

India needs Transformational Agenda to check revenue leakages

MARCH 16, 2016

By TIOL Edit Team

POLITICAL

executives come and go at the Union Government. Each Ruling party/alliance make numerous attempts to inject good governance practices in the inertia-gripped system.

Notwithstanding this, certain things never change. Some of them, on the contrary, appear more striking and alarming with the passage of time.

This fact applies to tax and non-tax revenue leakages aggregating to thousands of crore rupees. Add to this tax arrears running into thousands of crores that are as good as write-offs. Factor in a few thousand crore rupees that are at the risk of becoming dubious recoveries due to departmental and judicial delays, departmental inefficiencies and other similar factors.

All these numbers provide the big picture to any person who cares to read half a dozen Comptroller and Auditor General of India (CAG) reports presented to Parliament last week. Take a look at major findings of CAG reports to visualize the enormity of fiscal rot, which has stunted the economic growth and spread of its benefits far and wide across all sections of the society.

In its report on direct taxes (No. 3 of 2016), CAG observes: "

The uncollected demand is rising despite clear provisions in the Act to enforce collection and recovery of outstanding demand viz. attachment and sale of assessee's movable and immovable property, appointment of a receiver for the management of assessee's properties and imprisonment."

Pending demands increased more than 2.4 times during 2010-11 to 2014-15. Of total pending demand, more than 96 per cent is difficult to recover as admitted by Income tax Department (ITD). These are as good as non-performing assets of public sector banks (PSBs).

The percentage of demand difficult to recover due to pending write-off/assessee not traceable/no asset and inadequate resources with the total arrears of tax demand substantially increased from Rs 34,962.26 crore (12.59 per cent) in 2012-13 to Rs 74,077.78 crore (22.60 per cent) in 2014-15.

The situation is equally dismal in the indirect taxes arena. Another CAG report (No. 2 of 2016). Huge amount of Central Excise revenue amounting to Rs 81,538 crore is blocked in appeals. The amount is increasing every year, notwithstanding a number of measures initiated by Central Board of Excise and Customs (CBEC).

As put by CAG, ***"locking up of such a large revenue is a matter of concern***

." Referring to wrong accounting of education cess and secondary higher education cess, CAG has aptly advised CBEC to revise its tax accounting and reconciliation process.

It says:

"Existing manual/instructions to be followed by the field formation also need to be revised. Better monitoring of compliance of the instruction by field formation is required to ensure proper accounting and reconciliation of revenue."

Turn now to report (No. 1 of 2016) on service tax. Arrear recovery initiatives have not made significant impact on receipts. Arrear collection in 2014-15 has fallen drastically to 1.17 percent compared to 10.46 percent in preceding year.

CAG found that over 86 percent returns marked by Automation of Central Excise and Service Tax (ACES) for review and correction was awaiting action. Adjudication cases involving Service Tax implication of over Rs 77,463 crore were pending finalisation as on 31 March 2015. Success ratio of department's appeal against adjudication order has decreased to 26.44 percent in FY15 from 33.47 percent in FY13.

It noted that

"the journey of SCN (show cause notice) right from the first step of issue of SCN till its adjudication was fraught with delays and shortcomings."

The view towards the customs side is also frightening. As put by CAG (Report No.5 of 2016),

"there were abnormal delays in finalization of provisional assessment and consequent postponement in realisation of revenue. More than 36000 cases with bond value exceeding Rs 108389.37 crore were pending beyond 6 months for collection of customs revenue."

It adds: "

There were several cases of non-compliance of Customs rules, regulation relating to provisional assessment, provisional duty, bond and bank guarantee management."

To complete the big picture, take a look at non-tax revenue, a big chunk of which comes from telecom services as different fees and charges. In its report (No. 4 of 2016), CAG has computed understatement of telecom revenue by telecom service providers that they have to mandatorily share with the Government.

CAG found that six private service providers (PSPs) had under-stated their total adjusted gross revenue (AGR) of Rs 46045.75 crore for the period from 2006-07 to 2009-10. They thus deprived the Government of total revenue of Rs 12488.93 crore on account of short/non-payment of licence fee (Rs 3752.37 crore), spectrum usage charges (SUC) (Rs 1460.23 crore) and interest (Rs 7276.33 crore) due from the six PSPs for the years 2006-07 to 2009-10.

As put by the Report,

"audit found that even after 16 years of the introduction of the revenue share regime, the correctness and completeness of revenue flowing into the Consolidated Fund of India could not be assured by DoT."

Add up all these revenue leakages and guess the opportunity frittered away to make in wealth-generating productive and social welfare initiatives. It would be mind-boggling to say the least.

If this 'new normal' in revenue leakages and collection inefficiency is to be reduced drastically, then Parliament must rise above petty politics and discuss each and every CAG report. Legislature must insist on time-bound submission of action taken reports.

CAG and allied Parliamentary reports are sole source of transparency in Government that loves to keep everything under wraps to drum up dubious claims of having reduced corruption and put India in the transformation mode.

If India is to be transformed and if inclusive growth has to be accelerated, the beginning must be made from the Finance Ministry and its appendages including public sector banks. And without Parliament rising to the occasion, transformational agenda for India would get reduced to rhetorical wisdom.