

Reforms of Tax Administration-an Initiative towards creating tax compliant culture in India

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The reason why Kautilya gave so much importance to public finance and the taxation system in the Arthashastra is not far to seek. According to him, the power of the government depended upon the strength of its treasury. He states – "From the treasury, comes the power of the government, and the Earth whose Ornament is the treasury, is acquired by means of the Treasury and Army".¹ In the developing nation like India, The rapid changes in administration of Direct and Indirect taxes reflect certain policy changes affect not only in the process of Filing tax return but also tax administration. The current legal and administrative set up to deal with tax evasion has proved largely ineffective, turning large amounts of illicit money not being reported or even detected. Lack of effective data mining tools (used by the Tax authority) that can analyze possible cases of non-disclosure or tax evasion, is another factor acting as an impediment to reporting illegal money. For instance, the authority does not have a robust database which contains information from all agencies and departments on monetary transactions and wealth generation² At the one hand Government is trying to increase tax collection on competitive basis and on the other hand Tax authority is lagging in solving problems to taxpayers, unable to catch informal economy, Tax Evasion, Ineffective enforcement strategy, lengthy Tax Dispute Settlement, Lack of accountability in tax administration and professionals etc. In this era of Customer focused market where he has treated as a king of the market, Tax administration should focus on implementing taxpayer friendly policies and provide services in an efficient and transparent manner. Tax administration should be revived in order to catch more taxpayers and thereby increasing tax collection in the treasury of the government. As Kautilya rightly said in ancient ages, the power of the government depends on the treasury and Tax evasion is threatening to the treasury of the government. In addition to concentrate on the various policies for tax implementation, Tax administration reform is also required in order to increase tax collection and motivating voluntary compliance and thereby eradicating tax evasion Practices.

Key Words: Tax Administration Reform, Tax Evasion, Taxpayers services, Informal economy

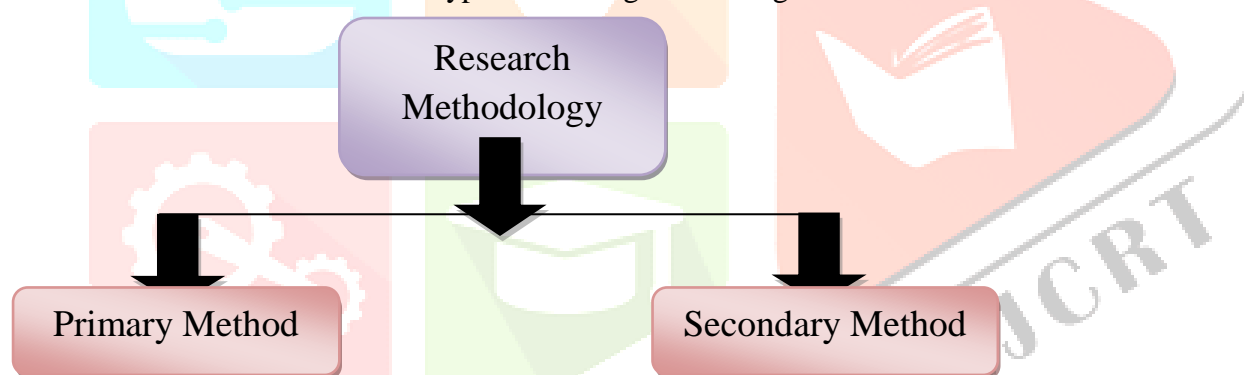
Introduction:

The reason why Kautilya gave so much importance to public finance and the taxation system in the Arthashastra is not far to seek. According to him, the power of the government depended upon the strength of its treasury. He states – "From the treasury, comes the power of the government, and the Earth whose Ornament is the treasury, is acquired by means of the Treasury and Army".¹ In the developing nation like India, The rapid changes in Direct and Indirect taxes reflect certain policy changes not only in the process of Filing tax return but also tax administration. The current legal and administrative set up to deal with tax evasion has proved largely ineffective, turning large amounts of illicit money not being reported or even detected. Lack of effective data mining tools (used by the Tax authority) that can analyze in possible cases of non-disclosure or tax evasion, is another factor acting as an impediment to reporting illegal money. For instance, the authority does

not have a robust database which contains information from all agencies and departments on monetary transactions and wealth generation² At the one hand Government is trying to increase level of tax compliance thereby tax collection on competitive basis and on the other hand Tax authority is lagging in solving problems of taxpayers, unable to catch informal economy, Tax Evasion, Ineffective enforcement strategy, lengthy Tax Dispute Settlement, Ineffective Tax Debt Recovery, Ineffective interpretation of tax Statistics, Lack of accountability in tax administration and professionals etc. In this era of Customer focused market where he has been treated as a king of the market, Tax administration should focus on implementing taxpayer friendly policies and provide services in an efficient and transparent manner. Tax administration should be revived in order to catch more taxpayers and thereby increasing tax collection in the treasury of the government not only by way of enforcement but by voluntarily. As Kautilya rightly said in ancient ages, the power of the government depends on the treasury and Tax evasion is threatening to the treasury of the government. In addition to concentrate on the various policies for tax implementation, Tax administration reform is also required in order to increase tax collection and motivating voluntary compliance and thereby eradicating tax evasion Practices.

Data and Sources of Data

Research methodology comprises defining and redefining the problem, formulating hypothesis or suggesting solution, collecting, organizing and evaluating the data, making deduction and reaching to conclusions and determine whether the formulated hypothesis is right or wrong



Primary Method	Secondary Method
Questionnaires	Schemes, Research Published
Observation	Books/ Magazine, Newspaper
Discussion, Interviews	Internet, web portals & Blogs

The present study is based on the secondary data collected from selected renowned books, publications, magazines, journals and websites after examining the practical reference of the data. In this research, Paper by FICCI (**Federation of Indian Chambers of Commerce and Industry**) and TARC (Tax Administration Reforms Commission) recommendation on improving level of tax compliance and reforms for Tax Administration in India are analyzed. Secondary data will be used to analyze the primary data in the light of real world situation, and some data have been collected from some websites.

3. Theoretical framework:

State of the Indian Economy

The issue of widening of the tax base of the country has been a subject matter which has received considerable attention of the successive Governments over the years. There has been considerable debate on the subject.

The issue of widening the tax base by taxing exempt income like the agricultural income. Indeed, there is a strong case for taxing agricultural income particularly beyond a large threshold limit. This, however, is an issue which involves political hues and affects centre-state relationship. One easy fix here is to recommend the states to tax such income and ensure that this works as a part of the GST compensation regime

3.1 GDP Growth

Of late, several economists and policymakers have drawn attention to India's low share of tax revenues as a proportion of the gross domestic product (GDP) of the Indian economy. The realization, or rather the belief, that India's tax-GDP ratio is low has also spurred frenetic efforts to mobilize ever-greater tax revenues.

