality of the data and information. Along with policy, sound processes are required to facilitate the implementation of the policy. These audits must be conducted by dedicated teams who should report the findings of the audit to the DG (Systems) of the two Boards for course correction. (Section IX.5.l)

- The Independent Evaluation Office (IEO) will evaluate the performance of this activity and present its report and suggest course correction, if required, to the Governing Council for the successful implementation of data and information exchange by collaborating organisations. (Section IX.6.j)

Personnel management

- Specialised personnel must be engaged to manage data or information exchange. Their job will entail finding sources of data or information in a continuous manner to fulfil the ever increasing need for data or information, work out common standards, develop common taxonomy and develop sophisticated algorithms and software for analysis of the data. They will be part of the CIO/DG (Systems) in each Board. (Sections IX.5.k and IX.6.g)

- The CIO's role in data and information exchange will be central to provide an overarching, regulatory function and will focus on security aspects of data or information exchange.

Towards that, he will co-ordinate, develop, implement, and maintain an agency-wide information security programme. The CIO, thus, will be the overall in-charge for developing "thought-leadership", so that data and information is well-managed both within the tax department and for inter-agency transfers. (Section IX.6.h)

- Specialised data scientists must be engaged to explore and examine previously hidden insights from data or information from disparate sources. They will also look at the data from many angles and help inter-agency data or information sharing. They will work in the Knowledge, Analysis and Intelligence Centre (KAIC), recommended for creation in the first TARC report. (Section IX.6.g)

- There should be a dedicated, full-time team for sharing data or information. The suitability of the personnel should be considered based on their ability, aptitude, competencies and past experience. Their skills should be continuously sharpened through training, seminars, and deputations to other collaborating agencies. (Section IX.5.k)

- The training needs of officials should be identified, training plans developed and an all-out effort made to train personnel. Thereafter, evaluations must be made to find out whether training helped in honing the skills required for data or information sharing. (Section IX.5.k)

- Training of officials of all collaborating organisations must be organised on roles and rules for access, disclosure guidelines, and confidentiality framework to usher in transparency, openness and trust. The CBDT and CBEC should take the lead in this effort and provide the technical know-how for preparation of datasets, contribution of datasets, explanation of metadata and the entire workflow of data publishing, feedback management etc. Such training will help in fostering a culture of willingness to share. (Sections IX.5.k and IX.6.m)

- Training on the use of data, comprising visual analytical techniques to facilitate visual analysis of data across multiple domains, advanced pattern analysis, entity profiling, data mining, network analysis and simulation techniques is needed to widen the tax base and identify revenue leakages/cases of tax evasion. (Section IX.6.m)

Revamping the FIU and CEIB

- The CEIB will work under the Governing Council, recommended in the first report, to play a strategic oversight advisory role to the Governing Council on data or information exchange. The Governing Council, thus, would play a key role in data and information exchange between the CBDT, CBEC, FIU, CEIB, SEBI and banks, and develop strategies to reduce the incidence of non-compliance and reduce the tax gap. (Section IX.6.i)

- Since the CEIB is the only agency carrying out such an oversight role even under the present dispensation and there is no parallel agency functioning at the state level, the term "Central" should be done away with as it is considered superfluous. CEIB will then be known as Economic Intelligence Bureau (EIB). The role of EIB will be to act as the nodal

agency collecting, collating and disseminating information and intelligence to relevant agencies and to be the national repository of information on economic offences. (Section IX.6.i)

- On the same lines, the FIU, while being placed under the CBDT as recommended in the first report of the TARC, will report for strategic purposes to the Governing Council through the CBDT. (Section IX.6.i)

- A common platform and scalable architecture with high availability should be developed as a first step and for that, the CBDT and CBEC will have to take the lead and persuade other agencies to come aboard. The CEIB will play a key role in this effort. (Section IX.6.m).

Third Report

Terms of reference:

- *To review the existing mechanism and recommend capacity building measures for preparing impact assessment statements on taxpayers compliance cost of new policy and administrative measures of the tax Departments.*

- *To review the existing mechanism and recommend measures for deepening and widening of tax base and taxpayer base.*

- *To review the existing mechanism and recommend a system to enforce better tax compliance – by size, segment and nature of taxes and taxpayers, that should cover methods to encourage voluntary tax compliance.*

Chapter X – Impact Assessment

Why impact assessment?

- The impact assessment process aids decision making and increases the involvement and accountability of decision makers at all levels, including the ministerial level, and demonstrates how the decisions of the government will benefit society at large. It should be initiated at the earliest. (Section X.4)

- Impact analysis should be used because it improves the empirical basis for any decision making process, be it legislative or administrative. These empirically based studies help maximise benefits and minimise overall costs, and inform better regulatory management. (Section X.4.a)

- Applying the principles of impact assessment to regulatory decisions can form an analytical tool that provide practical judgement to the feasibility and cost of any policy intervention. (Section X.4.a)

- Impact assessment is a method of systematically and consistently examining the potential impact of government tax actions and communicating the information to decision-makers. The process helps in weighing various options to achieve desired objectives and to understand the consequences of the proposed change. (Section X.4.a)

- Impact assessment can be used as a tool to review existing regulations and assess their impact, thus improving the quality of the regulations. The review and updating of laws, rules, and other instruments to decrease regulatory risk and uncertainty represent another important responsibility of the tax administration management. This is to systematically streamline the legislative corpus and remove unnecessary charges and burdens that get imposed and embedded due to laws, rules and their practices. (Section X.4.a)

- An important challenge in carrying out impact assessment is to ensure political and high-level administrative support for it. Lack of such support could adversely affect the quality of impact assessment. (Section X.5)

- Proper capacity will have to be built in the Tax Policy and Legislation (TPL) unit of CBDT and the Tax Research Unit of CBEC (and in the recommended Tax Policy and Analysis Unit) as well as at the field level (in the directorates) so that vertical and horizontal integration of the overall capacity and accountability of the two organisations – the CBDT and the CBEC – increase and impact assessment becomes part of the basic working process at all levels before any initiative is taken. The entire process has to be seen as a management tool for any tax action, legislative or administrative. (Section X.4)

How to do impact assessment?

➢ **Stakeholder engagement**

- Stakeholder consultation enhances the transparency of any decision making process, provides quality control on any tax action and improves the information on which decisions are based. Stakeholder consultation should not only form part of the decision making process, but should be considered an independent tool for decision making in its own right. (Section X.4.b)

➢ **Analytical methods**

- The method employed to calculate impact assessment is the key to the design and performance of impact assessment. Since there is no single model that fits all situations, a view has to be taken on identifying the appropriate method for the question/issue at hand, the key objective of using evidence-based decision-making, and integration of such evidence into policy making.(Section X.4.c)

- The usual methods for calculating compliance costs include surveys, benefit/cost analysis, compliance cost analysis and business impact tests, which should all be considered. The choice of method should be scaled to the specific capacity of the tax administration and to

data availability. For these reasons, the CBDT and CBEC should have a flexible yet analytical approach to the choice of method. (Section X.4.c)

- Aggregation of impact may be difficult as impact is sometimes measured by different indicators and scales. Keeping this in mind, costs and benefits – quantitative and qualitative – nevertheless need to be assessed. (Section X.4.c)

- Benefit calculation is part of any impact assessment. Non-economic benefits of legislation may be difficult to assess and so cost saving cannot be easily calculated because of methodological limitations. Nevertheless, tax benefits can be calculated. (Section X.4.c)

- A discretionary change model should be developed to understand the impact on tax revenues due to a change. (Section X.4.c)

- An impact assessment will contain an element of risk. If these risks involve possible irreversible damage on an uncertain scale, a formal risk assessment should be carried out. (Section X.4.c)

- Identification of risk, a priori, will also reduce or eliminate the risk since it enables the development of a strategy to deal with it at inception, either through policy design or by taking care of the factors affecting the outcome. (Section X.4.c)

- Another role of risk analysis is to prioritise and classify risks – identification of thresholds and tolerance levels for cost, schedules, staffing, resources and quality through an iterative process, and then determining which risks require development of mitigation strategies and/or a contingency plan. (Section X.4.c)

- Steps need to be taken to carry out risk analysis in impact assessment: identification of relevant risks, a clear description of the origin of every risk and the nature of the consequences it may have, the chance of its occurrence, the extent of harm it could cause, and identification of alternative ways to reduce it. (Section X.4.c)

- While ex-ante analysis is a necessary step in impact assessment, ex-post reviews of impact have a positive impact on the overall quality of ex-ante analysis. Ex-post reviews of impact assessments impart dynamism to ex-ante analysis as they reveal systemic errors in impact assessment methodologies, and help in correcting these. Hence, results of the ex-post review and conclusions drawn need to be assessed and, if found useful, fed back into impact assessment guidelines (Section X.4.c)

Timing of the process

- The time to initiate the impact assessment process is as important as clearly stating the purpose and intent of the tax action under question. (Section X.4.d)

- Looking at the importance of timing, the CBDT and CBEC must issue formal guidelines outlining the timelines for impact assessment and public consultation. (Section X.4.d)

- The impact assessment process will need to be planned dynamically. Guidelines should not be looked upon as an immutable document as there may be a need to adopt new information that becomes available during the impact assessment process, which may require suitable change in the timelines. But this should not mean that timelines are modified in a manner that precludes a decision within the stipulated period. (Section X.4.d)

Data collection

- A comprehensive impact assessment analysis requires good quality of data to correctly evaluate the impact. Thus, identification of data requirements and an understanding of data availability should be arrived at, at an early stage of the process. (Section X.4.e)

- Since data requirement is linked to the method used, an assessment of techniques provides an assessment of the data requirement. This exercise also provides an insight into the strengths and weaknesses of various techniques and data aspects associated with those techniques. (Section X.4.e)

- There is need to develop and put in place a systematic and functional approach to data collection so that essential, good quality data are not lacking. Often, ad hoc strategies that cut cost in various ways, including compressing the allowable time, fail. (Section X.4.e)

- Before data collection is embarked upon, context analysis should be carried out so as to understand and analyse the universe of analytical techniques available, which ones are to be employed, the expected quality of data to be collected, the estimated cost of collection, the predicted non-response rates, the expected level of errors, and the length of time for data collection. (Section X.4.e)

- The quality of the impact assessment process is dependent on a range of other areas such as the treatment of the risk element in the results, use of sensitivity analysis, and an understanding of the statistical life of the data. Other factors impacting quality include gaps or omission in data, inadequate evaluation techniques, complexity and fragmentation of approach, failure to adhere to important rules, and poor integration with the consultation process. (Section X.4.f)

- Some quality issues can be corrected by resorting to threshold tests. Threshold tests are conducted to identify the difficulty level of impact assessments. The process for quality check and improvement can be based on four steps: identify potential gaps, assess potential impact on quality and costs, approve plans, and assess actual impact on quality. (Section X.4.f)

- Since, in practice, there is no fixed quality standard that could be prescribed – given that it depends on the expectations of policy makers and taxpayers – the CBDT and CBEC should embark on a systematic exploration of quantitative data and qualitative information and build an orderly triangulation of the complete information picture to help assess the correctness of impact assessments. (Section X.4.f)

- Both Boards must adopt a careful and strategic approach to data collection, and issue strict guidelines for that purpose. The practice followed should be uniform, keeping in mind the need for high quality data, and with a clear understanding that this is one of the most difficult steps of the impact assessment process, and is often time and resource consuming. Inaccurate data would lead to inaccurate results and fundamentally alter the impact assessment. Consultation with external stakeholders should also not be ruled out to check the robustness of the data. (Section X.4.e)

- ICT systems already generate a considerable amount of data. The data or information needs to be evaluated for their immediate suitability or suitability after some changes. Storage and protection of existing data, and enabling data creation through data mining are crucial at this stage in both the CBDT and CBEC. External data may also be gathered through general surveys, secondary data sources or archival data and interviews or stakeholder consultations during seminars and conferences. (Section X.4.e)

Communicating results

- It is important to communicate the results of the impact assessment process to all stakeholders. Better communication and feedback contribute to improving the quality of information about the regulation under review and provide a good basis for subsequent improvements in design to obtain better results. (Section X.4.g)

Preparing implementation

- A sound analysis of the costs, risks and benefits of regulatory action at an early stage can help formulate and eventually reach pre-defined policy objectives. Thus, the impact assessment process should commence even if the impact assessment is provisional and only covers a limited range of possible outcomes. If the process starts late, the results of the exercise could fail to be included as inputs in the policy making process. (Section X.4.d)

- A steering group for impact assessment should be set up for consulting interested parties, using expertise and collecting data, carrying out the impact assessment analysis, presenting the findings in a draft impact assessment report, scrutinising the report and framing possible recommendations based on the draft report, carrying out detailed stakeholder consultation, revising the draft report after taking suggestions into account, preparing the final impact assessment report, and submitting it to the concerned authority. (Section X.5)

- It should be mandated that the CBDT or CBEC estimate the impact of proposed legislation on the costs to be borne by the taxpayers. This should be with a view to reducing the compliance burden which, of late, has increased due to regulatory creep. It is important that the impact assessment captures the expected impact in qualitative and quantitative terms. (Section X.5)

Role of KAIC in implementation

- The formation of the KAIC, to carry out deep analytics, involving all – direct and indirect – taxes by combining and significantly expanding the TPL and TRU should be achieved/ completed on an immediate basis. This is essential and forms a central pillar of the TARC's menu of reforms. (Section X.4.h)

- The KAIC should function as a hub and vertical analytical units as spokes, with strong co-ordination by the KAIC, without which the work of the vertical analytical units would be isolated from one another. (Section X.4.h)

- The role of the KAIC in the work relating to impact assessment will be to strengthen the quality of policy debate, to provide enhanced technical capacity to verify the impact analysis, and to ensure that policy outcomes are integrated and policies are coherent. (Section X.4.h)

- The role of the KAIC will also be to facilitate capacity building processes for impact assessment. (Section X.4.h)

- The KAIC will have to act as a repository of such impact analyses so that any unit requiring support from it can find relevant material as well as technical support. Such support can be for elaboration of the method as well as the scope of issues being dealt with, refinements such as inclusion of risk assessment, evaluation of the impact and improvements to data collection methodologies, keeping in view that the learning process in impact assessment is iterative and cumulative. (Section X.4.h)

- The KAIC's capacity should be of such a level that its views are well respected. This, however, cannot happen unless the KAIC brings a higher level of expertise on the subject, is able to carry out detailed and deeper analytics, and be a repository of knowledge. (Section X.4.h)

- To make sure that the desired level of co-ordination, integration and learning are not lost, horizontal committees can be constituted by the KAIC to ensure transfer of knowledge and learning, and to provide a forum for discussion to enhance thinking and improve participation. (Section X.4.h)

- The KAIC should be tasked with drafting clear, concise and accessible guidelines where theory and practical methodology are adequately incorporated. These guidelines should be as comprehensive as possible. (Section X.4.h)

- The guidelines could be in the form of a living document, which can be continuously improved as experience and knowledge on impact assessment methods and processes accumulate and new techniques or methodological changes are embraced. Some elements of these guidelines can be advisory and some mandatory. The advisory part is to provide

verticals the flexibility to introduce improvement, and the compulsory part is to strictly ensure adherence to basic and key processes. (Section X.4.h)

- Regular training programmes will need to be instituted to support the preparation of impact assessment programmes to familiarise officials with the scope of, and the work involved in, impact assessment and their obligations during the impact assessment process. (Section X.4.i)

- The KAIC will have to develop a body of guidelines and references that are essential instruments for impact assessment training and familiarisation. In this respect, it will have to embark on the long-term goal of drawing up autonomous guidelines specific to its own requirement. (Section X.4.i)

- The training programmes should be run on two tracks – one for KAIC staff and another for those working in the analytical units of each vertical. For the KAIC, training will need to be on the detailed methodologies of impact assessment and related procedures and the development of consultation mechanisms so that they are professionally ready to contribute to the impact assessment process. (Section X.4.i)

- For staff working in different verticals, the training should not be theoretical; it should be tailored to take account of specific circumstances. At a later stage, perhaps after six months of working in an analytical unit, they can be given training designed to impart skills needed to do high quality impact assessment as well as to receive information on where to receive assistance with more complex cases. (Section X.4.i)

- KAIC staff will be required to act as resource persons to provide training to those in the vertical analytical units. For example, it can use webinars, making available training frameworks that give practical examples of impact assessment to such staff. (Section X.4.i)

- The CBDT and CBEC may need to access exogenous information sources and to help them do so, the KAIC may need to develop close links and relationships with reputed national and international research institutes, universities and private sector bodies. Such associations or links will be helpful particularly because impact assessment may need ongoing improvement in methodology as well as in processes. This will also facilitate the accumulation of knowledge, continuing compilation of data, and sharing and dissemination of information. (Section X.4.i)

Chapter XI – Expanding the base

Number of taxpayers

- There has been a gradual increase in the number of non-corporate taxpayers for the categories Rs.2 lakh-Rs.5 lakh and Rs.5 lakh-Rs.10 lakh over the period FY2007-12 but only a moderate fluctuation in the category below Rs.2 lakh over the same period. The

department should ascertain the reasons by analysing the data it is collecting and use the results to enhance the expansion of tax payer base. (Section XI.2.g)

- There is a gap in the number of corporate taxpayers registered with the I-T department vis-á-vis the number of working companies registered with the Registrar of Companies (ROC), even though all of them are legally required to file returns mandatorily. The department should pursue this lead to identify corporates that are registered but have not filed returns. (Section XI.2.g)

- Only 33 per cent of registered persons under service tax filed returns in FY2012-13 and the number fell short of the previous year's figure by approximately 1 lakh. The CBEC needs to have this investigated and follow up with appropriate analysis for corrective action. It is well known that the unanticipated introduction of the "negative list" in service tax has caused intense ire among taxpayers. Is it this that has had an impact on the number of filers of service tax returns? A quick yet comprehensive survey is of the essence. (Section XI.2.g)

- More than 50 per cent of registered central excise taxpayers are not filing returns. Hence, a mechanism needs to be put in place to ensure the filing of returns by all registered taxpayers. The CBEC should investigate and analyse why the percentage of returns filed is so low compared to the number of registrations. A robust data analysis should form the backbone of such a mechanism. (Section XI.2.g)

- The tax base is not commensurate with the growth in corporate and individual incomes in recent years that reflect the growth in the economy. An effective mechanism for collecting information from varied sources should be put in place to identify potential taxpayers and bring them into the tax net, broadening the tax base. (Section XI.2.g)

- The number of tax payers should be considerably more than it is at present. (Section XI.2.g)

- The number of income taxpayers should be doubled, from slightly more than 3 crore to 6 crore in three years, which would entail commensurate staff and financial resources to administer them. (Section XI.2.g)

- The CBDT should comprehensively identify reasons for the widening gap between PAN card holders and actual number of taxpayers as also between the number of entities to whom TAN has been allotted vis-á-vis the number of deductors filing TDS returns. The result obtained should be used to enhance the taxpayer base. (Section XI.2.g)

- The compliance system should be made simple and more user friendly to encourage voluntary compliance, thereby broadening the tax base. (Section XI.2.g)

Collection, dissemination and effective use

- There is at present no structured mechanism for matching PAN with non-PAN data. More data-based investigation is required to develop such a mechanism as this would contribute to deepening and widening the tax base. (Section XI.3.a)

Tax deducted at source (TDS)

- TDS leaves an audit trail that acts as a deterrent to tax evasion and in early collection of tax as soon as a transaction takes place. It is a non-intrusive method of expanding the base. Regular monitoring of the tax deduction transactions should be made and compared with the tax return data to identify whether deductees file tax returns. (Section XI.5.j)

- TDS deductors must file the TDS returns on time, each quarter and must include the details of name of the deductees, their PAN and amount of transaction. (Section XI.5.j)

