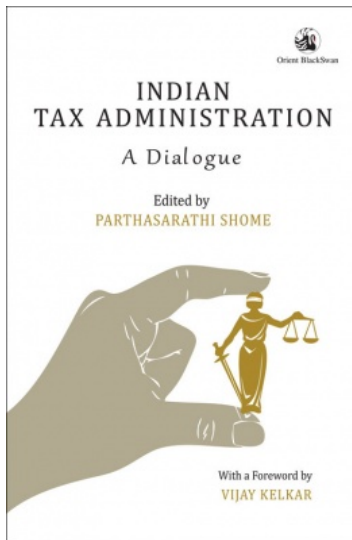


Indian Tax Administration - A Dialogue, Edited by Mr. Parthasarathi Shome

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We are pleased to present to you our review and some excerpts from the recently released book: 'Indian Tax Administration - A Dialogue.' The book, edited by renowned tax policy analyst Mr. Parthasarathi Shome (also Advisor to Finance Minister) traverses new territory as it analyses the functioning of different tax administrations across continents and suggests the ideal model and tax reforms for Indian tax administration to consider. The 400 odd pages book, published by Orient BlackSwan, is divided into 11 chapters, authored by eminent serving and retired bureaucrats and stakeholder representatives. The book is an original, well researched work on tax administration policy and sets the ball rolling for a dialogue on the 21st century look of the Indian tax administration.



Introduction – Mr. Parthasarathi Shome

In his introduction, Mr. Shome lays out the twin objectives of the book – to examine aspects

essential for a modern Tax Administration (TA) as also share actual experiences from a series of dialogue among TAs & stakeholders, with a special emphasis on Indian TA. Mr. Shome writes ..

“ It is fundamentally about moving to a more open and trusting relationship between TAs and their ‘customers’ or ‘stakeholders’ with the objective of achieving greater voluntary tax compliance by taxpayers.“ He argues that TAs need to move beyond premise that everyone is naturally inclined to avoid paying taxes and need to differentiate between honest mistakes and aggressive tax avoidance or evasion.

Mr. Shome bats for a risk based approach to selecting tax returns for scrutiny, which according to him, can play a key role in identifying tax avoidance and evasion schemes. He says..

“ There has been a rapid expansion of use of aggressive avoidance schemes, devised and vigorously marketed by tax consultants or advisers to large businesses or HNIs. Attempts to combat these schemes by identifying and legislating against particular legal loopholes have resulted in increasingly long and complex tax codes.” While suggesting that principle based legislation as a possible solution of resolving the problem of aggressive avoidance, he does admit that it carries the potential of generating further anomaly from various interpretations.



Mr. Shome also calls for redesigning of Large Taxpayer Units (LTUs) since complex matters such as advance ruling and Transfer Pricing are not offered currently. He points out that many tax departments have amalgamated their income tax and indirect tax branches, which assists TAs to pool information across taxes more rationally. Mr. Shome also makes an important suggestion with regards to the tax department structuring and seems to be inclined to structuring according to functions. He gives an example - taxes affecting business could be grouped separately from those affecting individuals. This theme finds recurring mention in various chapters of the book.



Mr. Shome concludes his introduction by strongly advocating for

more analysts in the CBDT, who would convert large amounts of information/data into knowledge as also review impact of tax policy. He brings into sharp focus the wide disparity in number of analysts that India has (20) as opposed to UK HMRC (400) and writes ..
“India’s analytical capability is at a nascent stage at both central and state government levels.”

Chapter – 1: Organisational Structure of Direct Tax Administration – Mr. Rajiva Ranjan Singh

Mr. Rajiva Ranjan Singh examines which organizational structure will deliver the benefits of Information and Communication Technology (ICT) and reforms to Indian direct tax administration. He opines that Revenue authorities are being asked to do more with less and at same time ensure revenue collection. Mr. Singh takes the reader through entire



hierarchy and organization structure of IT Department, from Finance Ministry downwards as also the field formation structure. He notes that there are 532 tax offices spread over 749 buildings, with 8640 tax officers and staff of just over 49,000. Sharing the positive impact of use of technology (e-filing etc.), he mentions that just 18% of IT Dept. staff is now deployed for processing returns of salaried taxpayers of Mumbai, leaving the rest free for audit etc. He laments that CBDT lacks autonomy over budget expenditure and suggests that the Board should be statutorily allowed a fixed percentage of tax collection for running its operations. Mr. Singh also argues that CBDT must be allowed to function outside civil regulation in respect of recruitment and fixing of salary etc. and that there ought to be a clear separation of function of tax policy formulation and legislation from execution of TA functions.