The major source of revenue for any Government is 'Tax Revenue'. The Tax Revenue consists of all compulsory payments made to the Government which include Corporation tax, Personal Tax, Goods and Service Tax, Custom Duty, Goods and Service Tax etc. One of the important benchmarks to measure the financial health of any country is Tax to GDP Ratio. At this juncture, it is important to know the meaning of term 'GDP'. It is the market value of all final goods and services produced in the given period by all the people and companies in the country. Tax-to- GDP ratio is a ratio of tax revenue collected by the Government and GDP of the country. This ratio gives policymakers a measure to compare tax receipts from year to year. In most of the cases, as taxes are related to economic activity, the ratio should stay relatively consistent. Essentially, as the GDP grows, tax revenue should grow as well.

Here is the list of Countries with their Tax-To-GDP Ratio³:

United States	26%
Germany	45%
Canada	40%
Japan	36%
United Kingdom	34%
Australia	34%
South Korea	34%
France	48%
China	20%
Russia	20%

Here is the list of Tax-To-GDP Ratio of India for last 12 Years²

(Rs. in Crores)

Year	Tax Revenue	GDP	Tax to GDP Ratio
2017-18 (Estimated)	19,116	162,423	12%
2016-17 (Estimated)	17,032	152,510	11%
2015-16	14,556	136,753	11%
2014-15	12,449	124,337	10%
2013-14	11,387	112,366	10%
2012-13	10,362	99,466	10%
2011-10	8,892	87,360	10%
2010-11	7,931	72,489	11%
2009-10	6,245	61,089	10%
2008-09	6,053	53,036	11%
2007-08	5,931	45,821	13%
2006-07	4,735	39533	12%

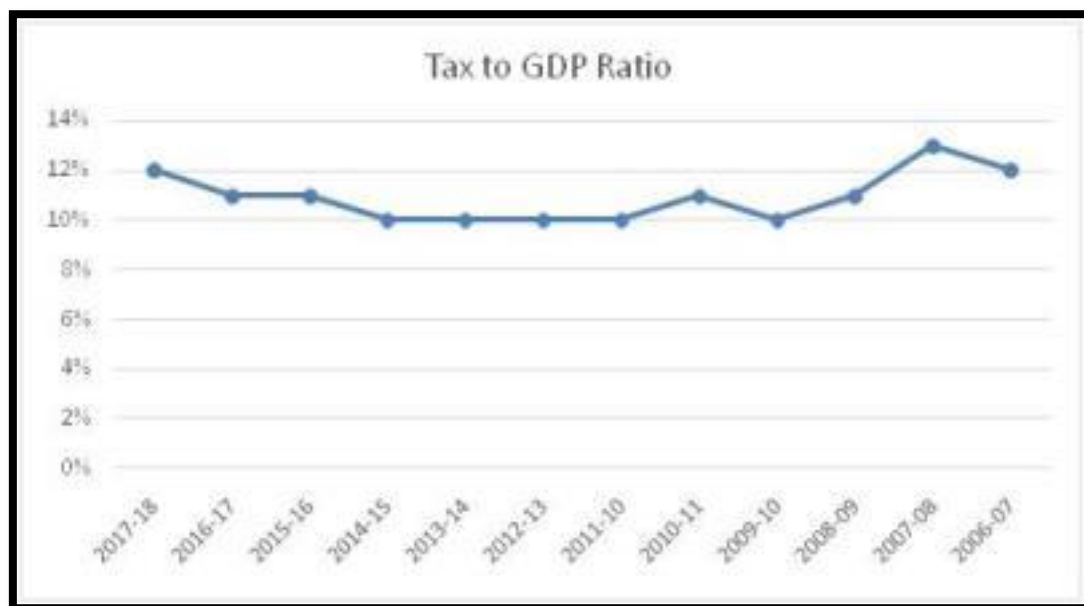
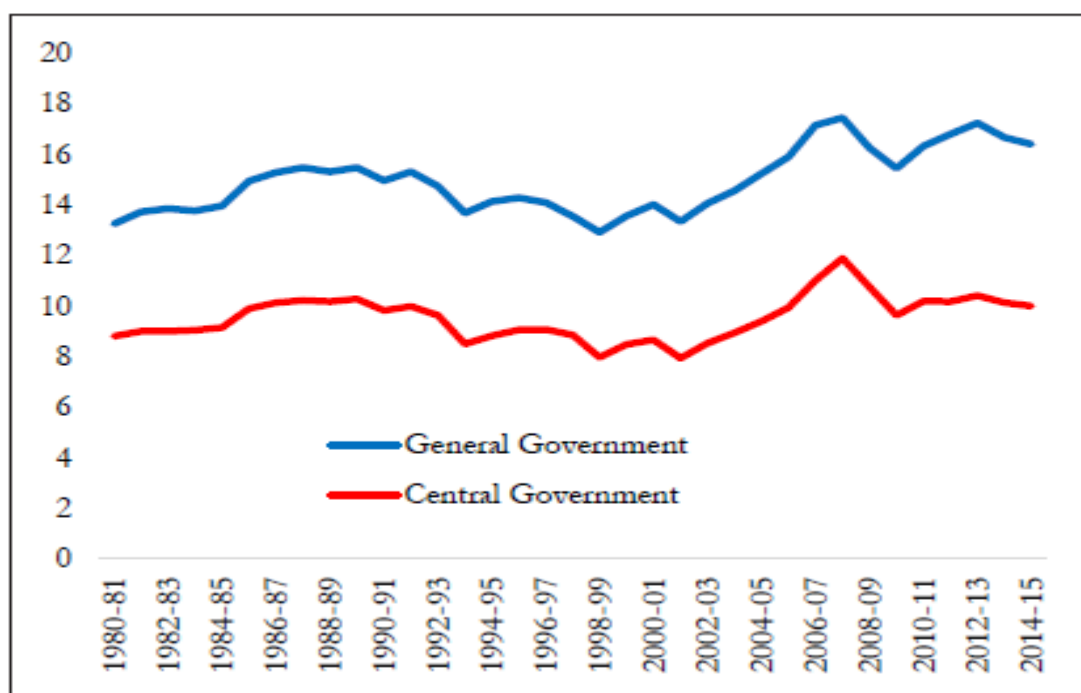


Figure 2. Tax Revenue (in percent of GDP)



In 1950-51, India's tax-GDP Ratio was around 6% only. It rose to around 10% in 2010-11. In last few years, the tax-GDP Ratio has increased substantially but still India is very far from being a full tax-paying democracy. The tax revenue as a percentage of GDP was approx. 11% during the financial years 2016-17 and 2017-18. It's worth note that only 5.5% of earning people in India pay tax while only 15.5% of the Net National Income is reported to the tax authorities. Further, at present, India has 7 taxpayers for every 100 voters ranking us 13th amongst 18 of our democratic G-20 peers. Ideally, this number should be close to 23%. Due to under-tax compliance and narrow tax net, the tax-to-GDP ratio of the country stands at around 12%. This is much below the developed countries for example; the tax-GDP ratio in OECD countries is around 34%. We note here that the highest tax-GDP ratio in the world is of Denmark.