- TDS coverage should be expanded to capture more and more transactions, especially those that involve large amounts of cash but remain outside the tax net. (Section XI.5.j)

- The taxpayer base may not necessarily increase merely by introduction of TDS unless deductees and deductors file correct returns. To ensure that correct returns are filed, TDS needs to be supplemented by enhanced enforcement methods. (Section XI.5.j)

Fringe benefit tax (FBT)

- Reintroducing FBT would be an effective measure to widen the direct tax base; while doing so, no distinction should be made between different classes of taxpayers as was being made earlier. This is a good temporary administrative measure for enhancing tax collection, until such time as rising income tax collection makes it unnecessary. (Section XI.3.j)

Banking cash transaction tax (BCTT)

- There is no instrument at present that captures details of cash withdrawals from bank accounts, other than savings accounts. The availability of such information would help the I-T department widen its information base on the use of black money since excessive cash withdrawal can help it understand the extent of the cash economy. Hence, Rule 114E of the IT Act should be suitably revised to include in its ambit cash withdrawals exceeding specified amounts in a day from bank accounts other than savings accounts. Alternatively, BCTT should be reinstated as an effective administrative measure. (Section XI.3.g)

Presumptive taxation

- A large number of individuals in businesses, trade, services and professions, (especially in the unorganised informal sector and sectors where large scale transactions take place in cash) are still outside the tax net. Therefore, the presumptive profit estimation scheme should be reviewed based on appropriate analysis and its scope enlarged. (Section XI.3.i)

- Many small businesses in the informal economy elude the tax net and remain untaxed. For these groups, the tax administration should design, promote, and establish simple, optional presumptive tax schemes, including those based on turnover or a compounding (turnover) basis, in service tax below a threshold. (Section XI.5.b)

- Since there is some scope for presumptive taxation in the I-T Act, which is applicable to only some business sectors with a turnover below a threshold limit, data mining remains crucial for analysis based strategies to examine if its scope should be expanded. (Section XI.5.b)

- The presumptive taxation scheme should be backed by taxpayer education programmes to bring taxpayers up to the point at which they can enter the regular tax system. This should be an important goal of the scheme. (Section XI.5.b)

- In the ultimate analysis, under no circumstances should a taxpayer be allowed to hide for his entire productive life as a non-filer or in the comforting embrace of an unduly favourable presumptive taxation system. Progressive assimilation should be not only through education, but also through increased risk perception regarding the likelihood of penalties being imposed. (Section XI.5.a)

- It is equally important to ensure that large and medium enterprises, which are in the normal system or should be there, should not be allowed to migrate into the simplified system to avoid paying tax. (Section XI.5.a)

- An effective method to monitor small enterprises that opt for presumptive taxation would be to insist on their filing a declaration of accounts annually and it should be made mandatory for them to issue sales/service bill for each transaction, with a serial number in a financial year. (Section XI.5.a)

Small and medium-sized enterprises (SMEs)

- High tax rates, the inability to understand a complex tax system and procedures, and lack of confidence in government efficiency in the use of revenues are added reasons for low voluntary compliance. Therefore, tax administration measures to improve SMEs tax compliance should include:

    - quick and easy processes for registration and PAN issuance.

    - clear and easily available information on tax registration, filing and payment obligations and procedures, and a turnover based regime.

    - targeted risk selection and audit activities taking into account the specific characteristics of different groups of SMEs.

    - once compliance behaviour is understood, raising compliance is likely to again call for simplified returns, with simple profit and loss statement and simplified capital allowance so that whichever SME is selected, their audit remains fair and transparent and not prone to disputes.

    - setting up of at least eight call centres to respond to, and resolve basic queries and visits by specialised officers in a group for SME support. (Section XI.5.b)

Retail sector

- Unorganised retailers often have a tendency not to pay taxes and most are not even registered for VAT at the state level or income tax and service tax at the central level. There is a distinct aversion to paying taxes. A conducive environment and tax culture should be created to encourage them to pay their tax dues voluntarily. (Section XI.5.d)

- By encouraging small traders to use debit cards more extensively, by not only explaining to them their benefit but also increasing the per day cash withdrawal limit from ATM machines, they could be attracted to enter the organised sector. That would leave an audit trail of transactions undertaken by them, which could be leveraged for widening the taxpayer base. (Section XI.5.d)

- Small retail traders could be encouraged to enter the banking network by providing the facility of fast tracking applications for educational and housing loans once he is categorised as a tax payer. (Section XI.5.d)

Agriculture income

- Large farmers should be brought into the tax net. Against a tax free limit of Rs.5 lakh on agricultural income, farmers having income a much higher threshold income, such as Rs. 50 lakh, could be taxed. This will broaden the taxpayer base. (Section XI.5.e)

- Cash economy

- The cash economy is a major problem in the Indian economic system as large scale transactions reportedly take place in cash, especially in land dealings and the construction sector. A non-intrusive verification system should be designed so that more cases of capital gains liability are detected. (Section XI.5.c)

- Certain measures should be put in place to discourage cash transactions. For example, municipalities should be encouraged to bridge the gap between the circle rate that is used by them for property valuation for tax imposition, and the market value of properties (even allowing for a lower property tax rate), and increase the digital footprint of transactions. Mandatory mention of PAN should be made more prevalent, backed by robust information exchange between tax authorities and banks and other financial institutions (as detailed in Chapter IX of the TARC report) and the adoption of a common business identification number (CBIN). Indeed, the PAN should be used as a CBIN as recommended in Chapter VI of the TARC report. (Section XI.5.c)

- There is need to develop a better assessment of the underground economy in terms of both, its size and the economic and behavioural factors that motivate the players in that economy. There is no recent study on the issue. Therefore, there is an urgent need to promote research in this area within the expanded, analysis-oriented Knowledge, Analysis and Intelligence Centre (KAIC) as recommended in Chapter III of the TARC report. That would provide

much needed insight into the functioning of the black economy and how to harness it with appropriate revenue yielding administrative measures. (Section XI.5.b)

Services sector

- The services sector has been growing over the years but has not been taxed in an optimal manner due to the tax administration's incapacity to determine the actual potential of individuals working in these sectors, as well as overestimation and obvious errors in estimation in some sectors. The tax administration needs to be fully equipped with data and understanding of the business processes to be able to work out correct business volumes, expenses, receipts and profitability of the business sector being reviewed in conjunction with information gathered from, and in consultations with, chambers of industry and commerce. These parameters should also be well documented and circulated so that the taxpayer has a fair idea about parameters used to determine his tax liability. This will curtail the discretion of the tax administration and increase the transparency of implementation of tax laws in question. (Section XI.5.j)

High net worth individuals (HNWI)

- Wealth tax base can be increased by including intangible financial assets in the base while considerably raising the threshold and decreasing the wealth tax rate. (Section XI.5.g)

- Following international practices, the CBDT should also exclusively focus on HNWIs. Administratively, there is need for a separate cell for HNWIs with a view to improving the understanding of different customer needs and behaviours in order to respond to them appropriately, assisting them to get their affairs right and pursuing those who bend or break the rules. (Section XI.5.g)

Special tax treatments (exemptions/incentives/deductions)/Tax expenditure

- There should be a comprehensive review of exemptions. Both the Boards should consider measures to phase out unwarranted tax exemptions that continue in the form of various tax preferences. (Section XI.2.e)

- The CBEC should endeavour to analyse the outcomes of central excise exemptions and make the analysis available to the public. (Section XI.2.e)

- For service tax, the CBEC should consider ways to estimate revenue foregone and do a gap analysis. (Section XI.2.e)

- Specific economic parameters like growth rates of specific sectors, and growth of businesses and households should be identified and analysed to increase the taxpayer base. The economic parameters, once selected, should be periodically verified, improved and modified. Schemes based on specific economic parameters should never be dropped midway without a critical evaluation of the effectiveness of the parameters selected and possible modification to suit revenue needs. Broad parameters should be narrowed down

into more specific ones as experience in parameter analytics is gathered and consolidated. (Section XI.5.h)

- Exemptions/deductions based on area and industry should be minimised, if not done away with. If at all, investment incentives could receive a tax preference since they directly affect growth; even such incentives should be for a specific period of time and a sunset clause should be introduced to ensure a review of the benefit arising from a lower rate of tax or development of an industry/area. For all other categories, including SSIs, every attempt should be made to reduce tax preferences even if the likelihood of success in curbing the incentives may be expected to remain low. (Section XI.5.h)

- The "reverse charge" mechanism for service tax causes many taxpayer complaints. Its reform may bring a sizable number of potential taxpayers under the service tax net. (Section XI.5.h)

- There needs to be greater clarity on the coverage under various categories of services by way of illustrations. This should not only be customer focused, but should facilitate widening of the base under service tax. (Section XI.5.h)

- A comprehensive review of exemptions is needed to deepen and widen the tax base. In service tax particularly, an urgent study is needed on the impact of the implementation of the negative list to help develop a clear roadmap towards rationalising it by reducing the taxpayer distress that it has caused, and is continuing to cause. (Section XI.5.h)

Survey, search and seizure

- Surveys and technology-based information and intelligence systems should be used to identify potential taxpayers. Action needs to be taken jointly by the direct and indirect tax administrations in an integrated and co-ordinated manner to get better results. Databases of different agencies like the Medical Council of India and AADHAAR should be used to locate non-filers and stop filers. (Section XI.5.k)

- Surveys should be based on the growth trend in sectors and industries, especially clusters of business units known for use of undocumented and cash transactions; expenditure and opulent life style, etc. The tax administration should develop/use software to zero in on such behavioural indicators. (Section XI.5.k)

- A combined survey effort with states should also be considered with reference to the National Population Registry database available at the state level. (Section XI.5.k)

- Search and seizure mechanisms should be used in a co-ordinated manner in limited cases. To achieve better results, information should be shared in a structured and integrated manner as discussed in detail in Chapter IX of the TARC report. (Section XI.5.k)

- Enforcement should be strengthened to heighten the perception that the risk of being caught and of penalty for non-compliance is high. (Section XI.5.k)

- Anti-avoidance provisions should be incorporated in tax laws to be implemented with great care and sensitivity. (Section XI.5.k)

Risk analysis

- Given international experience, risk analysis should be made more robust and continuously improved as detailed in Chapter XII of this report. (Section XI.5.i)

Tax amnesty

- Taxpayers keep waiting for amnesty schemes to be announced and take advantage of these schemes to build their capital. Amnesty schemes also cause inequity among taxpayers, and there is no proof that they improve taxpayer behaviour among evaders. Tax evaders, therefore, should not be encouraged through amnesties. (Section XI.5.l)

Research and analysis

- There is immediate need to set up an institutional mechanism to carry out research and analysis by the two Boards in various areas of tax administration. Thus, the setting up of KAIC is the most crucial at this point in time as a combined and consolidated instrument to analyse direct and indirect taxes. (Section XI.5.m)

- The TARC recommends that sanitised macro data on taxpayers, returns filed, tax collected, etc., should be made available in the public domain, so that research bodies are able to analyse them and provide their findings to the tax department from time to time. This will help in developing research input for decision making.

Creation of tax culture and conducive environment

- Generating an environment and tax organisational ethos that encourages maximum voluntary compliance is the direction in which the two Boards should move. (Section XI.5.o)

Tax Forum

- A permanent body should be set to analyse procedural issues and solve them quickly, on an on-going basis. Analysis should consider administrative as well as policy obstacles. The recommendations of this permanent body on policy and administrative procedures should be sent to the Boards for consideration and comments within a specific time frame, say a maximum of 2-3 months. In case the response of the Boards is not received within the specified time frame, such recommendations may be placed directly before the Finance Minister for consideration. The operation of such a Tax Forum was extremely successful in the previous government, although it has not continued thereafter. Considering the extent of customer satisfaction it generated, it needs to be revived urgently. (Section XI.5.q)

Chapter XII – Compliance Management

Governance

- Timely clarificatory circulars can substantially reduce disputes and litigation. The TARC found very little proactive use of the statutory provisions that enable the Boards to issue such circulars. The TARC, therefore, recommends that:
    - The two Boards must proactively issue clarificatory circulars.
    - Such circulars should invariably invoke the relevant statutory provisions under which they are issued. They should be expressed in simple and lucid language, avoiding jargon.
    - The Boards must ensure that all officers adhere to these circulars and avoid taking legal positions in disputes contrary to the circulars. (Section XII.4.a)
- The TARC found that the success rate of the Departments in litigation was very low. This is on account of the poor quality of orders and aggressive revenue target-oriented decisions. The TARC recommends that:
    - The Boards should ensure avoidance of such decisions by reviewing and improving the quality of orders from the perspective of fairness, legality and propriety, irrespective of the revenue consequences.
    - They should desist from filing of appeals against well-reasoned and sound orders passed by their officers simply because they are pro-taxpayer.
    - They should take notice of capricious orders, irrespective of revenue consequence and discipline the errant officers – even by meting out punishment where required. (Section XII.4.a).
- At present, there is lack of trust and mutual suspicion between the taxpayers and the administration, which impedes the promotion of voluntary compliance. Therefore, the Boards must strive actively to create a trust-based administration. (Section XII.4.a)
- Both the Boards will need to infuse life in their Vision and Mission statements to create a value-based administration by strengthening their internal governance supported by an effective performance management framework. This would require the development of performance measures and indicators that would bring about coherence between organisational goals and individual behaviour. (Section XII.4.a)
- The NADT and NACEN must give the highest priority to shaping leadership and inculcating a code of ethics. This should be done through structured leadership programmes, designed with the help of national and international institutions of repute. (Section XII.4.a)

- A wholesome set of goals that focus on minimising the tax gap should be set up and coherent strategies and programmes should be designed to achieve those goals in place of the present compulsive obsession with revenue maximisation by any means. (Section XII.4.a)

- Both the Boards must recognise and accept a redefinition of their role as a regulator rather than as purely an enforcer. (Section XII.4.a)

- The values of taxpayer service should be imbibed not only in the taxpayer services function, but across the whole organisation. (Section XII.4.a)

- A code of ethics containing the delineation of the standards of behaviour and conduct should be jointly developed by the Boards in order to give concrete shape to values such as professionalism, objectivity, courtesy and helpfulness and be actionable where deviance is noticed. This code could supplement the Conduct Rules governing the conduct of civil servants. (Section XII.4.a)

- A coherent and clearly articulated framework should be developed by the two Boards that would weave the different aspects of the Departments' functioning together into a well-directed movement towards the goal of compliance maximisation. This would enable an assessment of the overall performance against goalposts on that journey. (Section XII.4.a)

- The strategic goal of the tax administration should be to exert such influence on the compliance environment as would maximise voluntary compliance and minimise non-compliance. All decisions, whether strategic or operational, should be tested against the touchstone of whether they promote such movement or not. (Section XII.4.a)

- Both the Boards need to develop and implement an effective communication policy intended to eliminate asymmetry of information between the taxpayer and the tax administration and ensure that taxpayers have access to all information that is relevant to compliance. (Section XII.4.c)

Customer focus

- A scheme similar to Samman but based on more sophisticated parameters should be jointly developed with suitable incentives including public recognition. (Section XII.4.b)

- Customer convenience and compliance cost should form a central aspect of any planning for change, whether in law or procedures. (Section XII.4.c)

Cultivating a culture of compliance

- In order to engender a sound tax compliance culture among the youth at an early stage, a tax awareness programme directed at undergraduate students should be considered for implementation in co-ordination with the Ministry of Human Resource Development and the University Grants Commission. (Section XII.4.d)

Compliance risk management

- The compliance philosophy needs to be built on the principle of trust combined with careful monitoring and management of compliance risks. (Section XII.4.b)

- A common compliance risk management framework should be developed by the two Boards to manage strategic as well as operational risks using a structured risk management process. This should be based on:

  - Extensive research and analysis

  - A robust segmentation strategy for addressing compliance risks based on the relevant structural, economic and behavioural factors

  - The use of all compliance tools, namely taxpayer services, compliance verification and enforcement, in a manner that is calibrated according to behavioural segmentation of taxpayers

  - Continuous review of the effectiveness of risk treatment actions

  - Rewarding highly compliant behaviour by launching a scheme similar to *Samman* but based on more sophisticated parameters and providing more attractive incentives, besides public recognition. (Section XII.4.b)

- Both the Boards should develop a robust compliance measurement framework to enable effective compliance risk management. (Section XII.4.b)

- A high degree of co-ordination between the Boards as well as between different functional verticals within each Board needs to be ensured through co-ordination committees. This process needs to be a structured, formal one. (Section XII.4.b)

- While the organisation-wide risk management should be the responsibility of the Strategic Planning and Risk Management (SPRM) division, the responsibility for risk management for functions such as compliance verification and enforcement would be with the relevant vertical. (Section XII.4.b)

- The CBEC needs to implement a system similar to the NMS management system implemented by the CBDT. (Section XII.4.b)

- Strong research and analytical capability should be developed to support effective compliance management. (Section XII.4.b)

Compliance verification

- The CBEC should re-visit its current returns in central excise and service tax and move towards an annual tax return accompanied by a tax audit report as in income tax. Once feasible, instead of requiring a separate submission of Form 3 CD, the data submitted

should be shared between the two Boards on the "one data, many users" principle. The monthly/quarterly returns should be simplified and used mainly to track the flow of input credit. (Section XII.4.e)

- The CBEC should adopt the model of the CPC for return processing in central excise and service tax, including a more intensive use of ICT for return processing. (Section XII.4.e)
- The CBEC should also adopt a common return for central excise and service tax. (Section XII.4.e)
- A greater alignment between the audit processes of the CBDT and CBEC should be brought about. (Section XII.4.e)
- The CBEC should integrate the central excise, service tax and customs audits. (Section XII.4.e)
- Both the Boards should work towards joint audits for direct and indirect taxes for large businesses. (Section XII.4.e)
- In its restructuring, the CBEC needs to follow TARC's recommendations in Chapter III of its report.
- In the CBEC restructuring plans for audit, it should be ensured that audit staff for LTUs is housed in the LTU office itself, which is important from a customer service perspective.(Section XII.4.e)
- On the CBDT side, the ITD-MS should be used for audit selection. (Section XII.4.e)
- The CBDT should mutatis mutandis adopt a process similar to EA 2000 as is prevalent in central excise and service tax, including on-site audits where required. (Section XII.4.e)
- The mandatory selection criteria for audit/scrutiny selection in both the Boards should be dispensed with. Both Boards should move towards multi-year audits from the current single year audits and the frequency of audits should be determined by risk assessment and the compliance behaviour of the taxpayers and availability of resources for audit. (Section XII.4.e)
- Information management and risk management in DG (Audit) needs to be strengthened. Risk management should be based on extensive use of data analytics including third-party data. (Section XII.4.e)
- Audits should be conducted on the basis of annual plans that balance national and local risk priorities. (Section XII.4.e)

- Officers should be trained to adopt a collaborative approach to audit rather than a fault-finding one and the performance evaluation needs to focus on important dimensions beyond revenue recovery. (Section XII.4.e)

- Measures need to be taken to substantially upgrade the professional and technical skills of the staff in audit. (Section XII.4.e)

- There should be an ongoing performance evaluation that embraces all dimensions of audit, including compliance improvement and the consequent assessment of audit effectiveness. Such evaluation should be based on lead and lag indicators. (Section XII.4.e)

- Audit officers in both Boards should encourage voluntary disclosures and refrain from resorting to penal action in the case of bona fide disclosures. (Section XII.4.e)

Transfer pricing audits

- The CBDT should issue standard positions on specific issues as guidance to the TPOs for TP disputes to help ease uncertainty and litigation for the taxpayers. (Section XII.4.e)

- The CBDT should also develop detailed guidelines for developing comparability adjustment. (Section XII.4.e)

- The present accounting data does not provide gross profit and so the databases used for TP analysis provide only the net profit of a company or entity, and not gross profit. The CBDT needs to work with the ICAI on changing the existing accounting rules so that gross profit is available in a uniform manner to undertake better comparisons. (Section XII.4.e)

- The APA team should have trained economists embedded for making economic analysis on advance prices. (Section XII.4.e)

- The workload across all TPOs should be rationalised. (Section XII.4.e)

- In selected cases, teams led by senior officers should undertake on-site visits in complex cases, scheduled in consultation with the taxpayer. A move should also be made from multi-year audits rather from the current single-year audits, to include all pending assessments so that repeated visits to the same assessee are avoided. (Section XII.4.e)

Enforcement

- Enforcement activities should focus on cases of deliberate fraud and evasion and avoid wasting resources on cases that are essentially in the nature of tax disputes. (Section XII.4.f)

- Greater emphasis should be placed on the quality of investigations with a view to securing successful prosecution of offenders. (Section XII.4.f)

- Investigations should be completed in a timely fashion in order to ensure swift completion of proceedings. (Section XII.4.f)

- As recommended earlier, a separate functional vertical for prosecution should be created with the required legal expertise embedded in that vertical. (Section XII.4.f)

- Provisions for publication of details of tax offenders should be used for giving wide publicity so that a deterrent effect is created. (Section XII.4.f).