Presenting in detail the organization structure of different TAs across the world, Mr. Singh advocates functional alignment of income tax department in India. He writes that only difficult cases of tax defaulters should be handled at tax offices in field formation and the work of audit should be handled by trained tax officers. He Forcefully argues against frequent transfers of tax officers and states that it takes atleast 10 yrs for a person to be considered knowledgeable in a particular industry. Pointing out that Australia, Canada, UK, USA follow policy of long tenures to build expertise, he pivots to India and says “However the TA has lost its credibility by ignoring and not accommodating a person’s willingness, aptitude and expertise in transfer and posting of tax personnel. It is time to drop the colonial policy of rotational transfer and allow willing tax personnel to enhance their knowledge and

develop their expertise in their chosen field.”

Chapter 2: Administrative Structure in the Reform of Indirect Taxes – Mr. Gautam Ray



The Chapter gives an overview of reforms in TA in recent years in select countries and suggests a model for effective and efficient TA in India. Mr. Ray quotes from Adam Smith’s Wealth of Nations and Kautilya’s Arthashastra to advocate equity, convenience, certainty and efficiency as cornerstones of any TA functioning. He calls for outsourcing of activities that can be done more cost efficiently and faster and especially if no confidentiality issues arise. Mr. Ray compares client services in different TAs with the ‘poor’ client services of Indian Revenue. He criticizes the Revenue for unsatisfactory dispute resolution system, unsatisfactory audit, lack of adequate performance measurement mechanism, lack of adequate training etc. He also opines that seniority based promotion do not motivate original or brilliant work. Mr. Ray forcefully states that Revenue officers ought to be made culpable for passing unacceptable orders against taxpayer. He too supports a function based organization structure for TA.

Chapter 3: Risk Management in Audit Selection in the Income Tax Department – Mr. Sanjay Kumar



The Chapter compares the traditional audit model with the audit model based on risk-assessment and examines whether the role of an audit programme is only to raise revenue. Mr. Ray informs the readers that of late, most TAs have begun developing audit strategies that focus on taxpayer non-compliance risks. He writes that from the OECD experience it is clear that an effective audit programme is one that promotes voluntary compliance, detects non-compliance at individual taxpayer level, gathers information on health of tax system and educates taxpayers. Mr. Ray adds that the time has come for putting in place a computerized data-matching system by implementing automatic matching algorithms, that can cope with huge amount of data. This, he argues, will result in increased compliance and improved revenue collection. Mr. Ray details risk-assessment matrix used by US, UK, Australia and New Zealand and the need for India to align itself to

risk based audit, heavily relying on technology.

Chapter 6: Dispute Resolution Under Direct Tax Laws – Mr. Sunil Jain



This Chapter starts with a chart showing an increase in pending assessments and appeals (4 lakh pending assessments (54% disposal) and almost 2 lakh pending appeals at CIT(A) level (27% disposal)). Mr. Jain reviews and summarizes the tax assessment and first appeal process in UK, South Africa and Australia and submits his key recommendations as under:

- Process of preliminary assessments of computation of tax and tax credit verification ought to be more participative.
- CIT(A) process should be scrapped as it has failed to produce desired results and instil confidence among taxpayers. Like UK , Indian should consider review of assessment framed by it on taxpayer.
- Revenue should grant stay in cases of hardship and administrative convenience while insisting on specific percentage of demand to be deposited upfront in other cases.
- Tax Department should disseminate its view on frequently litigated issues through a continuously updated manual.
- Create centralized cell at CBDT for litigation should be created to standardize approach towards controversial tax issues.

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