Such low Tax-to-GDP ratio could be attributed to many factors like, general tendency of taxpayers to avoid payment of taxes (Tax Evasion), non-availability of robust IT infrastructure, corruption in Tax departments, vast informal sector, low per capita income, so on and so forth.

The taxes are the major source of revenue to Government of India. Due to lower Tax to GDP ratio, many reforms and initiatives of Government get stuck-up and welfare activities are affected. So this ratio needs to be improved for betterment of Indian Economy.

2 GDP Ratio and Informal Economy

Over the past several decades, the Indian economy is facing a growing challenge with respect to black money generation and accumulation (which is hampering the government's revenue generation from taxation). There are various estimates of black money in India. India's black economy currently could be up to 75 percent of the GDP, as per a confidential report submitted by NIPFP in December 2013, accessed by The Hindu. The United Progressive Alliance (UPA) government had in March 2011 selected National Council for Applied Economic Research (NCEAR), National Institute of Public Finance and Policy (NIPFP) and National Institute of Financial Management (NIFM) to estimate the quantum of black money in the economy. The report is yet to be tabled in the Indian Parliament

In common parlance, black money can be defined as assets or resources that have neither been reported to the public authorities at the time of their generation nor disclosed at any point of time during their possession.

NIPFP in its report of 1985 defined 'black income' as 'the aggregates of incomes which are taxable but not reported to the tax authorities'. Further, black incomes or unaccounted incomes are 'the extent to which estimates of national income and output are biased downwards because of deliberate, false reporting of incomes, output and transactions for reasons of tax evasion, flouting of other economic controls and relative motives'.

Further the white paper on 'black money' published by the Ministry of Finance states that in addition to wealth earned through illegal means, the term black money would also include legal income that is concealed from public authorities:-

- ☐ to evade payment of taxes (income tax, excise duty, sales tax, stamp duty etc);
- ☐ to evade payment of other statutory contributions;
- ☐ to evade compliance with the provisions of industrial laws such as the Industrial Dispute Act 1947, Minimum Wages Act 1948, Payment of Bonus Act 1936, Factories Act 1948, and Contract Labour (Regulation and Abolition) Act 1970; and / or
- ☐ to evade compliance with other laws and administrative procedures.

A Business Standard report in January, 2013 estimated it at 30 percent of GDP, or INR 28 lakh crore. A report by NIPFP in December 2012, estimated black money at above INR 10 lakh crore or 10 percent of the GDP. An earlier report by NIPFP in 1984 had estimated black money generated in the country to 19 percent to 21 percent of GDP or INR 36,000 crore.

Year	Estimates for Black Money (INR Crore)	Percent of GDP
1975	9,958 to 11,870	15 to 18
1980	20,362 to 23,678	18 to 21