Fourth Report

Terms of reference:

- To review the existing mechanism and recommend appropriate means including staff resources for forecasting, analyzing and monitoring of revenue targets.

- To review the existing policy and recommend measures for research inputs to tax governance.

- To review the existing mechanism and recommend measures to enhance predictive analysis to detect and prevent tax/economic offences.

Chapter XIII – Revenue Forecasting

Approaches to revenue forecasting

- It is important that the budget forecasting processes are balanced, transparent, and trusted. (Section XIII.5.a)

- It is also important that the revenue forecasting process involves expertise and experience, so that its dynamic character is properly harnessed, to understand far-reaching policy implications. (Section XIII.5.a)

- The revenue forecasting process should observe three key elements – transparency, formality and organisational simplicity.(Section XIII.5.a)

- All macroeconomic assumptions or other assumptions in the forecasts should be properly explained and made public to ensure transparency. Such detailed information in the public domain will have the salutary effect of improving data quality and accountability in the tax forecasting process. This should result in increased accuracy, and possibly a reduction in ad hoc or discretionary adjustments during the fiscal year. Transparency will also enhance the credibility of the forecasts, which so far has been sadly missing. (Section XIII.5.a)

- Budget preparation practices in the TPL and TRU are to a large extent unstructured and the existence of formal rules on issues, such as forecasting responsibilities, time table and documentation, will establish a well-structured process leading to more timely forecasts and will reduce the scope for covert interference. (Section XIII.5.a)

- There is need for organisational simplicity, so that there is coherence in the result with less time spent on sparring over each competing model and more on improving forecast results, based on detailing the model itself. (Section XIII.5.a)

Revenue forecasting methods

- Tax revenue forecasting has many models with a separate model for each tax type. There is no commonly accepted, standard practice or model for revenue forecasts. Tax administrations generally draw upon a combination of models, consumer and business surveys and expert opinions to arrive at tax forecasts and analysis. Both the Boards should also adopt a bouquet of methods and not rely on only one method. (Section XIII.5.a)

- The two Boards should maintain the two forecasting systems – the first one focusing on the short-term forecasting horizon (say, up to six months), and the second focusing on longer time horizons (greater than six months). (Section XIII.5.a)

- For short-run revenue forecasts, the two Boards can set up a tax revenue receipt model. (Section XIII.5.a)

- The two Boards can use different tax forecasting and tax policy analysis models, depending on data availability and the rigour desired in analysis. Commonly used models are conditional/causal models, using historical and projected data for tax bases to predict tax revenues. To begin with, both Boards should set up conditional models. (Section XIII.5.a)

- As the Boards gather more experience, they should move towards micro-simulation models. This will allow them to examine the distributional effect of a given tax policy proposal on particular sectors of the population, and identify the gainers or losers. Micro-simulation models are also useful in setting up discretionary change models.(Section XIII.5.a)

- Both Boards must carry out tax expenditure analysis, quantifying the tax revenue losses attributable to various "non-standard" exclusions, exemptions, deductions, credits, deferrals, and preferential rates in tax laws. These figures so far have a lag of two years, but with data being captured on real time basis, it should be possible to move towards capturing current year data. Models should also forecast future estimates of tax expenditures. (Section XIII.5.a)

- Both Boards must set up a CGE model to conduct policy evaluations using actual data. The CGE model will estimate the directional impact of proposed tax measures on important macroeconomic variables and the economy whenever alternative tax reform options are being evaluated. (Section XIII.5.a)

- Both Boards must move towards estimating the tax gap to track tax collections and to determine the effectiveness of the tax administration. This will also help the two Boards to identify the areas, types and level of non-compliance that contribute to the tax gap. This will also help the Boards develop better strategies to combat non-compliance. (Section XIII.5.a)

- It is useful to introduce the cyclical nature of tax revenue collection in a wider macro econometric model using output gap along with income/consumption shift variables/dummies for good and bad times. (Section XIII.2.a)

Tax debt collection

- Both the CBDT and CBEC employ traditional methods to collect taxes. This approach allows non-compliant taxpayers scope to duck the system, resulting in actions by the tax departments that are ineffective, or unnecessary. A changed approach, based on identifying debtors rather than debts and an understanding of their behaviour, can give better results. (Section XIII.5.a)

- Cluster analysis, based on characteristics, such as tax debt size, taxpayer status, underpaid tax, etc., can be employed as one of the methods. The characteristics of taxpayers in a cluster will require risk assignment on the basis of inputs from field formations as well as on the basis of data or information from the data warehouse to tailor taxpayer treatments on the basis of individual circumstances and behaviour. (Section XIII.5.a)

- It will be useful to carry out the tax debt analysis using combined data with the CBDT and CBEC. This will be in line with the TARC recommendation in Chapter IX of "one data, many users". The combined data based on common standards and taxonomy will facilitate data exchange between the two Boards, enabling better data analysis to track the taxpayer's tax liabilities, payments and balances using the basic data in one system. (Section XIII.5.a)

- The combined data can be structured to form a data layer that contains every tax debt and tax debtor, making it possible to follow them throughout the collection lifecycle in a united manner, as ultimately there is only one taxpayer. This chain of collection can identify where the tax debtor is in the chain at a certain time. Such a system to monitor the development of each tax debt, whether in the CBDT or the CBEC, will improve the overall tax collection process. (Section XIII.5.a)

Reviewing and reporting of forecasts and monitoring of taxes

- It is important that tax forecasts are revisited on a regular basis as key economic variables, such as the gross domestic product, inflation, short- and long-term interest rates, employment growth, etc., are changing constantly, and that may affect forecast results. Due to change in economic indicators, there are chances that the structural relationship(s) may also change. (Section XIII.5.b)

- It is important that tax collections are monitored and reviewed to enhance the accuracy of the forecast. This may involve a series of consultations with the macroeconomists in the economic division of the Department of Economic Affairs to understand changing economic indicators as they affect tax collections. These consultations will also help the CBDT and CBEC to assess whether the tax forecast will require to be revisited, and may help in preparing an assessment on whether the budget estimates are likely to be met or will require reduction. (Section XIII.5.b)

- The forecast process needs to be made more transparent. It is recommended, therefore, that a small unit, comprising TPL and TRU officials and officers from the economic division of the Department of Economic Affairs and the Reserve Bank of India, be set up within the TARC-recommended Tax Policy and Analysis unit with a mandate to evaluate and prepare a report on the tax implications of macroeconomic changes. The report can be presented to the Parliament as part of the FRBM Act. These reviews can be done twice in a fiscal year, one after 6 months of the start of the fiscal year and another after 10 months. (Section XIII.5.b)

Data requirements

- Data availability can impose constraints on the revenue forecasting process. The two Boards must develop a clear strategy to systematically clean the taxpayer master file and tax returns database. This activity may be beyond the scope of work of the existing TPL and TRU. However, inputs from them will be invaluable from the user's perspective since they have dealt extensively with cleaning up the taxpayer data. (Section XIII.5.c)

- Once the data is available, it can be examined for underlying pattern, rates of change, or trends, by making comparisons of data from different sources, linking data sets, comparing corresponding items, finding relationship and patterns, and constructing descriptive or hypothetical representational and/or functional relationships between the different variables of which the data is composed. (Section XIII.5.c)

- After projections have been made, the estimates need to be evaluated for their reliability and validity. To evaluate the validity of the estimates, the assumptions associated with the revenue source need to be re-examined. If the assumptions associated with the existing economic, administrative, and political environment are sound, the projections can be assumed to be valid. (Section XIII.5.c)

- Reliability can be assessed by conducting a sensitivity analysis. This involves varying key parameters used to create the estimates. If large changes in the estimates result, the projection is assumed to have a low degree of reliability. (Section XIII.5.c)

- The TPL and TRU must be sufficiently equipped with computer hardware, database systems, and other office software including the most recent econometric and statistics software packages. These equipment and software systems are necessary to conduct the most demanding data analysis. (Section XIII.5.a)

- The TPL and TRU should also have access to current, seminal publications on tax and fiscal research and a database of journal articles for the continuous upgrading of the skills and knowledge of the officers working there. (Section XIII.5.a)

Partnering non-government bodies and research institutions

- Maintaining a regular dialogue with academia and business communities is valuable for identifying emerging trends in the economy. For these interactions, the academia and business communities must be provided data, albeit encrypted data, so that they have the requisite data for a more meaningful engagement. The CBDT and CBEC, for the purpose, should identify academic institutions of national repute and business or professional associations having all-India membership that can collaborate for the dialogue. (Section XIII.5.d)

Integrating revenue forecasting with policy

- It is important to integrate tax forecasting results, particularly relating to tax analysis such as distributional impact out of the micro-simulation model or tariff impact on commodities from the trade tax calculator, to estimate how much each tax policy will cost taxpayers and the tax that it will raise. This can be used as a tool to inform decision makers, including ministers, of the likely benefits

and costs, identifying key factors that should affect the decision, strengthening the quality of analysis and making the policy inclusive. (Section XIII.5.e)

Organisational/institutional arrangements

- In line with the recommendation in Chapter III of the TARC report, it is reiterated that the existing TPL and TRU wings of the CBEC and CBDT should be subsumed in the TPA wing. The TPA wing should be expanded to include specialists, such as economists, tax law experts, statisticians, operations researchers and social researchers to form a multidisciplinary team. (Section XIII.5.f)

- An important task of this unit will be to publish results from the analytical models it develops. These publications should contain objective and impartial analyses and should be helpful in guiding broad policy debates, so that the knowledge can be shared with peers and the policy community for discussion and feedback. (Section XIII.5.f)

- The forecasting units in the TPL and TRU should be separate and should have three divisions for macro analysis, tax analysis, and revenue and tax debt forecasting. Each division should have economists, statisticians and social researchers (as per the requirement), along with tax administrators. (Section XIII.5.f)

Staff resources

- The officers and staff of the TPL and TRU need to be selected on the basis of specified qualifications. The officers and staff of the TPL and TRU should include trained personnel with specialised skills and knowledge in the fields of revenue forecasting, analysis and monitoring. (Section XIII.5.g)

- IRS officers at the levels of Joint Secretary and Director in the TPL and TRU should have wide knowledge of tax policy and macroeconomic issues and deep understanding of revenue estimation and forecasting. (Section XIII.5.g)

- For officers below the level of Joint Secretary and Director, knowledge and skill to gather data from different agencies, perform routine analytics for forecasting revenue, and prepare results that could be used for drafting tax memoranda will be useful. These officers and staff can be from the disciplines of statistics, economics, and social science. Duties of these personnel will be to conduct macroeconomic analysis for revenue and tax debt forecasting, monitoring, and analysing tax receipts on a regular basis, and to evaluate the economic and revenue impact of introducing new and/or maintaining existing tax policies on the tax base and tax revenues. (Section XIII.5.g)

- Officers below the level of Joint Secretary and Director need to have some knowledge of taxation policies, and direct and indirect tax laws, knowledge of technical report writing, and skills in handling computer databases and statistical packages, and econometrics software, such as SAS, EViews, STATA, etc. (Section XIII.5.g)

- On-the-job training should be considered the most important route to developing and deepening the necessary skills required to perform such functions. A university-level education in economics, public policy, statistics and other related disciplines should be considered necessary. Actual strengthening of their capacity can be attained through regular internal seminars, workshops and specialised short courses. (Section XIII.5.g)

- These capacity building exercises, particularly internal seminars and workshops will have to be organised on a monthly or quarterly basis so that officers and staff get adequate opportunity to present his/her work on a particular issue to the rest of the unit. (Section XIII.5.g)

- Customised and specialised short courses on revenue forecasting can also be organised for staff and officers of the TPL and TRU so that they gain up-to-date knowledge on the subject, and are aware of new developments. These courses should invariably be graded to ensure that the learning is imbibed and can be immediately utilised in the work. Long-term training can also be considered on the subject for the long-run viability of the analytic unit of the TPL and TRU. (Section XIII.5.g)

Chapter XIV – Predictive Analysis

Increasing data pool for analytics

- Both the Boards need to take urgent steps to integrate the data across the two tax administrations and begin working jointly on the analysis of the pooled data so that their efforts are synergised and the combined talent in both organisations is brought to bear on the task. This will pave the way for mutual understanding that will lay the foundation for sustained collaboration and co-operation. And this should be only the first step leading to eventual integration of the databases as recommended by TARC earlier. (Section XIV.5.a)

- With regard to third party data, the "silo" approach should be avoided and the "one data many users" principle must be adopted as recommended in Chapter IX of the TARC's report. (Section XIV.5.a)

- To enable reliable predictive analysis, the offence data base needs to be made robust, reliable and shared. Besides data sharing, there should also be proper data publication. As is the case with several countries, there is also a need to publish consolidated watch lists such as lists of tax defaulters, international fugitives and known offenders. (Section XIV.5.a)

- As recommended in VII.6 of the TARC's report, both the Boards need to commence the journey to the "digital by default" status in order to reach a level of maturity in the use of data analytics comparable to the best international peers. (Section XIV.5.a)

- Data analytics should be made an integral part of the strategic planning process and the analytical efforts should to be integrated with the programme and project management. (Section XIV.5.b.iii)

- Based on such strategic plans, analytics plans needs to be developed in a project mode – setting out the resources needed, defining the business goals and the expected business outcomes. (Section XIV.5.b.iii)

- An important responsibility of the CIO will be to expand the data pool for analytics by continuous scan of the environment for identifying new and emerging sources of data and securing data access from them, in line with recommendations in Chapter IX of the TARC report. (Section XIV.5.a)

Leadership and culture

- The leadership of the two Boards needs to play a critical role in laying the foundation of analytics in organisations' culture through visible actions to move the ICT functions to the core of the organisations. They need to do this by
  - Imbibing a data driven approach, acquiring a working knowledge of data analytics and learning the value of information as a key asset.
  - Embracing the idea that data are central to the organisation's business and seeking areas where data analytics could deliver quantum leaps in performance.
  - Ensuring that the use of ICT and data analytics become a core ingredient of the strategic and operational plans in the different functional domains. (Section XIV.5.b.i)
- Frontline employees' buy in needs to be secured by
  - Improving the quality and accuracy of communication and improving the reliability of the system and user friendliness of the interface.
  - An ongoing programme of user training and education including hands-on guidance.
  - Investments in user friendly "self-service" tools that can increase business users' confidence in analytics.
  - Progressive automation of routine processes, for example, as its risk management system matures and is made more potent and effective through advanced analytical models and tools, customs can explore the option of "machine release" that will lead to release of certain types of cargo without human intervention. Similarly, with improved CASS supported by advanced analytics, the income tax department can vastly sharpen the selection of returns for scrutiny and avoid unproductive workload on their assessing officers, leaving them with a scrutiny basket that is more challenging and productive. (Section XIV.5.b.ii)
- Analytics-based selection for audit or scrutiny need to be designed to ensure that the probability of a productive outcome is high so that officers do not go after the cases predicted not to win. This will enhance audit or scrutiny productivity and infuse confidence amongst officers and taxpayers. (Section XIV.5.b.ii)

Strategic plans and delivery

- Analytical capacity needs to be developed on the basis of clearly laid out plans with defined business outcomes. (Section XIV.5.b.iii)
- Recognising that progress towards maturity is a painstaking journey, there are benefits in starting small, launching pilots and capturing low hanging fruit along the way to build confidence and then scaling up. (Section XIV.5.b.iii)

- The planning, however, should factor in the requirements of scaling up. (Section XIV.5.b.iii)

- The implementation should be accompanied by regular programme and project evaluation. (Section XIV.5.b.iii)

Role of KAIC

- The KAIC needs to be made a hotbed of learning and innovation with continuously increasing R & D capabilities to achieve breakthrough insights and should be staffed by an adequate strength of multidisciplinary expertise, including domain experts with strong ICT/analytics skills. (Section XIV.5.b.iv)

- It should also support the analytical efforts with the different functional verticals through collaboration and guidance to projects that they may on their own undertake. (Section XIV.5.b.iv)

- It should also support training and skill building in the organisation. (Section XIV.5.b.iv)

Training

- A cadre of data analysts should be groomed within the organisation to service analytical needs in both the KAIC and the functional verticals. They can also act as "translators" who interpret technology for business leaders and operational staff. (Section XIV.5.b.v)

- Focused and well-structured training courses should be designed and mandatorily implemented for all levels in the organisation to equip them with the necessary knowledge and skills. (Section XIV.5.b.v)

- This should include the top and middle-level management who must be imparted broad knowledge of analytics and its potential. (Section XIV.5.b.v)

- A well designed course on ICT and analytics should be made a part of IRS officers' induction training in the two academies. (Section XIV.5.b.v)

- Partnerships need to be built with industry, academic and research institutions to build and sustain highly specialised skills and to promote research in KAIC. (Section XIV.5.b.v)

Chapter XV – Research for Tax Governance

Role of research in improving tax governance

- The requirements of the tax administration are not static; they have a dynamic character, requiring constant evaluation and assessment to enable the tax administration to seamlessly modernise itself and look into its future needs. These demands require continuous, on-going research in tax governance so that there is sufficient and modern thinking available to improve processes, structures, and people functions in the tax administration, leading to better tax governance. (Section XV.1)

- Many with a traditional mindset in the tax department may not consider developing research as being part of the core work of the tax administration. Traditional mindsets, however, need to be

transformed to develop processes, taking into account human, organisational and institutional considerations, which encourage research to provide the inputs needed to improve tax administration. (Section XV.5)

- Research in tax administration needs to include international comparisons by identifying good practices adopted by different tax administrations, understanding them and drawing lessons from them to raise the standards of tax governance. (Section XV.1)

- The Indian tax administration is attempting to enhance delivery. Research in tax governance, with a multi-disciplinary approach involving disciplines such as economics, accounting, finance, law, management, behavioural science, ICT, and statistics, can help review current practices and design new approaches to expand the tax base and increase tax revenue, while remaining cognizant of the government's aim to promote economic development and tax justice. (Section XV.1)

- Research needs to be evidence-based and needs to be meticulously designed, implemented, and executed so that the output is relevant to and usable to the tax administration. This will require an organisational framework, finance, staff, the development of linkages for collaboration – internal-governmental mechanism or with outside agencies – and the building of skills needed to evaluate outputs to assess their practical utility. (Section XV.1)

- Research cannot be a one-off exercise; it has to be embedded in the tax administration so that there is two-way movement, top-down as well as bottom-up, within the various tax departments to build an ecosystem to undertake meaningful research. (Section XV.1)

