

Tax Reforms and the Intention of the Government

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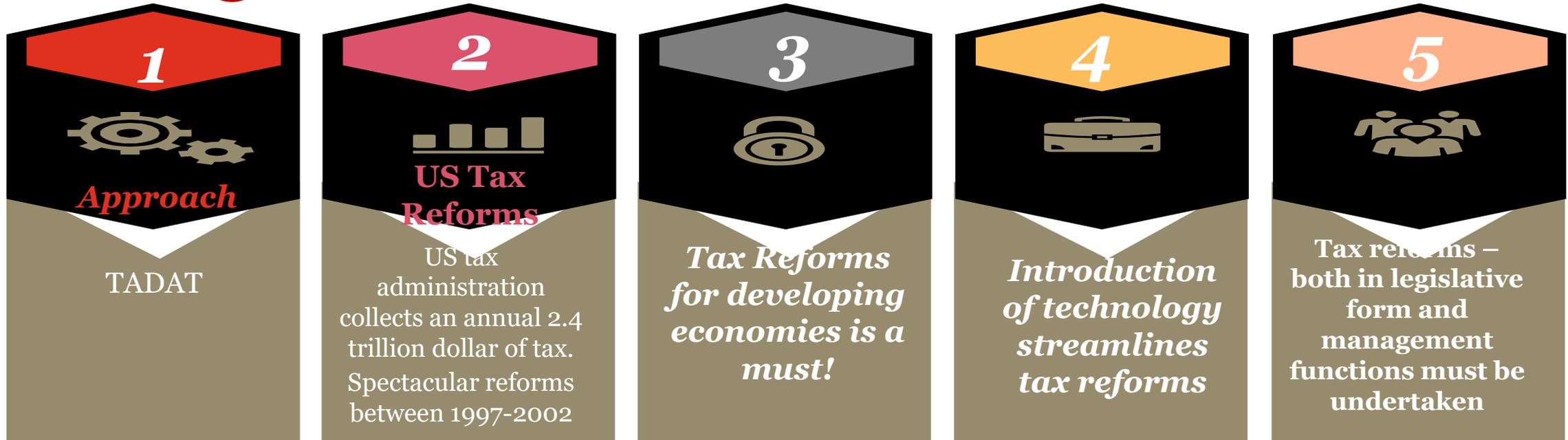


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Background

Key Highlights

-  Every developed and developing economy embarks on tax reforms to smoothen its business activities
-  The IMF and World Bank developed comprehensive module to study strengths and weaknesses of tax administration-TADAT
-  The module is called TADAT
-  More than 70 countries have availed themselves of the benefit of TADAT



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Indian Tax Systems

- 1. Indirect Tax
Reforms**
- 2. Direct Tax
Reforms**

Indirect Tax Systems- Goods and Service Tax(“GST”)

Following are the salient features of GST

Tax Rates

- There are four rates for goods and services
- 5%, 12%, 18% and 28%
- Few exemptions (1-3%) given to some high value goods



GST Council

- GST Council has the power to rationalize and change rules.
- During the last three years-it has issued 760 notifications and 380 circulars.



Distribution of cases between state and central government

- Out of the total number of taxpayers below Rs 1.5 Crore turnover, all admin control over 90% taxpayers-is with state tax administration and the rest with Central government



GST Compliances

- 14 different forms for filing returns
- Monthly and quarterly returns are filed based on certain criterion. information from listed companies &FCs/ OCs of companies



Following tax reforms required

- Clear demarcation of roles between state and central government officials
- Redeployment of surplus manpower
- Cost of tax collection needs to be addressed



Direct Tax Reforms

Key Reforms

- Reforms initiated way back in 1995- computerization of departmental activities launched.
- Allotment of unique number to tax payers- PAN
- Almost all activities in the department computerized- assessment, scrutiny, enforcement, matching of data.
- Recently- faceless assessment has been introduced.

Key Roadblocks

- Multiple tax amendments vide circulars, legislative changes-lead to complex compliance
- Lurking fear in the minds of taxpayers
- Frivolous notices being sent to taxpayers.
- Procedures laid down for reopening of completed assessments are largely not followed.
- Appeal procedures- long and tedious-Time limit to resolve appeals before CIT (Appeal) must be given.
- Taxpayers need to deposit 20% of the demand raised before appeal is filed- causes financial burden.
- Frivolous demands raised and takes years to get resolved.
- Dispute Resolution Process (“DRP”) is not successful.

Few Suggestions to overcome roadblocks

CIT (Appeal) should be administratively strengthened- officers with high integrity and reputation required

Income Tax Officer (“ITO”)- Should be given full strength of staff to function efficiently

Do away with deposit of 20% demand before filing appeal

CIT (Appeal)-should be aptly given staff so that he may take care of appeals and sundry work may be taken care of by ITO.



Direct Tax Reforms

Key Human Resource Reforms Required

- **Cost of collection of taxes**
 1. **Developed economies-1 to 1.5%**
 2. **Developing Economies-1.5% to 2%**
 3. **In India- 0.6%**
- **Stranglehold of bureaucracy- does not allow increase in such costs**
- **Officers are dependent on clandestine support of taxpayers and tax representatives in order to perform certain statutory functions in limited time**
- **Lack of infrastructure support to host visitors and staffs**
- **Most infrastructure proposals get rejected on frivolous grounds.**
- **Despite hierarchy – no accountability**

Direct Tax Reforms

Key Human Resource Reforms Required

- **Powers of Central Board of Direct Taxes (“CBDT”) has been largely curtailed and vested in junior officers.**
- **Purchase of a particular building to augment accommodation of office space by hon’ble Finance Minister was dragged for almost two years-causing substantial delay.**
- **Creation of Human Resource Directorate was possible only when Hon’ble Finance Minister brushed aside all objections.**
- **Communication system was proposed to be revolutionized- it met several objections and finally the proposal sailed through with the intervention of revenue secretary and secretary expenditure.**
- **Cadre Restructuring was also opposed at the highest level- It sailed through with the intention of Hon’ble Finance Minister.**
- **Objections raised wrt Staff Welfare Fund**
- **Officers of Tax administration have minimal representations in most of the committees-like Standing Finance Committees and Non-Plan Expenditure Committee.**

Thank you