1983	31,584 to 36,784	19 to 21
2012	>10,00,000	10

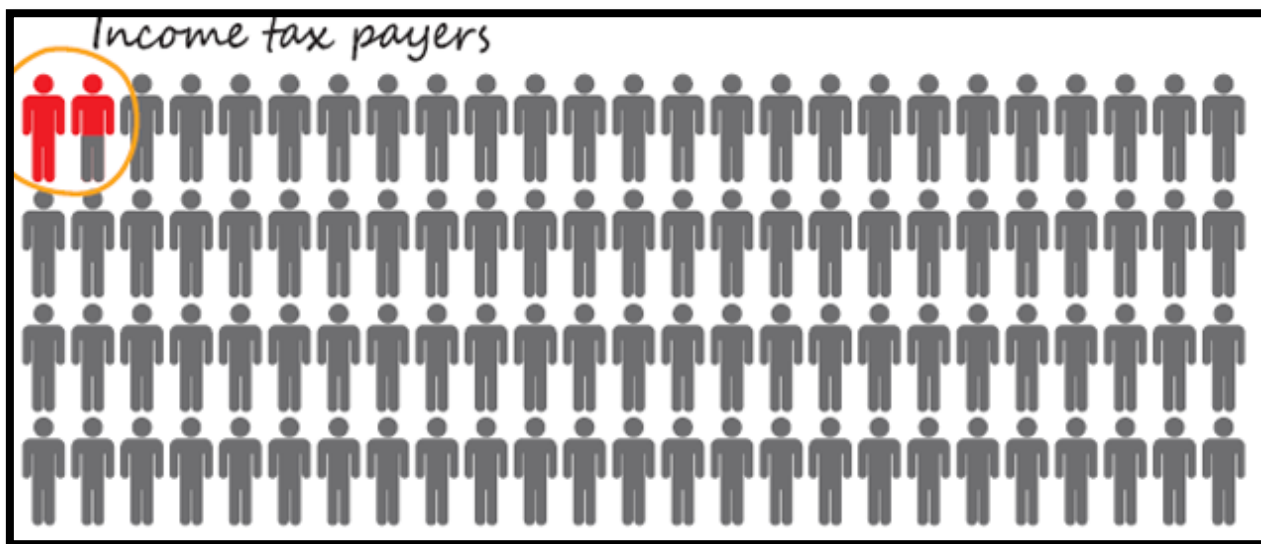
Source: NIPFP estimate

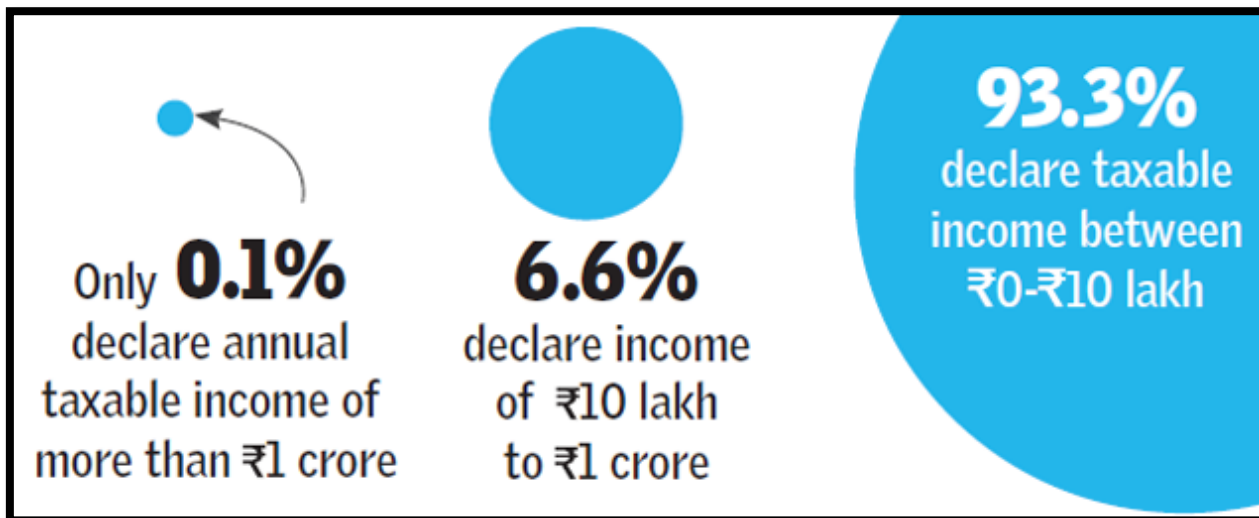
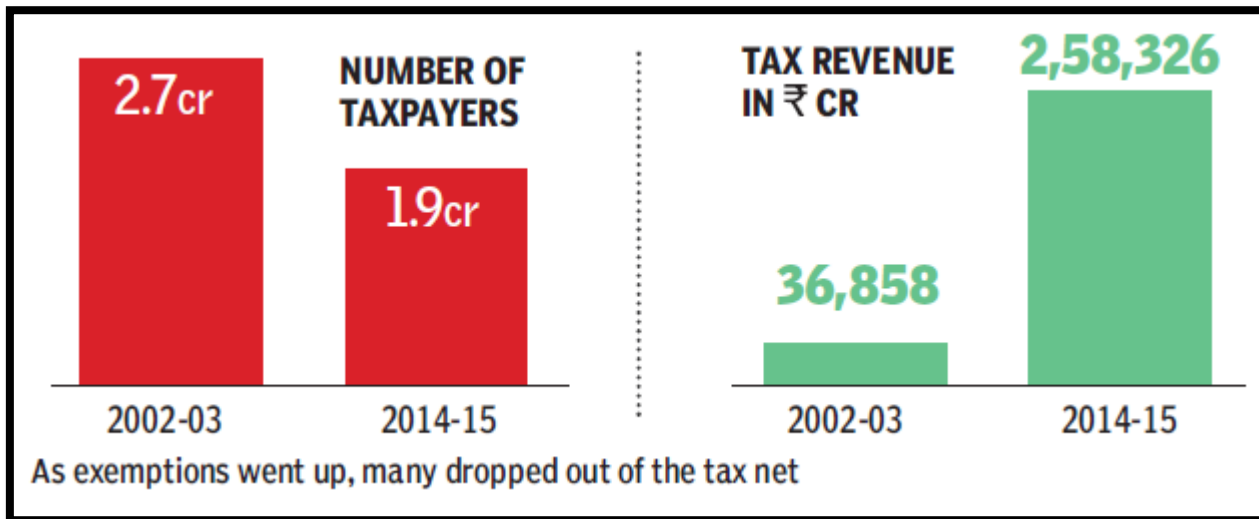
3.3 Taxpayers Base in India

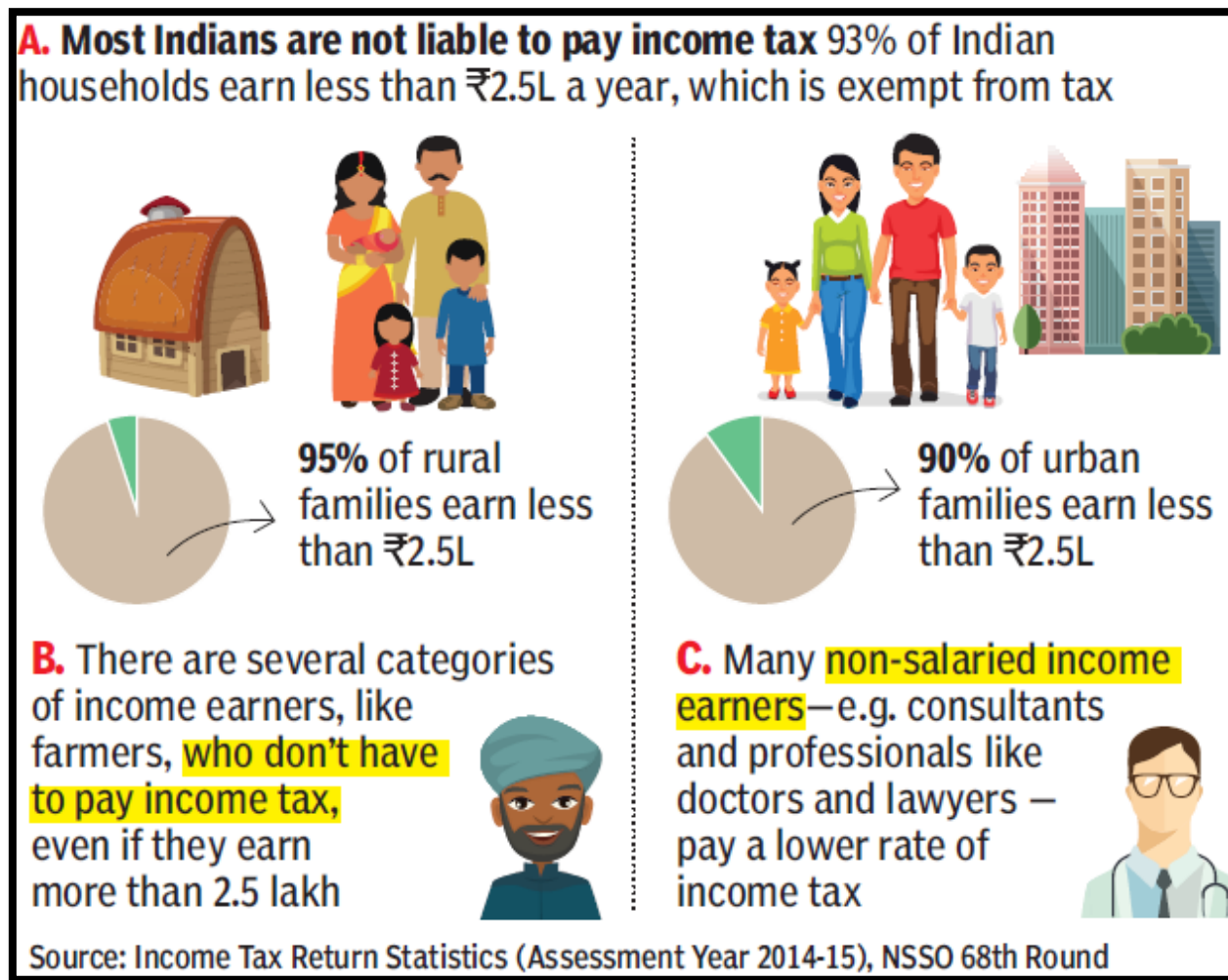
The number of income-tax payers in India has historically been low. According to the Ministry of Finance, the number of taxpayers account for ~2.9 percent of the total population, which equates to ~ 35 million taxpayers, out of which only about 0.1 percent i.e., 42,800 persons admit to having a taxable income exceeding INR 1 crore.