Areas of research

- Important areas of research, only indicative by enumeration and by no means exhaustive, can be as follows:
    - Compliance tracking
    - Identifying the rich and wealthy
    - Measuring voluntary compliance
    - Identifying audit/scrutiny risk elements
    - Impact analysis
    - Taxpayer surveys
    - Trade and customs
    - Taxing hard-to-tax sectors
    - Tax effects on investment
    - Tax incentives for R & D

- Taxing natural resources
- Taxation of the insurance sector
- Performance management
- Technology scan in SPV/DG (Systems)
- Fairness in tax disputes
- Corruption in tax administration (Section XV.4.a)

- Some of the research work can be carried out jointly by the CBDT and CBEC. (Section XV.4.a)

External research collaboration

- Research work, on short-term or long-term basis, can be carried out by external research organisations. This will be in addition to in-house research on topics that need to be worked on only within the tax administration. (Section XV.4.b)

- The CBDT and CBEC will have to put in place an arrangement for partnering with external research organisations on a long-term basis for research and analysis on topics requiring external assistance. (Section XV.4.b)

- This will also require making available data. Encrypting and anonymising taxpayer data and external or third-party data, and establishing a data bank will help make data available to external researchers. (Section XV.4.b)

- Collaboration with external research organisations will need to include a framework for dissemination of research results, as external researchers and academics will be interested in sharing research results and getting them published in refereed accredited journals. (Section XV.4.b)

- Partnership and collaboration with external research organisation will not only be useful to the tax administration, but will also be of significant advantage to external research organisations as they can leverage their research investment from seed-funding that this engagement will bring to more substantial opportunities. (Section XV.4.b)

- The expectations of the tax administration on the deliverables by external research organisations will have to be clearly spelt out and communicated so that they are not misunderstood. (Section XV.4.b)

- Research collaboration should be demand-driven and there should be clear organisational intent on the part of the tax administration to requisition the research input, with full ownership of the demand. (Section XV.4.b)

- It is also important that research collaborations are made not only with reputed national organisations, like NIPFP, NCAER, NIFM, ICRIER, etc but are made broad-based to include other regional institutes so that there is a larger pool of research institutes available for collaboration. Although geographical distribution cannot be the sole basis for enlarging the base, it needs to be

taken into account to ensure that the capacity of these institutes also get upgraded over a period of time. (Section XV.4.b)

- The tax administration should consider engaging external research organisations for taxpayer surveys, evaluation of the effectiveness of the tax administration's policies, suggestions on ways to improve policy and administration and identifying lessons learnt. Apart from the fact that such research requires large manpower and are time-consuming, these are also areas in which the tax administration does not have any expertise. (Section XV.4.b)

Dissemination of research

- Dissemination of research and the associated knowledge management can play an important role in building intellectual capital to improve the effectiveness of the tax administration. (Section XV.4.c)

- As part of research dissemination, the TPA (Tax Policy and Analysis) unit can bring out annual or biannual reports on revenue trends and forecasts and monthly supplements to such forecasts; the KAI centre could do the same on the operational needs of the tax departments. (Section XV.4.c)

- The TPA unit and KAI centre, along with NADT and NACEN, can also conduct seminars and conferences and bring out reports on the deliberations in those seminars. These conferences and seminars will provide officers an opportunity to interact with tax experts from the private sector and academia. (Section XV.4.c)

Human resources for research

- In line with the recommendations in Chapter III of the TARC report, both TPA and KAI centre should undertake high level research. People posted in these units need to have highly developed skills in data handling and carrying out detailed analysis. Research work undertaken needs to adopt a multi-disciplinary approach. (Section XV.4.d)

- People working and involved in research in the TPA and KAI centre should have university-level education in the field of economics, psychology, statistics, management, or law, with adequate experience in public policy formulation. But this in no way suggests that those with other educational backgrounds cannot work in the TPA and KAI. (Section XV.4.d)

- The induction of officers and staff to undertake research work should be flexible, but due care needs to be taken to ensure that the officers and staff selected have the capability to handle research work or research projects. (Section XV.4.d)

- The Chief Economist in both the TPL and TRU should play an important role in identifying, guiding, monitoring and evaluating research topics. He will have to provide quality assurance of the tax administration's analytical work. He should be responsible for presenting the analysis, examining the evidence, and using analytical input to support the formulation of tax policy change and for internal administrative decisions. (Section XV.4.d)

- There should be intense training, either in-house at NADT or NACEN or at reputed research institutions, of officers involved in research. They should be trained on research methodologies, and be given practical training on data analysis. (Section XV.4.d)

- All IRS officers must publish at least one peer-reviewed research paper on topics of tax administration or tax policy before promotion to the grade of Commissioner. (Section XV.4.d)

- If the research paper is published in research journals of national or international repute, the officer should be incentivised, either through a one-time award or by allowing one extra increment, so as to encourage more people to do the same. (Section XV.4.d)

- The attention of apex level supervisory officers is the key to developing human resources for research input. (Section XV.5)

Allocation of funds for research

- To give adequate emphasis and focus to research in tax administration, sufficient funds should be provided in the budget under a separate head. To sustain the focus and to establish continuity no re-appropriation of funds should be allowed from this head of research. (Section XV.4.e)

- Participation in technical seminars and events in specialised areas will also add to the knowledge base of officers. Officers can be considered to be deputed to attend research seminars or courses, whether in India or abroad. Adequate funds will need to be allocated for this purpose to ensure that it is done on a regular basis. (Section XV.4.e)

III. Feedback

One activity that the TARC undertook – after its initial visits to selected field offices of the two departments for consultation and to a range of taxpayers to identify problem areas prior to the formulation of its recommendations – was to take an ex-post pulse of the tax administration's views. The TARC visited several field offices to assess their readiness to undertake reform in line with its recommendations. It was impressed with the overall readiness in recognising existing gaps and constraints and in undertaking reform although it also found apprehension in taking the more difficult steps that would be necessary to undertake sweeping changes to achieve fundamental structural reform. This why the TARC has been, and continues to be, of the view that reform has to be decided at the highest levels of government and should preferably be undertaken as an entire package of reform rather than in a selective or piecemeal fashion. Nevertheless, the main aspects of the ex-post discussions with the field are listed below in a rational sequence of action to be taken.

i. Customer focus

In the area of customer focus, all offices consulted indicated where some progress was being made and where change is needed. Many indicated that they were in favour of giving appropriate and timely refunds but were unable to do so due to policy reasons arising from revenue targets. Many indicated that even though on cases selected by CASS they did not like conducting roving enquiries, they felt impelled to do so either because clear guidance relating to the risk was unavailable or on account of fear of audit or vigilance.

The recommendation to have a dedicated organisation for delivery of taxpayer services with customer focus headed by a Principal Chief Commissioner for each Board with an exclusive Member had a very positive response as it would help in the improvement of business process/work culture and provide vital policy inputs to the Boards. The field offices suggested that dedicated resources, including personnel, should be sanctioned for this vertical for it to produce the desired results. It was pointed out

that the roles and functions of different authorities in the organisation need to be clearly demarcated so that there is no overlapping, while allowing for some internal flexibility within the proposed vertical.

The recommendation that officers and staff at all levels of the tax administration should be trained for customer orientation and that, for people posted in this vertical, the training in customer focus needs to be more specialised and intensive, was welcomed by officers. They pointed to the need to formulate a suitable training methodology since the work involves domain expertise and specialisation, appropriate to the areas in which such officers would be deployed such as customer relationship, measurement of customer satisfaction, or taxpayer education (Section II.6.a). Justifying their support for the proposition, officers remarked that the mind-set of departmental officers needs to change. They added that there should be foreign training at all levels.

The overall response to the proposal to spend a minimum 10 per cent of the administration's budget on taxpayer services was very encouraging. Most of the field officers of both departments supported the idea and even discussed how to implement it, for example, through an increase in the overall budget. They suggested setting up more kiosks to overcome the problem of poor connectivity faced by taxpayers. Some wanted sufficient funds to be allocated for customer research including, in particular, on customer surveys, which would contribute towards achieving Total Quality Management (TQM). Others mentioned the need for outreach programmes. Officers in the smaller offices emphasised that the non-techno-savvy taxpayer, whose compliance costs should not be high, should not be forgotten and tax payment by them should be made simpler.

On redressing taxpayer grievances, the recommendation that the decision of the Ombudsman should be binding on tax officers and that, in order to bring independence and effectiveness to the office of the Ombudsman, non-government professionals should also be inducted in the post (Section II.6.b) was by and large acceptable to the extent of the decision of the Ombudsman being binding on tax officers. Some suggested imposition of monetary limits on the binding clause of such decisions. A few were of the view that most grievances were related to refunds that are processed at the CPC; the AO on whom the binding clause would apply cannot be held solely responsible for procedural bottlenecks. On the other hand, the question would remain as to why the party to suffer for the tax administration's limitations should fall on the taxpayer. There was a general resistance to the idea that private professionals should be inducted into the office of the Ombudsman, with some expressing the fear that such outsiders might bring in vested interests.

On the recommendation that pre-filled tax returns should be provided to all individuals and that a taxpayer should have the option to accept the tax return as it is or modify it (in either event, the filing process would be completed with the submission of the tax return electronically (Section II.6.b)), the thrust of the views was to initiate a pilot study to be tried out on salary returns and taking a decision based on its results. Some suggested an alternative government setup in order to assist taxpayers for 100 per cent filing instead of going in for 100 per cent pre-filled returns.

The TARC has said that there is an urgent need to revisit the present citizen's charter to make it more meaningful and customer focused. The citizen's charter should be renamed the taxpayer's charter to focus on all categories of taxpayers (Section II.6.c). Officers found the proposal easily acceptable.

The TARC was of the firm view that there should be a system for online tracking of dak/grievances/applications for refunds, etc. It should be made mandatory to receive all dak through a central system generating a unique ID. The ASK software implemented by the CBDT provides such a mechanism in a limited manner, enabling the taxpayer to track the status of his application/grievance

online. A similar system for online receipt of application should be enabled on the indirect tax side (Section II.6.c). Officers generally agreed with the proposal and some praised the idea since it would help improve overall taxpayer services. Some suggested that the ASK software be supplemented with trained manpower and wished that the department would follow the CPC model. They also stressed the need to address connectivity problems from call centres to the Assessing Officer.

The TARC felt that it was imperative to benchmark India's tax administration with others, particularly in relation to delivery of taxpayer services (Section II.6.c). Supporting continuous benchmarking of the tax administration, officers suggested that such benchmarking be based on competitive performance within the department and be linked to funds granted for specific areas of tax administration. Some reacted quite positively to the recommendation, and suggested that it could be linked to the timelines in the citizens'/tax payers' charter as already recommended by the TARC.

An important constraint expressed by many in relation to improving the quality of customer services was the woeful inadequacies in infrastructure, such as office accommodation of acceptable standards, poor furniture and a basic lack of amenities. Let alone space for facilities like lounges for visitors, very often officers and staff themselves were suffering from such inadequacies. Further, there was acute shortage of funds for augmentation of infrastructure and painful delays in the processing of proposals from field officers. This was voiced in virtually every interaction.

ii. People Function

The TARC recommended a system of limited departmental competitive examinations by ear marking 33 per cent of the vacancies in the promotions quota in Group B as well as Group A, so that relatively meritorious and younger officers in the feeder grades can get a fast track in promotions (Section IV.3.c). The recommendation found acceptance amongst an overwhelming majority of the field offices and by staff associations in principle, reflecting the acceptance of meritocracy as the key. Staff associations expressed apprehensions on account of stagnation in promotion and had further expectations of a decrease in the direct recruit quota for appointment of Assistant Commissioners to 1/3 of the sanctioned strength. They also wished priority to be given to sorting out seniority issues within the Group B cadres and holding an objective type departmental promotional examination even for Group B. Some needed more time to reflect and express a view. Some indicated that the solution to stagnation in service lay in timely promotions for all, replacing, in their view, the prevailing piecemeal approach of having limited departmental examination at the entry level of Group A. Some suggested re-introducing direct recruitment in the Group B cadres.

Officers in every field station that the Commission visited welcomed the recommendation that recruitment needs to be made on the basis of carefully drawn up recruitment plans that balance the short- and long-term needs and career aspirations of officers (Section IV.3.c). Some were of the opinion that a 10-year recruitment plan is required to be put in place since there was an urgent need to increase staff strength since manpower has shrunk with every cadre restructuring. Unanimously supporting this recommendation, the staff associations called for regular amendment of recruitment rules for various cadres and for undertaking cadre reviews to increase promotional avenues for departmental staff.

Career bureaucrats in general are fiercely protective of their turf. It was not surprising that TARC's recommendation to enable lateral entry of experts in key roles and specialised areas met with some resistance, perhaps because of the apprehension that the integration of the experts who enter the departments laterally at the decision making levels would shrink their own career prospects. TARC has

suggested that they may enter on contract for 5 years and, subject to their suitability and willingness, they should be able to integrate with the organisation at the end of the contract period (Section IV.3.c). One apprehension regarding the lateral entry of experts within the department is the issue of inter-se seniority between laterally entered experts and departmental officers. Many felt the need for the Commission to address the modalities for integration of such experts into the department while welcoming the entry of experts in specialised fields while others were willing to accept it only where the departments lacked core strength. Some wondered whether the said experts would be sourced from PSU staff or would include those from the private sector as well. A few indicated that if the entry of such experts is allowed, it should be done simultaneously for All India Services and other Central Services. Some associations pointed to the need to train internal officers. Once these concerns were addressed, the overall view was that this recommendation would become palatable.

The recommendation that a Comprehensive Performance Management System (CPMS) needs to be set up for both tax administrations by revisiting and reconstructing the RFD (Section IV.3.d) found overwhelmingly positive response among departmental officers, particularly among the stagnated group B cadres. The acceptance in general not only covered the proposal for CPMS, but a mid-year review of the performance appraisal, the performance improvement plan for juniors and the need for recognition of performance through non-pecuniary measures such as giving important assignments in chosen areas of work or specialisation. However, officers felt that the implementation of the proposal may be possible only in future after the defining of roles and digitisation of work functions up to the level of Tax Assistants are completed. Most found the need for recognition of performance through non-pecuniary measures such as giving important assignments in chosen areas of work or specialisation acceptable and indicated that the CBEC has already appointed a committee to address the issue. They suggested that the APARs for Group B/C be redesigned to reflect this new thinking. The Central Excise Superintendents Association in Bengaluru welcomed the CPMS and further proposed that the RFD methodology be extended to superintendents and inspectors. They also suggested that APARs should be made paperless i.e. on-line web based e-APAR; there should be open discussion with the concerned officer prior to the writing of his APAR, near 100 per cent numerical scoring for all parameters and reduction in weight for personal qualities and functional skills. They found the performance improvement plan for juniors acceptable. In fact, there were quite a few positive suggestions regarding the CPMS. Model performance targets and model performance appraisal form were indicated to be necessary. Some thought that weightage should be given to actual work performed and felt that personal attributes sometimes affect the assessments.

The introduction of the balanced scorecard methodology in people function incorporating key performance indicators, detailing the performance areas, objectives, key initiatives, performance indicators and performance targets (Section IV.3.d) met with a mixed response. The CBEC, which has initiated a Result Framework Document (RFD), did not find the idea to be unacceptable although some questioned why the RFD would not suffice. Others offered conditional support, suggesting that balanced scorecard should be introduced across all services. The income tax side also offered conditional support that underlined the need for discussions with the field formations.

The recommendation that the tax administration should extend the performance appraisal system to elements of 360° appraisal to include feedback from subordinates (Section IV.3.d) also found a mixed response. While some field formations welcomed it and suggested a phased roll out both geographically as well as hierarchically (JAG and above initially), the TARC observed that at the top CBEC level, there was reluctance to accept the fact that performance appraisal of an officer could be done by a

subordinate in government. Obviously, it will take a huge effort to change a traditional mind-set at the policy formulation level.

The recommendation that officers should be allowed to move outside the departments for defined periods of time to facilitate renewal of talent and professional growth (Section IV.3.d) was readily accepted by field formations on the whole.

The TARC has recommended that career of IRS officers should be divided into three phases, i.e.,

a. The first 9-10 years should be spent rotating through different functional areas to gain familiarity

b. The next 8-9 years should be in two or more specialist areas

c. Persons showing the ability for top leadership will go into the third phase and constitute the pool from which selection will be made for top positions (Section IV.3.d).

This was readily accepted by some field formations of both I-T and EC, who felt that fast tracking for promotion would be a good idea and would be motivational. While some I-T officers agreed with the first and second phases of the career of IRS officers, they reserved comment on the third phase feeling that the guiding principle should be seniority-cum-merit. Again, they suggested that the promotion process for IRS officers should be independent of the UPSC. Some requested further examination of the idea, reflecting the apprehension that it could result in the difficult experience that the IPS has had with such an accelerated promotion route.

With regard to the recommendation that a Common Assessment Centre (CAC) for the two Boards be set up by the people function to make a thorough, all round assessment of officers at the first transition point (Section IV.3.d), some requested more clarification while others wanted the concept of CAC to be implemented at a later stage. It was explained that this progressive new idea embraces global best practices. Yet, the departments, both at the apex level and at the field level, occasionally expressed doubt regarding the feasibility of implementing a CAC, maintaining that it would violate the principle of seniority-cum-merit.

The TARC recommended that the transfer and posting policy should be recast to promote specialisation and accommodation of individual choices in professional growth and should bring about predictability, stability and certainty to placements. Personal difficulties of officers should receive due consideration (Section IV.3.e). The response to this recommendation was quite positive at the field level in both the departments. Some went on to suggest a model for implementing it. Some wished that the transfer policy be based on APARs of the officers and that the specialisation aspect needs to be incorporated within the framework of transfer policy for it to bring about the desirable results. A minority pointed out that specialisation was achieved more through deputation posts than at the field level.

The field offices welcomed the recommendation that DGs (HRD) should assist the Boards in transfers and postings and they should be member secretaries of the placement committees. The administration section should have no role to play (Section IV.3.e).

The recommendation that more emphasis needs to be put on customer focus and value education (Section IV.3.f) during training found wide acceptance both at the apex as well as the field levels. While both the Boards readily welcomed the idea, some field officers went further to suggest the modalities

for implementing the recommendation. They wanted an up-gradation of the infrastructure of NACEN and NADT and allotment of 2.5 per cent of the salary budget for training. The response among the field formations ranged from making available more online courses for officers and interlinking of training needs of officers to the training institutes, to separate budget allocation for training and developing simulated training modules, mandatory training at least once in every 10 years to be reflected in dossiers, to uniform training for officers across the country. Associations and federations made valuable comments in this area. Some recommended biennial training of departmental officers with contents and methodology customised to match the needs of the tax administration.

The recommendation that a code of ethics needs to be developed, congruent with the values in the vision and mission statements (Section IV.4.a) was very widely accepted. A course is being included in the training module.

Many officers complained that delivery with a customer focus had become close to impossible reflecting the woeful inadequacy in infrastructure. This had deeply affected the staff morale. The infrastructure requirement has further increased after the last year's cadre restructuring of both the departments, putting further pressure on the existing infrastructure. Most of the existing infrastructure is also not in its best condition. Officers and staff of both the departments during their interactions with the TARC highlighted this. Main problem identified by most of them was that the present process for approval for purchase of land or building is tortuous, lengthy and time-consuming. No financial power to purchase the land or building for augmenting the physical infrastructure has been delegated to the Chief Commissioners or to the two Boards. All the proposals for purchase of land or building is to be sent to the Department of Revenue. At times, the IFU and the Department of Revenue are not able to appreciate the difficulties being faced by the field officers due to shortage of space. Shortage of space also has telling effect on providing taxpayer service and impacts the morale of the officers and staff.

Some delegation of financial powers, though low and often inadequate in monetary terms for hiring of office accommodation, has been given to the field Commissioners. But even here, the departments need to obtain certificate of non-availability of the government accommodation from the CPWD. In effect, the delegation remains on papers and hiring remains bound to the processes, the result is there is hardly any accommodation being hired within a quick time to mitigate the shortage.

More acute shortage is for residential accommodation. For that also, there is no adequate attention or delegation of financial powers to the field officers. Many officers dread going to small towns or *mofussil* areas, as there is no adequate residential accommodation for them. This also has been one of the key irritants to the officers and staff in taking up their assignments in new places on transfer.

The TARC was sympathetic to the above discourse with staff at all levels. To mitigate these inadequacies, the TARC had recommended giving financial and administrative autonomy to the two Boards. Most of officers and staff, including Joint Council of Action of the income tax department, and IRS associations of income tax and customs and central excise supported this recommendation of the TARC. It is time that the government works on this in an expeditious manner.

The recommendation that there should be a more proactive approach to preventive vigilance (Section IV.4.b) was widely appreciated. The Commission was requested to further formulate a mechanism to decide the vigilance angle in quasi-judicial orders. Some said that in order to initiate such a proactive approach, persons with a psychology back ground would have to be posted in the vigilance department and that vigilance should work as a watch dog with early caution. Staff associations pointed out the

need for adhering to a time frame for finalising vigilance cases, considering the demoralisation and humiliation suffered by officers.

TARC recommended that the provisions of Rule 56(j) of the Fundamental Rules should be effectively utilised for weeding out officers who are inefficient or of doubtful integrity. The criterion for review should be changed to the completion of 20 years of service (Section IV.3.d). Understandably, there was a mixed response to the idea. While officers departments seemed to be broadly in favour, represented Associations seemed opposed, being of the opinion that the present HR policies do not produce enhanced objectivity necessary to measure the efficiency and integrity of officers.

The recommendation was broadly accepted that the CVC should have a Member who has been an officer of either of the IRSs and there should at least be one Joint Secretary/Additional Secretary level officer posted in the secretariat of CVC. (Section IV.4)

The recommendation that no cognizance should be taken of anonymous complaint as laid down in existing DoPT instructions (Section IV.4.d) found unanimous acceptance.

iii. Dispute Management

In the area of dispute resolution, overall, officers admitted that India stands out in the statistics on disputes as having far too many compared to other tax administrations and agreed that urgent action needs to be taken on this front. They agreed that an urgent action plan was needed in order to reduce the stock of disputes in accordance with the TARC's recommendations. However, they preferred to modify specific recommendations, for example, putting a time limit of one year on resolving disputes. They also pointed out that disputes accumulate in India due to the very structure and process of the appeal mechanism that tend to increase disputes from both taxpayer and tax administration sources. Each of these is treated in some detail below.

The TARC recommended that a process based on best practices outlined in Section V.4.b should be followed for clarity in law and procedures (Section V.4.b). Discussions with field formations broadly revealed that the departmental officers have taken a very positive view on this recommendation. While officers accepted it readily, some went further to justify its acceptance of the requirement of a Standard Operating Procedure (SOP). It was pointed out that sometimes demands are based on merit but the interpretation changes as the case goes up the ladder of adjudication. One cause of support was the observation that the root cause for increase in disputes is the complexity of tax legislation. Officers pointed out that laws should be written in simple language for taxpayers to understand. It was also pointed out that taxpayers should be informed about their tax liability in advance. It seems that although many laws themselves are compact in nature, delegated legislation in respect of such laws is elaborate. There is an urgent need to rationalise this and an SOP is a step in the right direction.

The Income Tax Department pointed out that the recommendation that retrospective amendment should be avoided as a principle (Section V.3.e) has already been accepted.

That the fundamental approach should be collaborative and solution oriented (Section V.3.d) was found to be readily acceptable, although the comment was made that there is a need for change in the mind-set of tax officers and auditors.

The TARC had recommended that both the Boards must immediately launch a special drive for review and liquidation of cases currently clogging the system by setting up dedicated task forces for that

purpose. Review and liquidation should be completed within one year and the objective should be to decide all cases pending in departmental channels for longer than a year as on the start date of the action plan (Section V.6). This recommendation was widely accepted both at the apex level as well as at the field level of the departments. The Boards welcomed the idea and the CBDT went on to add that dedicated High Court /Supreme Court benches for tax cases are required for unclogging the system. The field, while accepting the suggestion, pointed out that actions by the department in this regard may be constrained by the fact that appeals lying up to the level of CIT (Appeals) fall within the ambit of the department and thus can be controlled, whereas those at the level of ITAT and above are outside the boundaries of the tax administration.

The TARC's recommendation that dispute management should be a functionally independent structure with adequate infrastructural support (Section V.4.a) was positively received in the field, suggesting the formulation of an internal litigation policy, although some felt that a separate dispute vertical may lead to the separation of enquiry from resolution, which may otherwise be linked. Although not averse to the idea, the officers had some apprehension that implementation could pose a challenge since tax returns and other original papers relating to any case that would be dealt with by the dispute vertical currently lies with the field formations/Commissionerates. Some in the field termed the idea to be ahead of its time, their view being that this could be possible only when CGST and SGST are put in place.

The TARC has recommended that officers posted in the dispute vertical must receive adequate induction training and on-the-job training on areas (Section V.4.a). The prevalent view was that training of officers was absolutely necessary and, therefore, should form a significant component of their career. Some field officers commented that training is needed for changing the attitude of officers. Altogether, the response was quite positive to this proposal.

Two categorical recommendations of the TARC were first, to minimise the potential for disputes, clear and to issue regularly lucid interpretative statements on contentious issues issued regularly, and second, they should be binding on the tax department (Section V.4.b). The departments were fully supportive of the ideas. The CBDT at the apex level and the income tax field formation found them to be quite acceptable. On the indirect tax side, the CBEC and the field formation mentioned that clarifications are needed to be issued ex-ante and not ex-post, as is common now. However, they also mentioned that very few responses are usually received on the issues put up by the department in the public domain.

The TARC recommended that the current practice of raising demands irrespective of merit should be discontinued. It also asked for the call book in the CBEC to be abolished (Section V.4.b). Accepting the matter regarding raising demands readily, the field in income tax commented that a view should be taken at a sufficiently high level and the decision conveyed clearly to the AO. The staff associations of the indirect tax side supported the case for abolition of the call book though some higher level field officers found merit in continuing with the practice to avoid the limitation bar and as a revenue safeguard. It was argued that, while 44 per cent of the demands are unsustainable in excise, the corresponding figure for service tax is only 23 per cent. Some took a harder stance that show-cause notices are generally based on merit and thus justified.

Regarding the process of pre-dispute consultation to be instituted before issuing a tax demand notice (Section V.4.b), the field formation of both the departments welcomed the idea. Some wanted this to be tried out initially on a pilot basis. Others emphasised that dialogue between

the department and the taxpayer is essential to avoid disputes. However, when asked if dialogue would be in conflict with another of the TARC suggestion that "no assessee should appear in person", it was explained that the TARC's suggestion was exclusively applicable to personal hearings in departmental adjudications.

The TARC has recommended that disputes must get resolved in time according to the time lines as mentioned for decisions in the respective enactments. The law should also prescribe the consequences of not adhering to the time lines, which would be that the case in question would lapse in favour of the taxpayer (Section V.5). Income tax field officers were open to the idea but thought that the time lines as mentioned in the recommendation should be set in such a way that they are normally achievable. The overall view within both the departments, however, was that the onus of delays in resolving of disputes beyond a reasonable period of time cannot be laid exclusively on the departments alone. The CBEC, for example, was apprehensive, citing reasons such as non-cooperation by the taxpayer which is beyond the control of the adjudicating authority. It further felt that the Ministry's present instructions to decide a case within 3 months of personal hearing were good enough on this issue. Some income tax field officers felt that, instead of setting general time lines for disposal, the reasons for non-disposal of cases within a reasonable period of time should be identified and addressed first. Some indicated it would encourage assessees to postpone submission until the very end and thereafter, the case would be automatically decided in his favour before any worthwhile enquiry could be made by the department for lack of time.

On the other hand, the TARC pointed out that experience reveals that departmental officers tend to postpone personal hearings, sometimes for frivolous reasons, to avoid passing adjudication orders within the prescribed time line of 3 months. Officers also often get transferred after holding a personal hearing without backward accountability, which is a major lacuna in the Indian tax administration. Hence, the assessee has to undergo the entire process of appearing for a personal hearing again before the incumbent officer. These are systemic faults endemic to the department and need to be sorted out.

Regarding the recommendation that, ordinarily, appeal should not be filed against orders of Commissioner (Appeals), except where the orders are ex-facie perverse (Section V.5), some field officers suggested that the orders of Commissioner (Appeals) may be examined by a committee of officers in every region who are independent of the assessment vertical before taking a decision on further appeal. However, some in the field felt that the orders passed by Commissioner (A) should be appealable. The CBEC preferred to maintain the status quo and felt that the present system of not filing appeals in small cases according to prescribed monetary thresholds is working well and should continue. The TARC's observation taxpayers should not suffer due to the inherent revenue bias that exists due, perhaps, to the fear of vigilance, was also discussed.

The TARC's view is that the present structure of Commissioner (Appeals) should be changed to two forums, namely, single Commissioner (Appeals) and 3-member Commissioner (Appeals) panel. If the case is not decided within the prescribed time frame, the taxpayer's appeal would be deemed to have been allowed (Section V.5). The response to this

recommendation was varied between the departments. While income tax, both at the Board and at the field level, was generally open to the idea, indirect tax felt that this was an advanced concept for which the department is yet to be ready. The CBDT wanted to examine the feasibility of the panel while many field officers found it to be readily acceptable; they also suggested that appeals in international taxation and transfer pricing cases could be handled exclusively by the DRPs. Some income tax field officers felt the 3-member panel to be necessary for all corporate cases, search and seizure cases and cases of a complex nature. However, some wanted further debate on this before taking a firm view. The CBEC, on the other hand, appeared to prefer the present setup wherein only small cases up to a prescribed monetary limit are appealed before the Commissioner (A). Many field officers in indirect tax thought the department needs to scale up its staff strength before putting such a panel in place. A view was also expressed that it would add yet another layer in the already protracted process.

The TARC recommended that the DRP in income tax should be made full-time panels. Their mandate should be expanded to include corporate cases of residents as well. The same mechanism should be introduced in indirect taxes also, where a collegium of three Commissioners should decide complex cases involving an extended period of limitation, related party transactions and taxability of services (Section V.4.e). Some income tax officers thought that since the DRP has 3 full time members with sufficient experience, its decision should be binding on the department, which was the case originally. However, it also felt that if a 3-member Commissioner (Appeals) panel comes into existence, then DRPs may become superfluous. Some income tax officers asked for clarification on appeal from a collegium of Additional Commissioners of Income Tax and had some apprehension that the issue in question will not necessarily maintain appropriate jurisdictions.

The CBEC did not agree that there should be a DRP for indirect taxes along the same lines as in the I-T Act and in conjunction with the recommendation made above (Section V.4.e). It felt that the DRP was not a workable solution in CBEC and that it would just add one more layer in the dispute resolution process.

Alternative Dispute Resolution (ADR) processes — arbitration and conciliation, recommended in Chapter V, were to offer alternatives to the taxpayers to reduce their tax litigations. The outcomes of the ADR were to be binding and enforceable on both the parties. The ADR processes could be resorted to by the taxpayers before tax demands were made on them. The recommendation of ADR processes were intended to reduce the number of tax disputes clogging the appellate channels and leaving both parties dissatisfied.

Some of the field formations were happy with the recommendation that arbitration and conciliation should be statutorily introduced in both direct and indirect taxes legislations (Section V.4.f). The indirect tax field said that even though they felt the present system in ADR (presumably Authority for Advance Ruling) is adequate, they were examining the whole proposal with an open mind. The income tax field wondered about its necessity since the Settlement Commission for settlement of disputes already exists. It may be explained that the roles of Settlement Commission and ADR are different in that the Settlement Commission

deals with existing disputes, usually relating to search and seizure cases or those involving penalties, while the ADR would typically be initiated before a formal dispute crystallises.

The field accepted or welcomed the recommendation on extending the jurisdiction of AAR to domestic cases and more benches of AAR being established at Mumbai, Bangalore, Chennai and Kolkata with the principal bench at Delhi (Section V.4.c), but pointed to the huge backlog of cases pending at present before the AAR. The prevalent view was that the chairman of AAR should be a sitting Judge of the Supreme Court.

TARC recommended that the Settlement Commission should act as part of taxpayer services, and be made available to taxpayers to settle disputes at any stage. There should also be an increase in the number of benches of the Settlement Commission. It should be manned by serving officers to enhance its accountability (Section V.5). From TARC's feedback meetings with the field formations, it seems that the reaction to this recommendation was quite positive. While the income tax field found the proposal to be quite acceptable, they also pointed out that the number of times a taxpayer is eligible to come before the Settlement Commission as well as the Commission's power to grant immunity from penalty and prosecution needed to be clarified. The indirect tax field accepted the recommendation with the comment that the settlement process should not run parallel to adjudication proceedings. Some appeared contented about the adequacy of the Settlement Commission at present although some had reservations, indicating that serving officers may not always act independently.

On appeals to High Courts and the Supreme Court being only on a substantial question of law (Section V.5), the income tax field proposed a central cell at the national level to decide on the substantial questions of law. The indirect tax field felt that appeals to higher legal fora are only on points of law, and in cases of special valuation, i.e., transfer pricing in customs and rate of duties. The number of such cases has anyway come down by 50 per cent. The income tax field pointed out that the cost on officers imposed by High Courts act as deterrents to such appeals.

The income tax field readily accepted the recommendations that authorised representatives from the departments should be carefully selected and given sufficient incentives and necessary infrastructural support to perform their duties effectively, that they should also be given specialised training before they are asked to appear for the department, and that the administration of the DR function should also be in the dispute management vertical (Section V.5). They felt that it is important for the DRs arguing cases for revenue before various appellate forums be given specialised training, necessary infrastructural support and sufficient incentives. The indirect tax field added that chartered accountants and lawyers could be inducted to support DRs at the Tribunals.

The income tax as well as indirect tax field welcomed the idea that, on disposal of a case by the Supreme Court/High Court and if the judgment is accepted by the Department, instructions should be issued to all authorities to withdraw appeal in any pending case involving the same issue (Section V.6).

iv. Internal processes

Officers by and large agreed with the TARC's recommendations regarding improving internal processes. Many indicated that routine functions should be minimised and specialised functions should be emphasised to facilitate customer focus. Each internal process on which there was substantial feedback is discussed below.

a. Registration

The present permanent account number (PAN) should be developed as a common business identification number (CBIN) to be used by other government departments such as customs, central excise, service tax, DGFT and EPFO. A better regulatory system should be put in place to enhance its robustness and reliability.

The income tax field was warm to the idea. Some suggested that there should be a through verification of the applicant before allotting the PAN and that for existing PAN card holders, KYC norms should be applied. Some felt that a better regulatory system should be designed and developed with high technology for maximum security in order to prevent tampering and misuse. The CBEC and some in the indirect tax field, however, felt that since, at present, registration numbers allotted to an assessee of the EC for its different units are already PAN-based and it is possible to link these for audit, any additional system or structure may complicate the process. The EC, it seems, has failed to recognise the need for a more robust and reliable trans-departmental regulatory system under the joint governance of stakeholder departments, which would be more efficient than any stand-alone framework currently in place within the EC.

The indirect tax field was open to the proposal that both central excise and service tax should be covered under a single registration as both the taxes are administered by the same department and cross-utilisation of credit is permitted between central excise and service tax under the CENVAT credit rules. They said that CENVAT credit rules could be modified to allow it.

On the recommendation that it is necessary to provide for de-registration, cancellation or surrender of registration numbers and PAN, the field found it acceptable. Some pointed out that at present, the system allows such modification of PAN data at the request of PAN holder to the AO.

b. Tax payments

The TARC recommended that banks should be left to authorise their branches to collect taxes, and the present process of selection of banks needs to be purely standards-based and transparent. It also recommended that payment gateways should be increased for better customer convenience. The income tax field welcomed this and emphasised the necessity for further liberalisation of the system and up-gradation of existing technology.

c. Filing of tax returns

The recommendation that I-T returns should also include wealth tax returns so that the taxpayer need not separately file wealth tax returns, and that returns should be processed together in the CPC at Bengaluru were found to be acceptable by all income tax field formations.

The TARC recommended that disclosures in the return should include a brief mention of any issue on which there has been on-going litigation between the tax administration and the taxpayer, and should indicate the factual and legal position adopted while computing taxable income for a year. This is to protect taxpayers from allegations of non-disclosure, suppression, escapement of income, etc., which often results in the initiation of penal provisions. Even though some officers in the income tax field were open to the idea, the majority seemed not to appreciate the necessity of decreasing possibilities of future litigations at the very outset when the assessee submits his/her I-T return. Some were apprehensive that implementing this recommendation would go against the principle of simplification of IT return, while some found the idea to be acceptable only in cases where, in an earlier year, the taxpayer has a favourable appellate order on that issue.

The TARC recommended that taxpayers should give information on their compliance experience at the time of filing returns; this information should be used to improve taxpayer service bringing in customer focus. Field formations were in favour of implementing this recommendation. The I-T field also suggested that tax payers may be asked to provide their feedback through email as and when the process of not only filing the return is completed but also when the assessment and the issue of refund are completed.

The TARC recommended that territorial jurisdiction should be dispensed with and industry-based assessment should be introduced in line with the recommendations in Chapter III of the report. Field officers asked for clarity before being able to arrive at a view. Some mentioned that industry based income tax assessment is already in vogue in metros. Some agreed that while specialised sectors like IT, banking, SEZ and others could be identified for this purpose, all sectors could not. Some feared implementation challenges. For example, the indirect tax field cited problems in applying the Place of Provision Rules on implementation. It was explained that such issues could be sorted out through departmental discussions.

Interestingly, no comments were received on the recommendation that the CBEC should set up centralised units for processing central excise and service tax returns in line with the CBDT's CPC in Bengaluru, and CPC-TDS in Ghaziabad. It could be presumed that there were objections.

On the recommendation that there should be a common return for excise and service tax, the field was quite open to it. Some clarified that the CBEC is in the process of taking a view on this in the light of the roll out of the GST. The income tax field went further to opine that return filing should be co-ordinated across all business taxes. Among the staff associations, one Central Excise Superintendents' Association readily accepted the recommendation and in addition proposed a simple, one-page monthly return and a detailed annual return.

The same Central Excise Superintendents' Association welcomed the proposal that the CBEC should set up an e-portal and all invoices should be issued from that portal. This portal should be linked and made compatible with SAP ERP systems, which a majority of the companies use for their own invoicing. E-invoice would simplify credit/refund procedures, which would become automatic.

d. Scrutiny in direct taxes and audit in indirect taxes

The TARC recommended that hearings in tax cases through personal presence should be avoided, and data could be sought through an e-system. The taxpayer can upload the data on the e-system. Personal hearing should be sought only in complex cases. This proposal was readily accepted by the income tax and indirect tax field who appeared quite positive to the idea. However, they pointed out that the issue of authenticity of data submitted through the e-system needs to be addressed simultaneously by bringing in necessary changes in law. Some income tax officers expressed doubt on whether it would be possible to implement the recommendation in every case.

The TARC recommended that there should be specialisation in scrutiny/audit work (Chapters III and IV). Capability should be developed through training and re-training. The two Boards should also develop a standard audit protocol, with clear emphasis that the AOs must follow the principles of natural justice and respect the taxpayer rights to privacy and dignity. This was supported by the income tax field. An indirect tax superintendents' association, welcoming the suggestion, reiterated that the department should impart more training to staff on OSPCA.