An estimated 90 percent of India's individual taxpayers fall in the category of people earning taxable income of up to INR 5 lakh a year; however, this category accounts for only 10 percent of the total income-tax collected by the revenue department. In contrast, less than 2 percent of taxpayers fall in the category of individuals earning taxable income of above INR 20 lakh, but account for over 63 percent of actual tax collected in a year. The number of multi-millionaires in India (those with net assets of at least INR 60 crore) increased from 13,700 in 2013 to 14,800 in 2014, a rise of ~8 percent, while the number of millionaires (with net assets of at least INR 6 crore) increased by ~6 percent in this period, reaching 226,800 in 2014 from 214,000 in 2013. This brings out an interesting observation that a country with 226,800 millionaires (with net assets of over INR 6 crore) has less than 50,000 taxpayers earning taxable income of over INR 1 crore.

All of the above statistics indicate that tax evasion is widespread in the economy and hence it becomes necessary for the government to increase the number of high-end taxpayers.







Finance Minister Arun Jaitley, while addressing the annual meeting of CII in Delhi on April 28, observed that some tough steps are necessary to make India a tax-compliant society. Earlier, in his Budget speech, Jaitley had presented some startling facts. He mentioned that of the 4.2 crore persons employed in the organised sector, only 1.7 crore filed returns. Similarly, of the 5.6 crore individual enterprises and firms operating in the informal sector, only 1.8 crore filed their returns. Finally, out of 13.9 lakh companies registered in India, only 6 lakh companies filed their returns; of which 36,448 showed profits above Rs.1 crore.

This statistics defies logic in a country which boasts of luxury villas, expensive cars, rising gold imports, a booming stock market, significant rise in international travelers, and ever-increasing high net worth individuals.

The Finance Minister is correct in pushing for higher tax-to-GDP ratio. However, given that 30 per cent of population is poor, 28 per cent is illiterate, 8 per cent is above 60 years of age, and nearly two third of the population is dependent on tax-free agriculture income, direct tax collection is expected to be rather benign.

3.4 Need for expansion of tax base

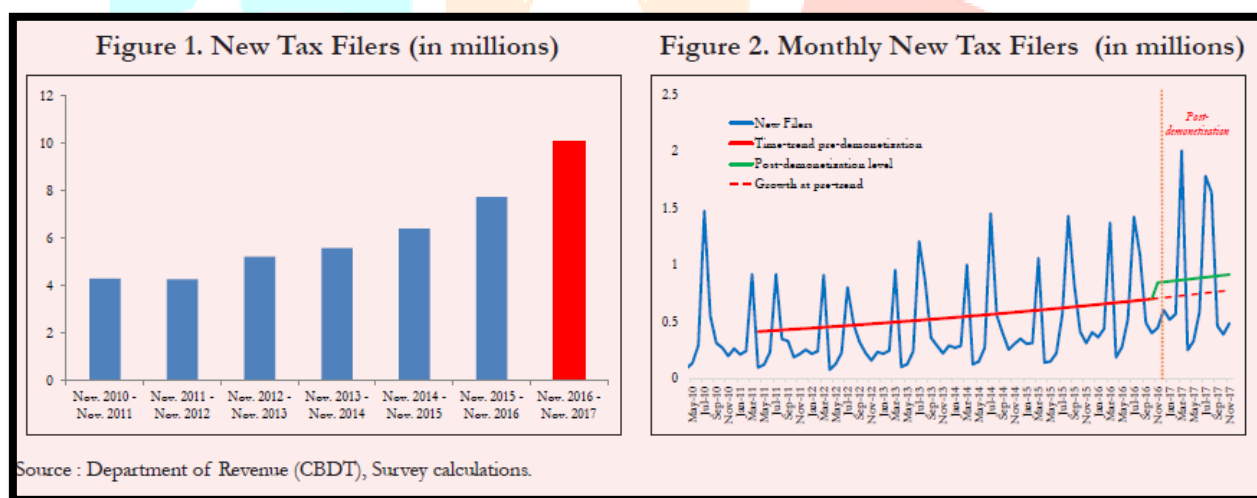
Ensuring higher tax compliance has been, and continues to be, one of the key objectives of the tax administrations, and to achieve that they usually employ detailed enforcement mechanisms. But of late, there is a change in that emphasis. Modern tax administrations are beginning to recognize the importance of self-

assessment and voluntary compliance, and tax enforcement are beginning to be based on risk identification and its management. Two reasons for that – one, it is impossible for any revenue administration to control and check every single taxpayer and second, it is wasteful to routinely examine low-risk, compliant taxpayers. All these are part of a holistic and co-operative approach to enhance taxpayers' compliance by addressing compliance risks in a structured manner as part of multi-year strategic planning

The present tax payer base in the country is minuscule and expansion of this base is critical for several reasons. Firstly, a wider tax base is imperative for the government to achieve fiscal consolidation and a higher tax-GDP ratio. Secondly, in view of the continuing shortfall in tax collections compared with budget estimates and to meet the target of 17.7 percent growth in tax collections in FY15, it is necessary for the government to take steps in broadening its tax base.

One of the aims of demonetization and the Goods and Services Tax (GST) was to increase the formalization of the economy and bring more Indians into the income tax net, which includes only about 59.3 million individual taxpayers (filers and those whose tax is deducted at source in 2015-16), equivalent to 24.7 percent of the estimated non-agricultural workforce. Has this happened and to what extent?

At first blush, there does seem to have been a substantial increase in the number of new taxpayers. Figure 1 compares the total number of new taxpayers in the 13 months since demonetization (November 2016 – November 2017) with previous 13-month time windows. After November 2016, 10.1 million filers were added compared with an average of 6.2 million in the preceding six years.



A rigorous assessment of the impact of demonetization, however, must account for the pre-existing trend growth in new tax filers. To address this, a regression analysis is undertaken. The result is depicted in Figure 2. Taking seasonality into account it is found that there is a 0.8 percent monthly trend increase in new tax filers (annual growth of ~10 percent). The level of tax filers by November 2017 was 31 percent greater than what this trend would suggest, a statistically significant difference.¹ This translates roughly into about 1.8 million additional tax payers due to demonetization-cum-GST, representing 3 percent of existing taxpayers.