However, no substantive comments were received on the recommendation that Audit Commissionerates in the CBEC should undertake integrated audit covering central excise and service tax and onsite customs post-clearance audit (OSPCA) in the case of accredited clients (ACP), as the records and books to be verified are common to all the taxes administered by the CBEC. TARC also said that, in major cities where exclusive Central Excise or Service Tax Commissionerates are functional, the audit function should be assigned to a specific Audit Commissionerate for carrying out integrated audit of customs, central excise and service tax.

TARC further said that joint audits should be undertaken by field formations of the CBDT and the CBEC to shorten the examination processes and reduce costs, both for the tax administration and for taxpayers. This may require a change in procedures for the CBDT as at present, the I-T Act does not have a provision for open audit as is done in indirect taxes. There was mixed response to this recommendation. The CBEC contended that the suggestion of joint audits would not work smoothly since the two departments are administered by two different statutes and their perspectives are different. The CBEC also felt that the documents picked up by one department for scrutiny may not be available to the other. Some in the indirect tax field thought that differences in audit parameters/risk factors between the I-T and EC would be a hurdle and the periodicity of returns would be a problem. Some in the income tax field pointed to possible implementation problems. A Superintendents' Association was of the view that at least the Customs and Excise Audits should be conducted together to begin with.

TARC members pointed out that in most tax administrations today, income tax and income related taxes, excise and VAT or GST taxes on services are considered jointly as taxes on businesses and, consequently, their audit or scrutiny for a business customer are conducted together so much so that their officers would not even understand how those taxes might at all be separated on professional grounds. This is why the TARC is of the view that reform decisions have to be made at the highest policy level and may not be expected to be made from within the administration in the areas of the most fundamental changes. The administration should subsequently be asked to implement the changes decided upon by policymakers above.

The TARC has recommended that broad-based selection filters for the risk assessment matrix should be put in place. There is also a need to set up a standard operating procedure which recognises the iterative method, testing them ex-post, to develop effective and efficacious parameters for the risk assessment matrix. This recommendation was found to be acceptable to field formations.

e. Tax deduction at source

The income tax field supported the recommendation that the insistence on manual filing of TDS certificates before the AO for verification of refunds claim should be done away with.

The TARC also observed that the tax deductor's duties and obligations in terms of meeting information compliance requirements and for depositing the deducted amount are onerous and that it should be noted that they are not compensated for this activity. Therefore, some compensation should be considered in the form of a small commission to be deducted as business expenses by them for fulfilling their obligations. This recommendation was supported by some in the income tax field although others had apprehensions regarding the proposal.

The TARC recommended that the CPC-TDS should allow correction in the name of the deductees to avoid multiple submissions of TDS forms. Even a single error requires the deductor to submit the entire return afresh. The process of uploading the entire file for one or two corrections is cumbersome and disproportionate to the gravity of the error. This adversely impacts taxpayer services. Subject to the required checks and validations, there is need to widen the scope of the online error rectification service.

The TARC further suggested that a passbook scheme for TDS may be adopted with some safeguards. Once TDS is deducted from a payment, TDS should get credited to the taxpayer's account. This should be like an account with running balance, to be utilised by the taxpayer at his option to set off his tax liabilities. These recommendation were by and large found to be acceptable to the income tax field formations.

Another recommendation that was acceptable to the income tax field was to assist small and marginal tax deductors in preparing and filing their TDS returns, either using existing tax return preparers or through a separate system of TDS return preparers, who would have more training and a better remuneration structure than at present.

f. Refunds

The TARC recommended that refunds should be issued within a strict time frame. There should be a separate budgetary head for refund of direct and indirect taxes in the annual budget out of which refunds should be issued so that there is transparency. Adequate allocation should be made by the government under this head. The income tax field readily welcomed the recommendation. Some officers added that no budget allocation should be held sacrosanct for issue of refunds. The indirect tax side, however, did not seem warm to the concept.

No comments were provided on the recommendation that refunds sanctioned on the indirect tax side should be paid along with the automatic application of interest as is done in the case of income tax and should not be based on demand by the taxpayers. As in the case of income tax and customs duty drawback, the refund and interest payment should be directly credited to the bank account of the taxpayer.

The TARC recommended that the rate of interest on refunds should be the same as the interest charged by the tax department. This would ensure equity between the two interests and would not disadvantage the taxpayer unduly. Some income tax field offices were warm to the idea. One income tax field office, however, felt that a deterrence factor of penal interest for non-payment of taxes in time is necessary, and advocated the continuance of different interest rates for the taxpayer and the tax administration.

Some officers in the income tax field were open to the proposal that refunds arising after an appeal favourable to the tax payer should be paid in time or the tax payer should be allowed to set-off the advance tax liability or self-assessment tax liability of subsequent years against the refunds due. However, some officers expressed apprehensions about the practicability of implementing the recommendation. The TARC feels that implementation issues are not insurmountable and could be solved through appropriate discussions.

No comments were received on the recommendation that the test to determine whether there is unjust enrichment in indirect taxes should be limited to cases of refunds where there is direct passing on of amounts claimed as refunds. In any other situation, this concept should not be applied.

The recommendations that refund claims subjected to pre-audit verification should be issued within a specified time and that the post-audit verification of refund claims should be risk-based were found to be acceptable to the income tax field.

No comments were received on the recommendation that an easier and simplified scheme should be introduced for services exporters and that the entire refund filing and processing mechanism should be online.

g. Foreign tax credit (FTC)

The recommendation that the CBDT should come out with clear FTC guidelines, which should also cover the timing differences for filing between different tax jurisdictions, was found to be acceptable to income tax field formations

h. Tax collections

The TARC recommended that there should be a separate vertical for tax collection (Chapter III). To improve the efficiency of debt collection activities, both the Boards should work on setting up risk assessment models to compute risk scores for each new tax debt case that reflects the likelihood of the taxpayer paying their debt based on objective criteria. This proposal was acceptable to the income tax field.

The recommendation that stay of demand information should be uploaded electronically on the central server of the departments so that tax collectors can have system generated prior intimations regarding the expiry of stay orders was also found to be acceptable to the income tax field.

The TARC recommended that the power to write off dues should be raised at different levels of the organisation and made uniform for both direct and indirect taxes. Full powers should be vested in the respective Principal DGs in charge of recovery in the respective Boards. Write off should be done in concurrence with the CFO at the headquarters level and his nominee at the regional/zonal level. Income tax field formations accepted the suggestion readily. Some further added that the monetary limits of waiver granted to officers of different levels in the Department may also be reviewed.

i. Related party transactions

The TARC recommended that both Boards should frame detailed documentation requirements for transfer pricing as well as custom valuation, keeping in view that such documentation should be reasonable, to bring certainty and predictability for taxpayers. Accepting the recommendation, the CBDT felt that while guidance notes are necessary for transfer pricing matters, the documentation requirements also need to be standardised in order to implement the proposal. The income tax field also reacted quite positively to the idea although some cautioned that it should not result in a straitjacket approach.

The TARC found that there is need to align the process in India with global best practices and to do away with the current process. With self-assessment in place, import transactions should only be subjected to post-clearance audit. Valuation risks would be an important component of the risk matrix for audit selection. This proposal was acceptable to the income tax field.

j. Trade and business facilitation

No comments were received regarding the recommendation that, as a trade facilitation measure, on-site post clearance audit should be developed fully to enable Indian customs to

move closer to international best practices. Intervention in the cargo clearance should be made on the basis of a risk matrix.

The income tax field accepted that documentation requirements for non-resident taxpayers for a certificate under Section 197 of the I-T Act should be well-publicised. The taxpayer should be told a priori the time that will be taken for the issue of the certificate. That time period should be reasonable. A certificate issued in an earlier year from any other tax office in India to an assessee/payer should be attached with other documentation. There should also be a facility for electronic filing of these papers so that the need for the physical presence of the taxpayer is, to the extent possible, obviated.

No comments were received on the recommendation that a system of E-invoicing similar to that prevalent in most Latin American countries should be introduced. Using this system a taxpayer should generate an electronic invoice through the Department's system. Sufficient preparation and consultation with industry and trade associations should be done before introducing this system.

k. Enforcement Administration

The TARC recommended that there should be a dedicated structure for prosecution matters for more focused attention to this important area so that the unexploited potential for creating deterrence against tax evasion is realised. The income tax field readily accepted the recommendation although some suggested that lateral movement of officers across verticals should be allowed. The CBEC, while being open to the idea, felt that the implementation of this recommendation may not improve things since delay in deciding on cases is mainly due to the trial courts being overburdened. According to the CBEC, a better solution perhaps lies in the establishment of special courts for trial of tax offences. However, the judicial system has recently obviated this through directives.

The TARC recommended that the working of the Directorate of Intelligence and Criminal Investigation (DICI) should be ICT based and should be given a good complement of personnel and other resources to make it realise its potential. Income tax field formations were quick to accept this proposal. Some further suggested that the roles of the Directorate of Intelligence and Criminal Investigation vis-à-vis the Directorate of Income tax (Investigation) need to be clearly defined so as to avoid overlapping. There is a need to use ICT tools to enhance the quality of intelligence processing and utilisation through the CIB mechanism. Some income tax field officers pointed out that the quality of information received from various agencies is poor. So it is difficult to develop actionable intelligence on such basis. Given that the availability of staff is indeed a problem and to reduce duplication, they proposed a merger of the functions of DG (Intelligence) and DG (Investigation).

l. Non-profit sector and departmental manuals

Two recommendations were found to be acceptable by the income tax field. They were that (1) the CBDT needs to put in the public domain a national database of the non-profit sector to

bring transparency; and (2) departmental manuals should be annually updated and put up on the website for easy downloading by both taxpayers and tax officers.

v. Information and Communication Technology (ICT)

The TARC recommended that for full realisation of the potential of ICT, it must get embedded in the DNA of the organisation. Both the design of policies and implementation should make full use of ICT (Section VII.3.a). It has also recommended that both Boards must commit themselves to achieving a fully digitised environment and work towards comprehensive ICT system(s) in which everyone from the top leader to the last person on the frontline works in a digital environment (Section VII.3.a). These recommendations found wide acceptance both at the apex level as well as field formations across the country. The CBEC welcomed the proposal. The income tax field also readily welcomed the suggestion. Some thanked the Commission for acknowledging the high degree of adoption of ICT into the work process by the income tax department and added that the ITBA project currently underway intends to make the department 100 per cent ICT-enabled. ICT being a key component of its Vision Document, the CBDT has already envisaged several projects, including data warehousing and business intelligence and a national judicial referencing system, to automate more processes. Some stated that ownership of this vision is needed at the top leadership level. The implementation of "digital by default" could be done in phases covering a set of offices at a time. Each office selected for implementation would be completely and comprehensively 'digitised'. Officers and staff would be required to take a certification test for using the ICT applications such that digitised offices would not have an option to work on manual methods. Similarly, the CBEC as well as the indirect tax field were supportive of the proposal that the leadership must ensure that where systems are available, employees should not have the option to work in a paper environment (Section VII.3.a).

The CBEC readily accepted the recommendation that the Boards must regularly use maturity frameworks to assess their ICT maturity and map out the path towards greater maturity (Section VII.3.a). Moreover, supporting the proposal, the income tax field felt that, while most of the projects under implementation are at the transaction level, the progress to integration requires changes in the ecosystem. It must also be recognised that social factors can constrain the ICT environment. These may be needed to be addressed before putting the proposal into practice.

The CBEC found the idea that automation should follow business process re-engineering (BPR) to avoid the danger of getting trapped in an outdated mode of governance (Section VII.3.a) to be quite positive. Among the field offices, the income tax field was highly supportive of the recommendation and wished for speedier implementation of BPR and automation. However, they informed that appropriate BPR was already being put in place, and is now an essential part of most projects that are being formulated by the Department. The CPC ITR and CPC-TDS are cases in point. The CBDT has also set up a Directorate of BPR and its recommendations are being followed while formulating projects.

The apex level and field formations of both indirect tax and income tax were supportive of the proposal that all decisions should be taken with ICT compatibility in mind. Similarly, all legislation should be ICT-compatible (Section VII.3.b).

The TARC recommended that both Boards must create structures and processes to enhance the working relationship between business owners and DG (Systems) to ensure that ICT initiatives are aligned with business needs, priorities and capabilities (Section VII.3.b and d). Accepting the recommendation, the indirect tax field stressed the need to improve use of ICT for drawback and refunds.

The TARC also recommended that the Boards should adopt a robust ICT governance framework and practices, and rigorous programme and project management frameworks (Section VII.3.b). This proposal also found acceptance in the CBEC as well as in the income tax field. The CBEC also supported the recommendations that (1) project planning and approvals must include the required number and quality of human resources (Section VII.1.b); and (2) movement of personnel should have a linkage with project implementation and there should be a process of knowledge transfer (Section VII.1.b).

On the TARC's recommendation that a service-oriented architecture and approach should be adopted to promote integrated systems, greater "value for money" and customer focus (Section VII.3.b), the CBEC and income tax field were both positive, the latter adding that customer focus is a key ingredient of most of the projects being implemented by the CBDT. For example, projects like CPC and e-filing have already built in components for customer service and grievance handling.

Both the income tax and indirect tax side welcomed the idea that HR policies must be aligned with the need for specialisation and that officers should be allowed to grow in the areas in which they specialise. Routine transfers should be avoided (Section VII.3.d).

There was good support for the following recommendations: (1) Special training in key areas of ICT should be arranged for officers of DG (Systems) (Section VII.3.e); (2) DG (Systems) should ensure proper training for operational staff at the roll out of any new application (Section VII.3.e); and (3) DG (Systems) should have the authority and funding to depute officers for specialised courses, seminars and events, and engage with professional networks and academic institutions (Section VII.3.e).

The TARC recommended that discussions for data sharing between the CBDT and CBEC should be speeded up and sharing must begin quickly (Section VII.4). The CBEC was warm to the suggestion. However, income tax appeared to indicate that upcoming projects like data warehousing (DW) and business intelligence (BI) will cater to the requirement of data sharing not only between the CBDT and CBEC, but also other enforcement agencies without specifying if such data sharing arrangements would actually be put in place as per plans. Some in the income tax field in fact indicated that pre-search sharing was not practical. They suggested that the REIC should be strengthened as a positive step towards more effective information sharing. The TARC explained in some detail how and why sharing of information

would enhance administration in many aspects with some low lying fruit available at this moment.

The TARC recommended that a shared knowledge, analysis and intelligence centre, headed by an expert professional, should be set up for advanced data analytics and research. The SPV, which the TARC has recommended for servicing the ICT needs of the Boards, can support it by providing the platform, tools and technologies, and expertise (Section VII.4).

Commenting on the recommendation, the income tax field said that this requirement is currently within the scope of the DW and BI projects under formulation. They added that whether it would be necessary to have an independent professionally managed body for this activity would be a policy decision at Board level. They cautioned that there has to be a clear demarcation between the collection and utilisation of data.

The TARC recommended that a common special purpose vehicle (SPV) should be set up for servicing the ICT needs of the Boards (Section VII.5.a). Going by the deliberations, the Commission had with various stakeholders throughout the country, it seems that both at the Board level (the CBEC was supportive of the idea) and at a good number of places in the indirect tax and income tax field level, the proposal was well-received. Some income tax officers pointed out that projects currently under implementation are already at the transaction level, i.e., third level of the OECD e-governance maturity model. Most of these have their own programme management units (PMU) to successfully implement and integrate these with other projects that have dedicated ICT platforms. Therefore, the necessity for and form of, an SPV for servicing ICT needs is required to be examined at the policy level.

The TARC suggested that the SPV should be incorporated as a company with limited liability under the Companies Act and should have a private ownership of 51 per cent and government ownership of at least 26 per cent. It should have operational independence and institutional flexibility even as government retains strategic control (Section VII.5.c). While the CBEC principally supported the formation of an SPV for servicing the ICT needs of the department, concerns were expressed about data security that may have been prompted by apprehensions about an SPV being set up under private ownership. The Board also stated that the SPV could be created within the tax department and, for this purpose, they have already received some suggestions. The income tax field requested the Commission to consider whether the SPV should be jointly owned and financed by the two departments, some being of the view that the ownership pattern of the recommended SPV be reviewed, especially the government's stake in it. Others seemed to be uncomfortable about the possible violation of secrecy and security of data within the proposed SPV and felt the need for more deliberations in this regard at the apex level. The TARC pointed to the private-public partnership already in existence in the Bengaluru CPC and the Vaishali CPC-TDS, which have been working successfully.

The TARC made further detailed recommendations on the SPV including the following.

a) The SPV should preferably have a net worth of around Rs.300 crore. This will ensure that the SPV is well-capitalised, can hire the best people at competitive salaries, and invest adequately in infrastructure to manage large-scale national projects.

b) The relationship between the departments and the SPV should be a complementary one. The tax administration would develop an overall strategy with the ICT inputs provided by the DG (Systems).

c) The SPV will develop the ICT strategy within the framework of the overall strategy, which will be approved by the Boards. The DG (Systems) of the two Boards will continue to exist, and will perform more strategic roles and be the Boards' interface with the SPV (Section VII.5.e).

Despite the overall interest expressed in the SPV concept, some field officers seemed to fear that it may lead to demarcation issues and suggested that for a proper partnership, it is essential to maintain a strong ICT skill set in-house vis-à-vis the SPV.

The CBEC was supportive of the proposal that the Boards, DG (Systems) and the SPV together should work out a plan for the transformation to "digital by default" status. The plan should begin with a visioning exercise to define the end state, and should be programme, as opposed to project, oriented.

vi. Information Exchange

This topic, having been covered at a later stage in the TARC's sequence of reports, was discussed in the final set of visits to the field and reflects those discussions. Several income tax and indirect tax officers agreed with the TARC's observation that there is an imminent need to institute a common robust framework that will address data and information exchange. They also agreed that the framework should have elements such as provisions for process or making requests for data or information, time-bound responses to such requests, the consequences of not sharing and of unauthorised use, developing common standards, layered authorisations, feedback mechanism on exchange of data or information and strengthening provisions for data privacy and confidentiality (Section IX.4.b).

The TARC is of the view that the most critical aspect of establishing a data analytics infrastructure is to establish a mechanism to process and structure data so that it is ready for analysis. Therefore, it will be imperative for all collaborating agencies to evaluate the quality of data available for meaningful analysis (Section IX.5.e). The field was very warm to this view. It also embraced the TARC's view that all collaborating organisations – the CBDT, CBEC, FIU, CEIB, RBI and SEBI – need to create a common catalogue of data or information. This will contain information on data, such as source of data, data structure, data definition, quality of data, frequency of update on the data, etc. (Section IX.5.a).

The field also welcomed the following suggestions.

a) A consistent approach on data across agencies will allow better collation of data and information, making its use easy. A common taxonomy, based on such an approach, will standardise data description, data context and data sharing. Common standards and taxonomy facilitate data exchange between different organisations and enable better reporting and analysis (Section IX.5.b).

b) A common standard for data sharing/exchange with a third party is important. All stakeholders need to be brought on a common platform. A steering committee should be formed to provide the platform where all stakeholders bring their data catalogue, scoping of data, data availability, periodicity of data exchange, etc. (Section IX.5.b).

The field further suggested the appointment of a dedicated nodal officer for such data sharing.

The TARC recommended that SLAs/MoUs with third parties should be entered into to develop a common framework for exchange of data or information (Section IX.5.c) and the field was warm to the proposal.