Further analysis suggests that new filers reported an average income, in many cases, close to the income tax threshold of Rs. 2.5 lakhs, limiting the early revenue impact. As income growth over time pushes many of the new tax filers over the threshold, the revenue dividends should increase robustly

Thirdly, expansion of the tax payer base will enable the government to undertake planned investments in infrastructure and other areas that are important for growth and development of the country. Lastly, to lower the burden on existing tax payers, the government needs to find avenues to bring in more individuals and their unreported income under the ambit of taxation.

To enhance the tax base and augment tax collection, it is pivotal for the government to focus on non-filers and uncover black money in the economy. The Income-Tax (IT) department should implement stronger mechanisms to identify persons who resorted to tax evasion and bring them under the tax net.

The existing government is focusing on unearthing black money within the country and that parked abroad and has announced the formation of a Special Investigation Team (SIT) for this. The Tax department plans to widen the tax base by identifying non-filers, using annual information returns, capturing new information sources such as under-reporting of immovable property, etc. It also plans to track advance tax payments by top taxpayers, Tax Deducted at Source (TDS) payments by top deductors and monitor payments by entities covered under minimum alternate tax provisions.

3.5 Tax Administration Reforms

In enhancing taxpayers' level of voluntary compliance, three factors play a very important role – **certainty** about the tax to be paid (it relates to the ability to determine without any ambiguity, the tax payable on any transaction since ambiguity adds to the cost of compliance), the **convenience** to pay it (the means and methods using which the taxpayer can pay his share of tax to the government with minimum compliance cost), and the **attitude** of the tax administration which drives both of these (helpful, unobtrusive and non-adversarial). It is therefore an important responsibility of every country's revenue body to provide relevant and easily understandable information to the taxpayers which would help facilitate paying of taxes, filing of returns and other activities by the taxpayers. As a corollary to this, improving information service delivery also becomes critical to boost the said voluntary compliance.

In this digital era information service delivery, revenue bodies have realized that each category or group of taxpayers act or respond differently to their immediate tax environment as well as to the information that is provided by the revenue bodies. There is a need to carry out 'taxpayer segmentation' so that the diverse categories of taxpayers can be catered to accordingly.

Pursuant to Tax Administration reforms committee suggestions integration of Data mining between different IT Departments and other Government Authorities to identify the leakages of tax will be helpful to Tax Authority.

Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC) have been early adopters of ICT (Information and Communication Technology), even among Government Departments. The systems implemented so far have helped tax payers in filing their Income tax (IT) returns and documents for Customs Clearance, TDS information and in payment of taxes and duties. Departments have used the systems as a risk management tool to pick up returns (in the case of IT) and consignments (in the case of Customs) for scrutiny. These systems have been of great assistance to tax payers, as they could file all returns electronically. Recognizing the value of data available in electronic form, both CBDT and CBEC have initiated Data Warehousing and Business Intelligence projects, which would help them to detect patterns and in plugging leakages.

The current systems have been developed as standalone systems, with very limited integration. Efficient organizations run on the basis of extensive digitization of processes leading to streamlined operations, and in having effective checks and controls to improve the quality of data. Beyond streamlining of operations, computerization by data analytics leads to improved compliance and rigorous forecasting. Technology is rapidly advancing. Concepts such as "Internet of Things" can be effectively utilized by the Customs for real life tracking of movement of goods across the supply chain and facilitate improved clearance at ports. Through systems enhancement, rapid introduction of emerging technology and through better project management techniques, the report of TARC has recommended embedding ICT at the strategic core for harnessing its transformative potential.

There is very little scope for data and information exchange in the current organization structure, where Direct Tax and Indirect Tax departments operate as independent entities. This has resulted in limited utilization of computerization benefits by the departments. The power of integrated system was demonstrated by the GST pilot developed by CBEC. In this pilot, data from the CBEC and CBDT systems were combined with data from Maharashtra VAT System. The Commissioner of Commercial Taxes, Maharashtra reported that he was able to recover INR 5 Billion of VAT from traders who had evaded it. Data Exchange across functions and departments will require development of common framework for exchange and common standards and taxonomy. Data exchange will not be restricted to the two departments. There should be capability to access data from different ministries as well as from external sources. The TARC report has gone into details regarding security, privacy, audit and accountability. TARC has recommended transitioning from two Boards — CBDT and CBEC— to a combined entity called Central Board of Direct and Indirect Taxes over a five-year period. Currently, Large Taxpayer Units (LTU) have not exhibited any signs of working in an integrated fashion by the two departments. When the structure itself is changed at the top, it will pave way for improved integration below, enabling the efficient functioning of large business service (LBS). Data and Information Exchange will play a major part in making the new structure work efficiently. TARC report has also recommended the creation of Knowledge, Analysis and Intelligence Centre to provide advanced analytical capabilities so that the data of availability is effectively leveraged. Structure has to facilitate effective ICT usage.

Tax payer segmentation is a critical necessity to ensure that the resources of the tax department are optimally used. The segmentation will lead to four categories — Compliant, Triers, Fence Sitters and Offenders. Systems have to be used to educate tax payers and this will pave the way for Triers and Fence Sitters to move toward the compliant category, leaving the tax department to deal effectively with Offenders. Predictive Analysis, at the time of framing tax laws, by using data mining and other analytical tools, will go a long way in recognizing risks earlier and putting in place an improved tax environment. It has been suggested that tax administration to move from a reactive approach to non-compliance, including frauds, to a proactive approach that deters and prevents frauds. Therefore, IT systems will need to go beyond data processing to provide not only these data mining and analytical facilities, but also to provide user-friendly web sites, which provide answers to questions of the tax payer.

Arbitrary revenue targets set by the Ministry and boards lead to irrational assessments, leading to unsupportable, and ultimately, unsuccessful, tax demands. Plugging of leakages through better information will lead to increased tax revenue, as was illustrated by the experience in Maharashtra, cited earlier. In addition to these defensive strategies, there is need to use the macroeconomic information gathered in the database to forecast revenue more accurately. The use of advanced analytical techniques using ICT will help in this process.

In order to achieve the full benefits of ICT, the departments should adopt a motto “Digital by Default”. There are several steps that need to be taken to transition to advanced state of ICT usage, benefitting both the tax payer and the department. Development of plans for a fully digitized environment leading to enunciation of IT architecture principles need to be attempted immediately. This will lead to the creation of plan for procuring and installing an appropriate ICT infrastructure. Project management and maintenance capabilities will have to be of a high order. Taking these into account, TARC report has suggested creation of a special purpose vehicle (SPV), which will enable the department to bring in specialists from outside for a period of time.