The field also welcomed the recommendation that safeguards must be instituted to ensure confidentiality of data or information exchanged and prevent unauthorised access or use of data or information. The agency receiving information and the agency providing information need to establish safeguard processes for evaluating the confidentiality and security-related protocol of the data and information shared. This safeguard protocol will need to clearly articulate access rights and further sharing rights and be made available upfront to the other party (Sections IX.5.d and IX.5.i) cc). Data or information should not be open to everybody in the organisation. Access to data or information should be layered depending on the job role, responsibility and the nature of information (Section IX.5.f).

Following international practice, the TARC recommended that CBDT should focus on HNWIs as a separate item. Thus, administratively there is need for a separate cell for HNWIs with a view to improving the understanding of different customer needs and behaviours in order to respond to them appropriately, assisting them to get their affairs right and pursuing those who bend or break the rules (Section XI.5.g). The field was supportive of the above proposal.

The proposal that data storage algorithms must be developed to make sense of the amorphous data and information coming from various sources into structured data so as to execute and deliver the objectives and purpose of collecting the data was acceptable to both the income tax and indirect tax field (Section IX.6.d).

Two other recommendations of the TARC that found ready acceptance in the field were the following.

a) A robust audit and accountability policy must be developed to address the purpose and scope of information sharing, roles and responsibilities of dedicated teams, authorisation layers access to data, review of the safeguards put in place by an agency receiving information and the secure storage, disposal and confidentiality of the data and information. Along with the policy, sound processes are required to facilitate the implementation of the

policy. These audits must be conducted by dedicated teams who should report the findings of the audit to the DG (Systems) of the two Boards for course correction (Section IX.5.l).

b) Specialised personnel must be engaged to manage data or information exchange. Their job will entail finding sources of data or information in a continuous manner to fulfil the ever increasing need for data or information, work out common standards, develop common taxonomy and develop sophisticated algorithms and software for analysis of the data. They will be part of the CIO/DG (Systems) in each Board (Sections IX.5.k and IX.6.g).

They further suggested the need for a designated nodal officer for such exchange and co-ordination. The field officers also proposed the formation of a specialised workforce like the Indian Revenue IT Services (IRITS) to man the entire IT setup of the tax departments with a provision for special pay for them.

A suggestion was also made that, going beyond information exchange, the departments should work towards the development of a common tax return covering direct and indirect taxes, which would benefit both the tax payer and the tax administration.

vii. Impact Assessment

This issue was also discussed with the field in the final phase of the TARC's feedback visits. It recommended that impact assessment can be used as a tool to review existing regulations and assess their impact, thus improving the quality of regulations. The review and updating of laws, rules, and other instruments to decrease regulatory risk and uncertainty represent another important responsibility of the tax administration management. This is to systematically streamline the legislative corpus and remove unnecessary charges and burdens that get imposed and embedded due to laws, rules and their practices (Section X.4.a). The field was quite warm to the idea since it felt the need for ex-ante/ex-post impact assessment of proposed tax actions.

viii. Expanding the Base

This area was discussed in the final stage of field feedback.

a. Fringe Benefit Tax (FBT)

There has been criticism on the TARC's recommendation on reintroduction of the fringe benefit tax (FBT). The TARC recommended that FBT would be an effective measure to widen the direct tax base, and this will be a temporary administrative measure for enhancing tax collection (Section XI.3.j). FBT was a tax collected on presumptive basis from the corporates on the perquisites given to its employees. The collections from FBT, even during the period it was in force, was reducing every year, suggesting improvement in corporate tax compliance on the fringe benefits to its employees. The intention behind recommending FBT was to improve compliance, and available evidence pointed in that direction. In recommending the application of FBT to government employees, the TARC recognised the earlier objection that FBT was iniquitous in leaving out the government employees.

The TARC proposed that the number of income taxpayers should be doubled, from slightly more than 3 crore to 6 crore in three years, which would entail commensurate staff and financial resources to administer them (Section XI.2.g). Some field officers felt that merely expanding the tax payer base nominally may not have a commensurate positive effect on tax collection, and that for a perceptible jump in the tax revenue, one would require a real increase in the tax base. It was explained that even with tax base expansion and a possible cutback in incentives, the fact remains that the taxpayer base has remained stagnant over the past decade even as incomes have increased significantly, in particular in the services sector.

ix. Compliance Management

The topic was discussed in the final feedback meetings. The TARC recommended the following.

a) A compliance philosophy needs to be built on the principle of trust combined with careful monitoring and management of compliance risks (Section XII.4.b).

b) A common compliance risk management framework should be developed by both the Boards to manage strategic as well as operational risks, using a structured risk management process.

c) Both the Boards should develop a robust compliance measurement framework to enable robust compliance risk management. (Section XII.4.b)

Field officers were quite supportive of the idea.

The TARC also recommended that the CBEC should re-visit its current returns in central excise and service tax and move towards an annual tax return accompanied by a tax audit report as in income tax. Once feasible, instead of requiring a separate submission of Form 3 CD, the data submitted should be shared between the two Boards on the "one data, many users" principle. The monthly/quarterly returns should be simplified and used mainly to track the flow of input credit (Section XII.4.e). The field was positive regarding this proposal. The indirect tax field further suggested that measurement of tax compliance measurement required the introduction of a self-measurement kit for tax payers.

x. Structure and Governance

This was the area where the TARC's recommendations met with the stiffest resistance at the top Board level, perhaps reflecting a fear that the number of top jobs would decrease, together with the accompanying benefits and clout. It reflected a lack of understanding on why the tax departments should be singled out or be made to suffer in a large public service. The TARC pointed out the international nature of the recommendations and that the Indian tax administration could take on the role of sentinel in reforming the Indian public service administration. Such has been the case in several reforming countries. As expressed by many in the field, however, there seemed to exist a groundswell of support for the idea of eventual convergence while initiating the process with specific functions. The feedback is dealt with in detail below.

Given its crucial position in the entire tax administration reform, the feedback in the area of structure and governance is being addressed before closing the feedback section so that the authorities recognise its importance and take all necessary action to achieve it to reflect common international practice. After initiating interim steps outlined in the following section, the final objective has to remain the eventual convergence of the two departments –common practice today across countries –which will serve the taxpayer better while consolidating information across business taxes paid or filed by the same tax payer, bringing immense benefit through enhancing tax revenue, achieving higher transparency in tax contribution and assuring equity across tax payers.

The TARC has recommended that the two Boards, i.e., the CBDT and CBEC, must embark on selective convergences immediately to achieve better tax governance and, in the next five years, move towards a unified management structure with a common Board for both direct and indirect taxes, called the Central Board of Direct and Indirect Taxes. For a unified management structure, apart from the common Board, the functions that can easily support the framework would be in the areas of human resource management and vigilance, finance, ICT, infrastructure and logistics, and compliance verification (Section III.4.e). Some in the indirect tax field were pro-active and supported the proposal. They wanted the departments to start with inter-departmental transfer of staff. Some others, while accepting the recommendation, thought that tax payers would benefit from single filing and this would also lead to possible mergers of reports/returns. Endorsing the merger, they wanted the departments to initiate small steps towards the proposed synergy and evaluate progress at every stage.

Some indirect tax officers preferred further examination in the light of the experience it had with large taxpayer units (LTUs), and some income tax officers questioned the functional viability of the idea. They suggested that operational convergence, in a manner similar to the "single window" concept in customs would suffice. Some in the income tax field suggested that convergence may reflect the eventual requirement of the economy. Therefore, a process of perspective planning should be put in place to implement it. However, some felt a five-year limit for implementation was a little too ambitious but maintained that unification of the Boards could be a long term objective. Some staff associations also welcomed the idea. From the field, therefore, there was observable support for the recommendation.

Perhaps it was not surprising, however, that at the Board level, the response was lukewarm or conditional. While the CBEC admitted that the Boards should focus on co-operation and not work in silos, it also expressed the view that delivery could be improved without convergence. The CBDT felt that the two Boards performed different specialised functions. It was surprising that at the Board level, little reference, interest or familiarity emerged on global experience.

The TARC recommended that convergence can begin for the large business segment by setting up of a Large Business Service (LBS), which will be integrated and operated jointly by the two Boards. This will be taxpayer segmentation by the tax administration, and joining the LBS not be optional.. All core tax functions will be managed jointly by officers of both the Boards (Section III.4.b). The recommendation was welcomed by several income tax officers. They felt that the implementation of this idea would ensure uniformity in the application of law and better governance. It would successfully counter the unsatisfactory experience of both Boards with the prevailing Large Taxpayers Units (LTU's).

However, it was not surprising that some even at the field level were subdued in their enthusiasm for the concept of LBS. They said that LTUs were not working well at the ground level and needed to be

re-evaluated. Some in the indirect tax field felt that the reasons for the relatively low success of LTUs should be examined and addressed before taking a view on the formation of LBS. The TARC was informed that the CBEC was looking at its various processes and functions with TARC recommendation in mind. Some staff associations were also not fully open to the concept of LBS. From the above, it appears that while the field welcomed the idea of eventual convergence, they remained somewhat sceptical regarding the actual experience based on the functioning of LTUs. It was explained that low success of the LTU was not due to the concept itself but because of the selective capture of large taxpayers in the LTU because joining the LTU has been left optional, and the two departments continuing to function in silos without information exchange between the two despite being located in the same office. The concept of LBS, it should be understood, would be entirely different and, if appropriately implemented, was certain to usher in success.

The TARC recommended that the tax administration needs to have greater functional and financial autonomy and independence from governmental structures, given their special needs (Section III.7). This recommendation found wide acceptance in both departments. Supporting the idea, the CBEC said that the Board should report directly to the Finance Minister. On the whole, the field in both tax areas and across the country were very supportive of autonomy. The income tax field felt that functional and financial autonomy was needed and such autonomy would increase the efficiency of the department as well as lead to faster delivery of services. However, some also thought that the TARC needs to be clear as to what powers are to be given to the CBDT.

The TARC recommended that the post of Revenue Secretary (RS) should be abolished. The present functions of the Department of Revenue should be allocated to the two Boards. This would empower the tax departments to carry out their assigned responsibilities efficiently (Section III.7). The response of the two Boards to this recommendation was positive. They found it acceptable in principle. While the CBEC thought that the implementation of the recommendation would speed up decision making, the CBDT hoped that the Commission would further recommend an alternative mechanism to discharge the co-ordination functions presently being entrusted with the revenue secretary.

Some income tax field officers were of the view that the abolition of the post of RS has become imperative. Again, supporting the idea, the indirect tax field wondered as to whether the Department of Revenue itself needs to be scrapped along with the post of RS. Commensurately, they indicated that the two Boards essentially want their respective Chairpersons to be upgraded to the level of Secretary to the Government of India. They wished that the Commission would further recommend a person who would co-ordinate with different ministries in the absence of the RS. Throughout, therefore, there was widely expressed support for the abolition of the post of RS. Some expressed the view that, if the Boards were unified, the RS post would become automatically superfluous. As regards the staff associations, a customs staff association welcomed the recommendation; two Central Excise Superintendents Associations said that if the post of RS is abolished, neutrality in dealing with the different tax-related cadres would have to be appropriately ensured.

The TARC recommended that a Governing Council (GC), headed by the Chairperson of the two Boards, by rotation, and with participation from outside the government, should be set up at the apex level to oversee the functioning of the two Boards (Section III.4.c). The proposed GC would be a superstructure governing the working of the Boards and will have room for only one of the Chairpersons from either of the Boards at the top at a time. Predictably, this recommendation would appear to be a little hard to accept by the respective Boards, which may take this as an attempt to undermine their authority over their respective domains. Hence, it was not too surprising when the CBEC expressed reservations over

the proposed structure at the apex level presiding over the Board. Perhaps they found the probability of a GC headed by a CBDT Chairperson overseeing the functioning of CBEC with its own Chairperson and Members too challenging to endorse on their own. It was explained that indirect tax officials would also alternate as the Chair and that this has become common practice internationally. Further, only with converged interests could the tax administration's aspirations to rise to the level of Secretary at its top level become reality.

A select few in the income tax field said that the GC would possibly become redundant if the post of Chairperson, CBDT, is elevated to that of the secretary to the government – a demand that the Boards have been making for long. They also feared that the Chairperson's position as the topmost officer of the CBDT having absolute control over it would diminish if there is a GC at the apex level overseeing its functions. With regard to the composition of the GC, they said that there may arise awkward situations wherein a junior Chairperson of one Board, by virtue of rotation, may be heading the GC and a senior Chairperson of another Board would be working as Member of GC under him/her. As regards the induction of persons from outside the government into the GC is concerned, some in the income tax field feared that there may be secrecy issues leading to leakage of taxpayer information outside the departments. They felt that such seniority or secrecy issues would need to be addressed by the Commission before the departments are able to take a firm view on the concept of GC.

Some in the income tax field felt that the formation of the GC might lead to duplication of work with the Boards, which would basically be performing similar functions, and would, therefore, lead to conflict in work areas. Some commented whether the GC would conflict with Parliamentary Committees in their supervisory roles. Some suggested that as an alternative to the GC, full autonomy and accountability can vest with the two Boards, who could then function independently and report directly to the Minister. The fundamental difference in the nature of the GC and Tax Council was explained by the TARC to officers in various locations where the feedback meetings were conducted, indicating in particular that one would be a policy advisory body while the other would be an executive body. From the intensive discussions that took place, it is clear that if the Indian tax administration has to move in the direction of global practice, quick decisions at the apex policy level have to be taken and, after information generation and explanation, implementation should quickly follow as has been done in other countries.

The TARC also recommended the formation of an Independent Evaluation Office (IEO). Its main task would be to monitor the performance of the tax administration, promote accountability, evaluate the impact of tax policies and assess all factors that affect the tax administration. The IEO will report to the Governing Council so as to ensure its independence (Section III.4.e). As in the case of the GC recommendation, the CBEC, fearing a possible usurping of its domain specific powers, expressed its unwillingness to accept any extended monitoring entity. It was explained that IEO would not be monitoring administration on a daily basis but would be carrying out monitoring and evaluation (M&E) of completed or, occasionally, ongoing programmes, acting as a quick eye on needed changes or reform.

Among the field formations, the income tax found the current monitoring system to be adequate and hence felt that the IEO would not be required at present. Some, however, did not have an issue with the concept of an IEO but were concerned about its adherence to independence. They felt that the reporting relationship between the IEO and the GC, the latter to be headed by the Chairperson of one of the Boards, may be incompatible with the concept of the independence of the IEO. Thus, the independence aspect of the IEO needs to be re-examined by the Commission. Some feared multiplicity in reporting requirements, pointing that already the Parliamentary Committees and the C&AG were evaluating

performance. A concern was that it would lead to excessive monitoring. On the whole, even though the tax departments found the idea of an IEO progressive, the Boards in particular were not geared to embrace the challenges associated with such an advanced concept and change.

The TARC recommended that a Tax Council (TC) should be set up to develop a common policy, analysis and legislation for both direct and indirect taxes. The TC will be headed by the Chief Economic Advisor of the Ministry of Finance (Section III.4.d). As already explained earlier with respect to the previous recommendation regarding the GC, the CBEC, fearing a possible usurping of its domain specific role and powers, expressed its unwillingness to accept the proposal. Some field officers expressed the fear that the TC would render the system more top heavy. It was explained the TC would also ensure that career officers are assured top positions in the service, in contrast to fears that officers would lose out on positions with tax administration restructuring.

Some field officers also felt that the TC would be inherently superior as it would report directly to the Finance Minister through its chair. i.e., the Chief Economic Advisor, with the Chairpersons of both the Boards as mere members of the TC. They feared a lowering of departmental expertise although they did not explain why they felt there would be such lowering. Overall, the field seemed to feel that there would be inherent superiority of the TC to the Boards and that it would result in making decision more complex. In other words, while there was a ground swell of support in the convergence of the departments at the field level, there was less acceptance of fundamental changes in restructuring its governance at the top. Hence, if those changes are to be made, they have to emerge from the very top policy level following international practice.

The TARC recommended that a common Tax Policy and Analysis (TPA) unit comprising tax administrators, economists, and other specialists such as statisticians, tax law experts, operations research specialists and social researchers should be set up for both Boards. The existing TPL in CBDT and TRU in CBEC should be subsumed in the common TPA. The TPA will report to the Tax Council through the concerned Member of each Board. It will be responsible for all three major components of tax policy formulation – policy development, technical analysis, and statutory drafting (Section III.4.d). The indirect tax field appreciated the recommendation to create an institutional think-tank. It was warm to the idea but worried about the process of transition from the present set up to the new TPA. Some in the income tax field thought, however, that inclusion of a whole host of outside experts in the TPA would make it cumbersome and could give rise to secrecy issues and conflict of interest among members of the TPA. An attempt was made by TARC to explain the pattern of TPA functioning in other tax administrations and how it could avert all those challenges. On the whole, it was clear from the prevailing mood within both departments that they were receptive to the concept, composition and size of the TPA. It was more the modalities for implementation that need to be spelt out for the Boards to move ahead with a jointly functioning TPA.

The TARC recommended that each rule, regulation and other tax policy measure such as exemptions should be reviewed periodically to see whether they remain relevant to contemporary socio-economic conditions and meet changing requirements. For this, a robust process should be institutionalised. As a first step, a thorough review of existing rules, regulations and notifications should be undertaken. Going forward, it should be a standard practice to build a sunset clause in each rule, regulation and notification (Section III.4.d). The recommendation found wide acceptance among field offices throughout.

The TARC observed that at present the Boards are neither aligned to current needs nor are they geared to respond to emerging and future challenges rapidly or in an effective manner. Keeping that in mind,

the two Boards should be expanded to have ten Members, apart from the Chairperson (Section III.5). Expectedly, this was welcomed by all field formations.

The TARC recommended a categorical functional orientation based on specialisation in the restructured tax administration. Thus, it recommended the following.

a) The two Boards would be responsible only for the policy dimensions of tax administration, while the directorates under them would be responsible for operations in the field formations. These directorates would have a vertical and horizontal alignment with functions, and would interact with each other in a matrix like structure of responsibilities and accountability (Section III. 5).

b) The field formations are currently organised to handle all key functions in a particular geographic region. In order to go for a functional orientation, field offices will need to be restructured along the core functions of tax payer services, compliance, audit, dispute management, enforcement and recovery, etc. (Section III. 5).

c) A functional orientation would need to be anchored in specialisation in tax administration. For these reasons, specialisation should be encouraged by selecting suitable officers and providing them sufficient tenures to develop specialised knowledge in key sectors (Section III. 5 & III. 5. d).

The indirect tax field welcomed the idea and thought it was good to encourage functional specialisation. The CBEC agreed with the Commission, indicating that functional specialisation is fine, but to ensure specialised roles for feeder cadres, the idea needs to be examined further. For example, as more ports and ICDs are being created presently, would assignment there be limited to only very specialise officers? Some income tax officers thought that their proposed role would remain limited in vertical functions unless some lateral movement was allowed for the staff. It was explained by the TARC that for the first twenty years of their career, officers would experience different functions and only over that period, develop specialised skills. Some indirect tax officers were not sure if there was any inconsistency between convergence and specialisation. Some field officers even questioned the idea of creating specialists with no objective implementation method in an environment in which Board Members have essentially not acquired any specialisation. Some in the income tax field said that the present alphabetical jurisdiction does not allow specialisation. Nevertheless, if this recommendation is at all implemented, such specialisation should also be reflected in the transfer policy.

Interestingly, with regard to the matrix like structure for the directorates, some income tax officers found that the proposed structure was similar to the present formation and therefore, were quite positive to the idea. Some felt that the structures are fine but the ground reality today is different and may continue to be so even after restructuring. The necessary change in culture poses a major challenge. In sum, while specialisation along a career path was welcome by most, some quick clarifications and assurance discussions may be undertaken after which action could follow.