ICT needs to be at the core of a transformed tax governance system. Current piecemeal efforts will have to give way to a more rigorous approach

3.6 Tax Dispute Resolution

A lot has changed since India began embracing economic liberalization more than two decades ago. Successive governments have rolled out measures to improve India’s attractiveness as preferred investment destination.

Over these years India's fiscal statutes have undergone comprehensive reforms too, although the pace of reforms has been rather tardy and often trailed in keeping up with rapidly emerging business landscape. Effective tax administration and efficient dispute resolution are two elements at the core of ease of doing business in any jurisdiction. Ease of tax compliance features prominently in the list of relevant parameters for determining global 'ease of doing business' rankings published by the World Bank. The latest World Bank report (of 2015) puts India at 130 place, twelve notches higher than the previous rating (142 place); albeit, we as a country continue to fare poorly on certain key indices including ease of tax compliance and dispute resolution. The process of tax compliance in India has been historically cumbersome. At last count, there are 33 tax payments that a business is required to comply with, and it takes close to 250 hours a year towards ensuring mere compliance. Onerous tax litigation procedure and frivolous tax demands in some cases add to taxpayers' plight. A majority of reasons can be ascribed to the present state of tax administration and disappointing pace of dispute resolution across different forums

3.7 Tax Debt Recovery:

Recovery of taxes is one of the most important functions of tax administrations, to a large extent the *sine qua non* for efficiency and efficacy of the tax administration. The aim of tax administration is to attain high rates of voluntary on-time payment and low incidence of tax arrears. Achieving this requires a high level of on-time filing to establish amounts owed and quick follow-up when payment is overdue. An effective arrears management system would identify and report all tax dues, provide a consolidated picture of the taxpayer's total tax arrears, prioritize arrears cases based on risk criteria (e.g., size of arrears, age of arrears, number of taxes involved, taxpayer's payment history), and apply taxpayer's profiling analytics which would predict the most effective action to achieve payment of the debt based on known circumstances and behavior. The desired outcome is likely to be achieved when the collection system reduces the incidence of unpaid taxes, reduce the size of the tax administration's total tax arrears inventory relative to annual core tax collections, and also reduce the extent of old core tax arrears (a high percentage may indicate poor debt collection practices and performance). Tax administrators need to make tax payment part of the normal system of doing business and as close to the event creating the liability as possible, in order to eliminate or reduce the risk of non- or late-payment.

Indian direct tax administration has not shown a particularly healthy trend on recovery of taxes, despite registering impressive year-on-year growth in overall collection of the taxes over the last decade, and this should be a cause for concern for the Central Board of Direct Taxes (CBDT). Relevant data shows that the tax department is increasing the tax debt stock year-after-year: percentage of actual tax collections to the tax debt stock (total pending demand) has gone down from FY 2009-10 to 2013-14. This is not a sign of a modernizing tax administration and more importantly, it puts undue pressure on fiscal deficit. No government can afford to bring new tax instruments to augment its tax revenue, and not collect the tax debt on time. It defeats the basic principle of public finance principle. Such a lackadaisical approach calls for a paradigm shift in the tax debt management. The Tax Administration Reforms Commission (TARC) report also suggested a change in the tax collection approach and recommended that the present approach to tax collections of identifying debts should be changed to an approach based on identifying debtors and understanding their behaviour. To do that, the TARC also recommended that there should be a separate vertical focusing only on tax collections.

Lengthy and tortuous legal process for recovery spread over many years and thereby making the recovery process ineffectual, archaic assessment process which emphasizes revenue-oriented or cautious approach rather than a judicious and matter-off act approach, inaccurate database making recovery without proper risk assessment and finally, inadequate staff allocation for recovery – even the Public Accounts Committee (2013-14) in its 87th report on tax administration pointed out that the “*Tax Recovery Wing in the Department has been functioning with depleted staff strength*”.

It has also been pointed out in the chapter that many advanced and fast modernizing tax administrations have of late been developing strategies and approaches to improve the tax collection and recovery processes, resulting in some spectacular improvements in performance in tax collection and recovery. These tax administrations are accurately targeting tax debtors using advanced analytics and other information so that there is right intervention at the right time, ranging from soft measures designed to prevent taxpayers from falling into debt in the first place through to tough enforcement measures and thereby eliminating ineffective interventions and improving revenue flow. Studying debtor behavior is another important aspect of improving tax collection, ensuring that the tax administration is responsive to changes and often, ahead of the debtor to accomplish the task at hand, i.e., collecting the taxes. This shift in tax compliance strategy is towards prevention through different approaches.

While all these steps are towards making a paradigm shift that many advanced and fast modernizing tax administrations have of late been developing strategies and approaches to improve the tax collection and recovery processes, resulting in some spectacular improvements in performance in tax collection and recovery. These tax administrations are accurately targeting tax debtors using advanced analytics and other information so that there is right intervention at the right time, ranging from soft measures designed to prevent taxpayers from falling into debt in the first place through to tough enforcement measures and thereby eliminating ineffective interventions and improving revenue flow. Studying debtor behaviour is another important aspect of improving tax collection, ensuring that the tax administration is responsive to changes and often, ahead of the debtor to accomplish the task at hand, i.e., collecting the taxes. This shift in tax compliance strategy is towards prevention through different approaches. While all these steps are towards making a paradigm shift in the approach and focus on tax recovery, what is important worth emphasizing is that the government needs to take its first step, with a willingness to tackle the problem in right spirit, backed by right action, based on a well-considered debt management strategy, aimed at increasing the likelihood of debt recovery, improving the speed of collection and reducing the cost of recovery. Without such approach, we will witness accretion of tax debt stock, and a lackadaisical tax administration which will further dither into an abyss with point of almost no return.

3.8 TAX DATA ANALYSIS

Importance of data has been discussed in various domains. It is acknowledged as the foremost step before formulating any model, theory, policy and legislation. The importance of data and fundamental role of research and analysis for tax administration and policy in India. This is a cross country study where data used by various tax administrations, research and analysis carried out by them and the various statistics brought out by them are presented. The purpose of tax data analysis is to highlight the usefulness of data and research in tax administration by showcasing their extensive and widespread presence in some of the successful tax administrations around the world.