The TARC recommended that a common approach to developing a robust and comprehensive enterprise risk management framework should be adopted by the two Boards. This should be approved by the Governing Council to bring coherence (Section III.5.a.i). This recommendation found acceptance in the income tax field, who suggested that this may be handled by the Directorate General of Risk Assessment that has just been set up under cadre restructuring.

Besides the above, the indirect tax side felt that in that the impact of GST could have been dealt with in the TARC reports as it was unclear how the TARC recommendations would be affected by the

introduction of GST. It was also said that while there was considerable ideation, little in terms of actual implementation was visible.

IV. A sum up for immediate action

Modern tax administrations across the world treat taxpayers as customer and partners. The Indian tax administration has so far remained static in its structure, processes and delivery. There has been inadequate focus on delivery to the taxpayers by the two tax departments, the CBDT and CBEC, and almost no visible change in the approach to dealing with them. It is time that the Indian tax administration improves its delivery mechanism to the taxpayers by recognising and understanding the needs of each taxpayer segment. This change in focus is not to undermine, in any manner, tax enforcement activities. In fact, there is need to move to a different level on that aspect, requiring a more synergistic approach between the two departments. The Tax Administration Reform Commission (TARC), after considerable deliberation and consultation, has made a menu of recommendations that should be taken as a package and reform should be undertaken on that basis.

However, instead of waiting for massive action to take place, it is feasible to initiate action immediately on various fronts. In this concluding section of the TARC report, immediate action points are listed for the policymakers' immediate attention and possible action.

i. Customer focus

Improving the way in which tax administrations work with taxpayers not only results in better customer service but also has the potential to increase tax revenue. Taxpayers are more likely to comply voluntarily when tax administrations adopt a service-oriented approach towards them. Educating and assisting taxpayers help them meet their obligations comfortably. Taxpayer services, therefore, need to be taken as an integral part of the functions of a responsible and responsive tax administration, and these should, therefore, be strategised and institutionalised as an ongoing and continuous process rather than a sporadic one. To do that, both departments should create separate verticals for customer service.

ii. Set up Large Taxpayer Service (LBS)

The present silo working of the Large Taxpayer Units (LTUs) has not achieved desired integration through data sharing or building a common framework for delivery of services to taxpayers. The experience so far has been far from satisfactory, preventing a comprehensive taxpayer focus. It also fails to provide a level playing field among similarly placed, large taxpayers in other countries. Setting up Large Taxpayer Service (LBS) with unified taxpayer services, compliance verification, dispute management, and recovery and tax debt collection will provide improve the ease of doing business. Segmentation in the LBS should be exclusively based on different sectors such as insurance, banking, oil and gas, other resource industries, media and telecom, manufacturing, ITeS, etc., and not on the basis of differentiated taxes. This approach would adopt international practice and usher in better tax governance.

iii. Dispute management

The Indian tax administration has more disputes than any other by far. It is important to relieve the tax administration as well as the taxpayer of the undesirable burden of this legacy so that both can look to a more positive and productive future. A special drive should be launched to review and liquidate cases

currently clogging the system by setting up dedicated task forces in the two Boards having measurable targets. The review and liquidation should be completed within one year. The objective of the exercise should be to decide on all cases pending in departmental channels for longer than a year as on the start date of the action plan and to withdraw all litigation in tribunals and courts that are assessed to be without merit. Pending cases similar to the ones where the departments have accepted a court judgment should also be withdrawn.

As part of taxpayer focus, the two Boards should issue interpretative statements, industry-wise interpretations or clarifications of various provisions of tax laws, etc., on the request of taxpayers or, even otherwise, within a specified period of time. Such pre-filing support should be intended to help taxpayers plan their business in advance and avoid disputes, and should help taxpayers file their tax returns correctly.

iv. Joint Tax Policy and Analysis

Currently, little meaningful analysis is carried out by the Tax Policy and Legislation (TPL) and Tax Research Unit (TRU) of the CBDT and CBEC, respectively, which would stand the test of international comparisons. Tax law making is required to be carried out with a more consistent and coherent approach in a joint Tax Policy and Analysis (TPA) wing of the two Boards with enhanced research. The TPA should have multidisciplinary inputs and data analysis, so that tax laws, which are an important instrument of fiscal policy, reflect that character. The present silo working, the units of the two Boards working independently and reaching the Finance Minister in separate channels, does not achieve this basic objective. It defeats the objective of achieving ease of doing business on the one hand, and consolidating the investigation function on the other.

v. Common database

A common and unified database of taxpayers between the two Boards – currently absent in contrast to international practice – will lead to great gains both in terms of enforcement and taxpayer services. The establishment of an independent entity through an SPV for a common and unified database focused on ICT-based service delivery will provide the concentration, flexibility, nimbleness, resources and specialised skills that are direly needed. An SPV will also provide the desired economies of scale in computerisation, contribute towards establishing common data standards, and build security systems and practices acceptable to both Boards. Overall, the digital transformation will offer new opportunities for sharpening the tax administration.

vi. Optimally merge the CBDT and CBEC's department functions in a step-wise manner

As a step towards fundamental tax administration reform, and following widespread international practice, the present structure of the CBDT and CBEC should be unified and converged in the next five years in governance, vision, mission and approach to tax policy formulation and administrative delivery to taxpayers, anchored in a more unified management structure, so that it is able to respond to emerging challenges quickly and positively. An announcement to this effect – that government means to undertake convergence – will be a landmark step in the right direction.

To begin with, the unified tax management should be in the areas of taxpayer services, human resource management and vigilance, finance, infrastructure and logistics, and compliance verification. The setting up of a single directorate for both direct and indirect taxes will result in greater synergies. This enhanced approach will help in expanding the tax base and taxpayer base, which have been stagnant for long. Moving forward, a calibrated approach towards convergence, with a clear timeline, will prepare the ground for an integrated tax administration eventually. In a fully integrated tax administration, corporate tax, excise and service tax would be administered together as business taxes to provide better taxpayer convenience to businesses and consolidate information to the administration on the taxpayers. Staff and officers will then be organised principally by functional groupings such as registration, information processing, audit, collection, appeals, etc., and would work across various taxes. The unified tax administration functions, ideally and optimally carried out together, will not only ease taxpayer experience but also improve tax enforcement.

A menu of announcements as outlined above would give the taxpayer a clear indication of immediate reforms and the course of future reforms that the tax administration would be instructed to undertake. It will certainly go a long distance both to reassure the taxpayer and to provide clarity of purpose to the tax administrator.

vii. Set up framework for TARC implementation

TARC reports have indicated the need for a total transformation of the tax administration system in India. Chapter III describes the desired organization structure which will enable it to efficiently carry out its tasks with service orientation. This change cannot be accomplished through incremental improvements to its administration and processes. The reports have pointed to the need for root and branch reform, redefining the vision and mission of the organization and described the changes required in the organisation structure to infuse its people with the desired spirit and empowerment.

Time period needed to achieve the goal of a fully integrated modern tax administration will be ten years, as shown in Diagram 5 in the Executive Summary. There are a number of intermediate goals which need to be met during this period. Such a major organisational transformation, which creates a new environment of sharing, specialisation and data-driven management, requires sustained change management efforts that can only be performed by an empowered and dedicated office for change. The Change Office will lay down the process of change management within the departments and will also work on enabling the creation of new competencies and functions, as described in the various chapters. It will create a detailed project plan and a governing mechanism to manage and monitor the process.

The composition of the Change Office will be crucial to the success of this transformational effort. An intimate knowledge of the working of the tax administration system currently operating, appreciation of the new technologies and tools (such as data warehousing, information sharing, analytics and modelling), expertise in organisational behaviour to put through the changed working environment and project management capability are some of the competencies needed in the office. While it will need to have full-time members, it will also need to bring in consultants and experts for specific tasks.

The leader of the Change Office should be invested with sufficient authority and be appropriately empowered with financial and other infrastructural resources. The members of the office will need to be selected on the basis of the competencies required and should not come only from the two departments but also from outside the government. The transformed tax administration system, as has been emphasised throughout, has to be customer-focussed and the voice of the customer has to be represented within the office structure. Given its importance, the Change Office should directly report to the Finance Minister. TARC recommends the setting up of this office immediately.

The Change Office should be an independent office in the Ministry of Finance and should undertake the implementation of TARC recommendations and report progress to the Finance Minister. It would be erroneous to leave TARC implementation to the level of administration; that would result in cherry picking and is bound to slow the process. However, the last word must be to recognise the crucial role of people in the departments to be fully prepared for the fundamental and transformative changes that implementation is bound to usher in.

ANNEXURES

Annexure - I

TARC meetings with stakeholders

Date	Name of the Stakeholder
20.08.2014	Meetings with officers of CBEC
21.08.2014	Meetings with officers of CBDT
05.09.2014	Meetings with staff and officers association of income tax, central excise and customs
12.09.2014	Meetings with staff and officers association of income tax, central excise and customs at Bangalore
17.09.2014	Meetings with staff and officers association of income tax, central excise and customs at Kolkata
18.09.2014	Meetings with staff and officers association of income tax, central excise and customs at Patna
16.01.2015	Meetings with staff and officers association of income tax, central excise and customs at Mumbai
19.01.2015	Meetings with staff and officers association of income tax, central excise and customs at Ahmedabad
30.01.2015	Meetings with staff and officers association of income tax, central excise and customs at Delhi
03.02.2015	Meetings with staff and officers association of income tax, central excise and customs at Hyderabad
04.02.2015	Meeting with IRS officers associations from income tax, central excise and customs. Meeting with Joint Council of Action of Income Tax Gazetted Officers' Association (IT-GOA) and Income Tax Employees Federation (IT-EF)

Annexure - II

TARC meetings

Date of the meetings
16th January, 2015
19th January, 2015
30th January, 2015
3rd February, 2015
4th February, 2015

Annexure - III

Composition of Focus groups

a) First report

Sl. No.	Topic	Focus Group
1.	Review the existing organizational structure including, (a) Structure, functional responsibility and accountability of the Board and its Directorates; (b) Field formation with special reference to deployment of workforce commensurate with functional requirements.	Mr. R R Singh, ex I-T Mr. Sunil Chopra, ex I-T Mr. Gautam Ray, ex CE Mr. BB Agarwal, CE Mr. Navneet Manohar, I-T Mr. Rajesh Pande, CE
2.	Recommend measures for human resource management including, a) capacity building and deployment; b) Responsibility, accountability, vigilance administration, and actions taken and needed. Methodology for setting up and monitoring key performance indicators; assessment of staff and officers; grading and promotion systems; and structures to promote quality decision-making at high policy levels.	Mr. Sanjay Puri, I-T Mr. B K Jha, I-T Mr. Satya Poddar, E&Y Mr. Nikhil Chaudhary, I-T Mr. Pankaj Jindal, I-T
3.	Review the existing use of technology in tax administration and recommend measures for greater use of information technology (IT) for: better governance and for more efficient, effective and transparent tax administration. The group shall also give recommendations for sustainable IT implementation and governance. Review the existing system of data utilisation through data mining techniques, and carrying out analytics for various usages such as taxpayer service, revenue augmentation, etc, and also suggest measures to augment capacity in intelligence and investigation by collection and collation of data on real time basis including 360	Mr. T. Koshy, E&Y Mr. Ravi Agarwal, I-T Ms. Kajal Singh, CE Mr. Mukul Swarup, BMR Mr. Satya Srinivas, CE Mr. R R Singh, ex I-T

Sl. No.	Topic	Focus Group
	degree profiling of HNWI and other hard-to— tax sectors/taxpayers.	
4.	Review existing mechanisms and recommend measures for improved taxpayer services and taxpayer education programme including mechanism for time bound delivery of services and grievance redressal.	Mr. S. Madhavan, ex-PwC Ms. Neeta Lall Butalia, CE Mr. Himanshu Gupta, CE Mr. RK Bajaj, ex I-T Mr. Navneet Manohar, I-T
5.	Strengthening the mechanism of dispute resolution so as to provide certainty, reduce litigation as well as reduce the time involved for resolution of tax dispute and compliance cost.	Ms. Bhavana Doshi, PwC Mr. Mukesh Bhutani, BMR Mr. Rajneesh Kumar, I-T Mr. Shravan Gotru, I-T Mr. Sunil Sinha, CE
6.	Recommend measures for streamlining the assessment process including mechanism for providing inputs to assessing officers such as continuous industry wise analysis and benchmarking, and circulars for guidance.	Mr. Himanshu S Sinha, Deloitte Dr. Nagendra Kumar, CE Ms. V Usha, CE Mr. Bipin Sapra, E&Y Mr. K R Sekar, Deloitte

b) Second report

Sl. No.	Topic	Focus Group
1.	To review the existing mechanism and recommend measures for "Capacity building" in emerging areas of Customs administration relating to Border Control, National Security, International Data Exchange and securing of supply chains.	Mr. S. P. Sahu, WCO, Brussels, Ms. Kajal Singh, CE Mr. M. Satish K Reddy, ADB, New Delhi Mr. Bipin Sapra, E & Y Mr. Suresh Nair, E & Y Mr. Himanshu Tewari, BMR
	To review the existing mechanism and recommend measures for strengthening of	Mr. Vivek Chaturvedi, CE

Sl. No.	Topic	Focus Group
2.	Database and inter-agency information sharing, not only between Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC) but also with the banking and financial sector, Central Economic Intelligence Bureau (CEIB), Financial Intelligence Unit (FIU), Enforcement Directorate etc. and use of tools for utilization of such information to ensure compliance.	Mr. Ravi Agarwal, I-T Mr. Sanjeev Singh, I-T Mr. Rajiva Ranjan Singh, ex I-T Dr. Sanjay Kagwade, CME, Mumbai Mr. Mukul Swaroop, BMR Mr. T. Koshy, E & Y

c) Third report

Sl. No.	Topic	Focus Group
1.	To review the existing mechanism and recommend capacity building measures for preparing impact assessment statements on taxpayers compliance cost of new policy and administrative measures of the tax departments	Ms. Mansi Kedia, ICRIER Ms. Neetika Kaushal, ICRIER
2.	To review the existing mechanism and recommend measures for deepening and widening of tax base and taxpayer base	Sri Sunil Chopra, ex I-T Sri Gautam Ray, ex CCE Sri S P Singh, Deloitte Sri Gautam Bhattacharya, CCE Sri Bipin Sapra, E & Y Sri Tukaram Munde, Addl Commissioner, VAT, Mumbai
3.	To review the existing mechanism and recommend a system to enforce better tax compliance – by size, segment and nature of taxes and taxpayers, that should cover	Sri Sunil Chopra, ex I-T Sri C. Mathur, ex CCE Sri Gautam Ray, ex CCE Sri R K Bajaj, ex I-T

	methods to encourage voluntary tax compliance	**Expert Group for consultations on encouraging voluntary compliance** a) Prof. D. K. Srivastava, ex-Director, Madras School of Economics b) Dr. Manjulika Srivastava, Professor of Distance Education, STRIDE, IGNOU c) Dr. Surajit Deb, Reader, Ram Lal Anand College, University of Delhi

d) Fourth report

Sl. No.	Topic	Focus Group
1.	To review the existing mechanism and recommend appropriate means including staff resources for forecasting, analysing and monitoring of revenue targets	Prof. D. K. Srivasatava, ex-Director, Madras School of Economics Shri Gautam Ray, ex-CCE Shri Arbind Modi, I-T Prof. N R. Bhanumurthi, NIPFP Shri Siddhartha Roy, Tata Sons
2.	To review the existing mechanism and recommend measures to enhance predictive analysis to detect and prevent tax/economic offences	Shri Ronmoy Das, I-T Shri L. Satya Srinivas, CCE Shri Satpal Gulati, I-T Shri K. Balaji Majumdar, CCE Dr. Sanjay Kagwade, Terradata

Sl. No.	Topic	Focus Group
		Prof. Manoj K Srivastava, MDI
3.	To review the existing policy and recommend measures for research inputs to tax governance	Shri Arbind Modi, I-T Shri Parneet S. Sachdeva, I-T Shri J. Albert, I-T Shri. Nagendra Kumar, CCE Shri S.P. Sahu, CCE

Note: I-T: Income Tax Department

CE: Custom & Central Excise Department

WCO: World Customs Organisation

ADB: Asian Development Bank

Annexure - IV

Gazette Notification constituting TARC

MINISTRY OF FINANCE
(Department of Revenue)
NOTIFICATION

New Delhi, the 21st August, 2013

F.No.A.50050/47/2013-Ad.I. –The Government in its Budget, 2013-14, had, inter-alia, announced the setting up of a Tax Administration Reform Commission (TARC) with a view to reviewing the application of Tax Policies and Tax Laws in the context of global best practices and recommend measures for reforms required in Tax Administration to enhance its effectiveness and efficiency. Accordingly, it has been decided to constitute the Tax Administration Reform Commission with the following composition:

i)	Dr. Parthasarathi Shome	Chairman
ii)	Shri Y. G. Parande	Full-time Members
iii)	Ms. Sunita Kaila	
iv)	Shri M. K. Zutshi	Part-time Members
v)	Shri S.S.N. Moorthy	
vi)	Shri M.R. Diwakar	
vii)	Shri S. Mahalingam	

2. The Commission will have a fixed tenure of 18 months from the date of its constitution and work as an advisory body to the Ministry of Finance. The Commission will give its first set of recommendations with six months of its constitution and thereafter submit periodic reports after every three months.

3. The Terms of Reference of the Commission will be as follows:-

a) To review the existing mechanism and recommend appropriate organizational structure for tax governance with special reference to deployment of workforce commensurate with functional requirements, capacity building, vigilance administration, responsibility of human resources, key performance indicators, assessment, grading and promotion systems, and structures to promote quality decision making at the highest policy levels.

b) To review the existing business processes of tax governance including the use of information and communication technology and recommend measures tax governance best suited to Indian context.

c) To review the existing mechanism of dispute resolution, covering time and compliance cost and recommend measures for strengthening the same. This includes domestic and international taxation.

d) To review the existing mechanism and recommend capacity building measures for preparing impact assessment statements on taxpayers compliance cost of new policy and administrative measures of the tax Departments.

e) To review the existing mechanism and recommend measures for deepening and widening of tax base and taxpayer base.

f) To review the existing mechanism and recommend a system to enforce better tax compliance – by size, segment and nature of taxes and taxpayers, that should cover methods to encourage voluntary tax compliance.

g) To review existing mechanism and recommend measures for improved taxpayer services and taxpayers education programme. This includes mechanism for grievance redressal, simplified and timely disbursal of duty drawback, export incentives, rectification procedures and refunds etc.

h) To review the existing mechanism and recommend measures for "Capacity building" in emerging areas of Customs administration relating to Border Control, National Security, International Data Exchange and securing of supply chains.

i) To review the existing mechanism and recommend measures for strengthening of Database and inter-agency information sharing, not only between Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC) but also with the banking and financial sector, Central Economic Intelligence Bureau (CEIB), Financial Intelligence Unit (FIU), Enforcement Directorate etc. and use of tools for utilization of such information to ensure compliance.

j) To review the existing mechanism and recommend appropriate means including staff resources for forecasting, analyzing and monitoring of revenue targets.

k) To review the existing policy and recommend measures for research inputs to tax governance.

l) To review the existing mechanism and recommend measures to enhance predictive analysis to detect and prevent tax/economic offences.

m) Any other issue which the government may specify during the tenure of the Commission.

4. The Commission will be supported by a Secretariat consisting of a Secretary at the level of Joint Secretary to the Government of India and other officials and support staff. They will be appointed on deputation/contract basis.

5. The Commission will be provided information and quantitative data of Central Board of Direct Taxes/Central Board of Excise and Customs to enable it to do statistical analysis for making recommendations.

6. The Headquarters of the Commission will be in Delhi.

M. L. MEENA
Joint Secretary

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सत्यमेव जयते

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