'problems of lack of proper utilization of data' shows that there are mechanisms to collect information/data and that such data is being collected by way of various tax and information returns. But the data is not yet compiled and maintained in the desirable manner which acts as an information constraint for various actions. Indian tax administration can learn from the practices of various tax administrations the importance of initiating such a practice to maintain a comprehensive database. This would help in generating statistics and trends and help in policy action How to increase tax collection? In the US, tax compliance is high and ascribed to strong deterrent effect of selective, intensive audits. But punishment leads to resentment, hostility, avoidance and minimum compliance and, therefore, should be avoided. In sharp contrast, rewards could be more effective in motivating people to pay tax dues. To improve the said ratio, Govt. should take immediate steps to widen the tax base and to plug in the revenue leakages. For this purpose, a robust compliance platform, free from all technical glitches and simplified formalities and some necessary reforms in Tax Administration will play a vital role that will turn in to tax compliant culture in the country

Global best practices

The reward system could vary in different economies and situations. Some of the rewards suggested are special schemes like faster access to special phone lines with shorter wait; or reduced public transportation fares; free admission to museums and cultural events. Also suggested are measures like providing tax-compliance certificates to firms to help them build an image; and making tax certificates mandatory to renew certain licenses.

Japan, for instance, offers to have your picture taken with the Emperor if you were found to be honest. The Philippines puts your name in a lottery if you were found to be compliant with VAT. South Korea considers allowance to airport VIP rooms, and free parking in public parking facilities. In Finland, targeted tax incentives have been used to significantly influence taxpayer behaviour through tax credits which can be used for different purposes, including nursing homes.

In India, good financial behaviour needs to be celebrated publicly. Illustratively, in every commissionairates of direct and indirect taxes, a public reward ceremony could be conducted. Honest tax payers can have a privilege of a picture with Governor of the state or even the President of India. Other incentives could include special privilege in government-operated hotels, hospitals, and airlines; preference in awarding government contract; bonus points for children in admission to government institutions; etc.

Air of mistrust (Role of Tax Authority)

There is also a need to create trust and cooperation between citizens, corporate/business sector and the Government. At present the general perception is mutual suspicion among all three. The Government and citizens suspect that corporate business is dishonest and accumulating profits at their cost. The private sector and citizens suspect that the Government does not use their tax collection for general welfare of the society and taxes are wasted.

In fact, in advanced countries, high tax collection and excellent public services reinforce each other. Poor public infrastructure cannot compel high tax compliance. Finally, the Government and private business believe that citizens are illiterate and, therefore, can be ignored. This fear of each other has only been increasing over years despite the change in political regime.

The recent episode of demonetisation has, in fact, resulted in clear demarcation of the rich versus the poor. The class war, may divide, is not very useful for creating mutual respect for different economic actors in the country, because each one is essential for an efficient economy.

There is still another fear, mainly among small businesses, that in the absence of social security, in times of financial stress, there is no insurance cover. The businesses, especially in informal sector, have to be self-dependent and, hence, they save on taxes. To address this insecurity, the Government could consider, on lines of agricultural/crop insurance, instituting an insurance scheme for business tax payers especially those from informal sector which would provide financial support in times of distress.

There is also a need to investigate other factors that strengthen tax compliance. According to global research, women are considered more tax compliant than men; but unfortunately, not in India. Logically, it can be

deduced that in a country where females are not secure at work places compulsion of tax compliance would generally be weak.

Need conducive administration

To improve tax collection there is need to create a conducive tax administration. This would imply a) incentivising tax collection and tax intelligence agencies, probably with higher allowances and compensation; b) electronic surveillance through technology upgradation; c) quick settlement of disputed cases; and d) ensuring equity, certainty, convenience and simplicity in taxation.

To support creating conducive tax administration there is a need to introduce academic courses on ethics and business practices for business graduates, chartered accountants, company secretaries, auditors and legal experts.

It is difficult to have an oasis of honest financial behaviour in the midst of general atmosphere of dishonesty in non-financial matters. Higher tax collections are beneficial for the society, and therefore, different agencies of the society such as the entertainment industry, social media, community leaders and non-government agencies should together contribute to strengthening ethical behaviour in the society — tax compliance simply reflects general social norms

4. Results and Discussion:

- A big chunk of the eligible taxpayers in India don't even file their ITRs out of ignorance & As a society and at individual levels, we need to evolve our mindset to refuse to accept tax evasion as a normal practice.
- Many people are discouraged by the complex tax laws & tax administration in India that is difficult and costly to comply with. Reducing the number of conditions attached to a deduction/exemption, standardising the varying rates & thresholds for TDS/TCS, reducing the amount of interface with the tax officials are some ways. The taxmen need to approach the taxpayers with a soft and sober
- Cash is the biggest facilitator of black money and shadow economy. Promoting electronic payments is the right thing. However, the government can make digital payments (UPI, debit/credit card, e-wallet, cheques) mandatory for payment of wages & salaries for some sectors and in case of payment of statutory dues like property taxes, stamp duty, utility bills etc.
- For cases where both parties are committed to using cash to benefit from evasion of taxes, the government made cash transactions above Rs.2 lakhs illegal in the Finance Act 2017. The next step is providing lucrative tax incentives to both merchants and consumers to ensure voluntary reporting.
- There is a debate on whether to tax agricultural income beyond a very large threshold limit. In my opinion, it is necessary to bring rich farmers under the tax net.
- The scope of TDS, TCS and presumptive income needs to be expanded to include more goods & services as these allow the transactions to be reported into the system and reduce revenue leakages.
- Inter-agency coordination, cross-seeding of PAN, CIN, GSTIN etc, will help in analysing the information furnished to various departments. For example, where a businessman claims exemption from charging GST based on turnover below threshold limit, the same may be compared with the financial figures furnished by him in his income tax return. The turnover based on GST paid by a taxpayers can be compared with the revenue from operations as disclosed in its financial statements. This will help in identifying apparent non-compliances for further scrutiny.

- Most importantly, there is a strong need to develop a robust IT/ data analytics infrastructure. Learning from America's IRS, India's revenue authorities need to use information technology to track consumption & investment patterns and link production with consumption.
 - Tax Administration should emphasis on managing Voluntary tax Compliance, Self Assessment, Developing a more consultative and collaborative relationship with taxpayers
 - Ensuring higher tax compliance has been and continues to be , one of the key objectives of the tax administration.
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- The tax administration emphasis on quality of e – services, disposal of complaints , establishment of service delivery standards
 - Tax Administration conducts Taxpayers satisfaction/perception survey like other developed countries.
 - Dedicated and willing knowledgeable staff for dissemination of information to taxpayers is stressed on and Segmentation of Skilled resources in tax department is required
 - Tax officers belong to Commerce and finance background and training to them to detect fraudulent transactions of tax avoiders and tax evasion. A regular and intensive training is imperative for a tax officer to be abreast with such changes and their implications Continuous benchmarking of tax administration is required.
 - Tax Administration should focus on Tax Dispute Resolution and Tax Debt recovery thoroughly and seriously to wide tax net in the country in addition to other measures as suggested above.

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