



VISION 2020

STRATEGIC PLAN 2010–15



INCOME TAX DEPARTMENT
GOVERNMENT OF INDIA

DRAFT FOR DISCUSSION

EXECUTIVE SUMMARY

Increasing importance of direct tax in overall fiscal management of the government and its contribution to the nation's development is now well recognized. As per the vision statement contained in the Vision 2020 document, ITD aspires to be a partner in the nation building process by augmenting its **"revenue mobilization apparatus"** for optimization of revenue collection, ensuring compliance with the tax laws. This optimization is sought to be achieved through progressive tax policy, efficient & effective administration and improved voluntary compliance.

While the Direct Tax Code bill is being in the Parliament, the Income Tax Department (ITD) is preparing itself simultaneously to carry out administrative reforms for effective implementation of the tax policy.

It is through improved voluntary compliance, ITD aims to optimize its resource mobilization efforts. However, to ensure full compliance, ITD would make use of targeted enforcement as well. Hence, ITD intends following a strategy of **"Walking on two legs"**, balancing excellence in service delivery with targeted non-intrusive enforcement.

Vision 2020 aims to provide a framework for sound tax administration, reflecting the aspirations of all the stakeholders, guiding ITD in all its operations and decision making. Though the document spells out the long term strategic direction of ITD, it also contains an **operational strategic plan** covering the five year period 2010–15.

The strategic plan outlines the initiatives for translation of the vision into a set of measurable goals and objectives after an analysis of the challenges in the new decade, followed by formulation of a strategy and its various elements in the form of action points. Seven Strategic projects with separate task forces working out the details have been identified to augment the **"revenue mobilization apparatus"**:

1. Tax Research Plan: Revenue Forecasting Model
 - Study on parallel economy
 - Collection strategy

2. Strategic Technology Plan
3. Taxpayer service delivery Plan
4. Data warehouse & Business Intelligence solution plan
5. Real time Knowledge Management plan
6. Litigation Management Plan
7. Strategic HRD Plan

The strategic plan also contains a detailed implementation plan with a monitoring mechanism and a set of measures of performance:

Voluntary Compliance Rate (VCR)

E-file rate by non-mandatory categories

Index of taxpayer satisfaction

Index of employee engagement

“ ITD is committed to throw its full weight behind the goals and the strategies to realize the positive potentials revealed by the analysis documented here ”

Vision 2020 is neither a prediction of what will happen, nor simply a wish list of desirable but unattainable goals. It is a document that contains what the Department believes is possible for it to accomplish provided it is able to integrate its people, process and technology together to augment the **“Revenue mobilization apparatus”**. Vision is what vision does. Vision must be articulated, internalized and acted upon. At the end of it, the worth of the vision is in its executed reality. It is time for the Department to take stock of the achievements and look deeply into the shortcomings as lost ground can be retrieved and lost opportunities regained if action is taken now.

ITD is committed to throw its full weight behind the goals and the strategies to realize the positive potentials revealed by the analysis documented here. Activation of the strategies would require prompt decision making, disciplined execution, systematic implementation, and by inculcating a culture of collaboration across functional areas with cross-functional teams implementing the projects.

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INTRODUCTION

Direct taxes, now the major source of tax revenues to the central government, have grown at an average annual rate of 24% in the last five years and have nearly trebled from Rs. 1,32,771 Crore in 2004–05 to about Rs. 3,78,000 Crore in 2009–10. The share of direct taxes has increased from 4.1% in 2004–05 to 6.1% of GDP in 2009–10. The report of the Thirteenth Finance Commission (2010–15) has projected direct tax revenue collection at Rs. 8,29,668 Crore by 2014–15 thereby raising the direct tax to GDP ratio to 7.62%.

Increasing importance of direct tax in overall fiscal management of the government and its contribution to the nation's development is now well recognized. As per the vision statement contained in the Vision 2020 document, ITD aspires to be a partner in the nation building process by augmenting its "revenue mobilization apparatus" for optimization of revenue collection ensuring compliance with the tax laws. This optimization is sought to be achieved through progressive tax policy, efficient & effective administration and improved voluntary compliance.

As part of a progressive tax policy, ITD would endeavor to collect due taxes from all the existing and potential taxpayers. To improve efficiency the focus will be on the process for getting maximum output with minimum cost to the taxpayer community. Emphasis on effectiveness on the other hand, will focus on achieving the stated goals that support the department's vision and mission. ITD intends to have efficient processes along with effective outcomes while optimizing its revenue mobilizing efforts.

ITD also intends to develop and inculcate a healthy tax culture which, in an ideal situation, would have people, recognizing their role in the nation building process, voluntarily paying the taxes they owe on time, and tax administration acting as a mere facilitator. It is through improved voluntary compliance, ITD aims to optimize its resource mobilization efforts. However, to ensure full compliance, ITD would make use of targeted enforcement as well.

“ To improve efficiency the focus will be on the process for getting maximum output with minimum cost to the taxpayer community ”

The Government of India is currently putting in place a Performance Measurement Framework under which all departments are to develop a Results Framework Document (RFD) that includes an overall vision for the department and a detailed strategic plan for translation of the vision into a set of measurable goals. Accordingly, each department is required to develop a strategy and an implementable strategic plan to achieve its goals, linked to specific measurable milestones.

Vision 2020 aims to provide such a framework for the ITD reflecting the aspirations of all the stakeholders, and outlines its long term strategic direction with an operational strategic plan covering the five year period 2010–15.

Vision 2020 document spells out the Vision, Mission and Values of ITD in Chapter 2. Analysis of major challenges confronting the ITD during the strategic plan period 2010–15 is described in Chapter 3. The goals & related objectives that would create impact for public, strategy for achieving these goals along with the resultant strategic projects are outlined in Chapter 4, with the annexure containing the details of the projects. The implementation plan, a monitoring mechanism with specific measures of performance in the key result areas are described in Chapter 5. Conclusions are drawn in Chapter 6.

VISION, MISSION AND VALUES

Our Vision

“*To partner in the nation building process through progressive tax policy, efficient and effective administration and improved voluntary compliance.*”

The following Mission statement outlines the roadmap for the ITD to realize its vision:

Our Mission

- To formulate progressive tax policies
- To make compliance easy
- To enforce tax laws with fairness
- To deliver quality services
- To continuously upgrade skills and build a professional and motivated workforce

Our Values will steer us through the journey towards realizing our Vision and will be reflected in all our decision making process.

VISION, MISSION & VALUES

Our Values

- | | |
|------------------------|---|
| Integrity | “We discharge our duties truthfully, honestly and transparently”. |
| Accountability | “We are responsible for our actions and Outcomes”. |
| Responsiveness | “We are sensitive, prompt, fair and objective in our dealings with our stakeholders, fostering mutual trust”. |
| Professionalism | “We strive for improving performance and competence with a focus on achieving excellence”. |
| Innovation | “We encourage new ideas, methods, processes and practices”. |
| Collaboration | “We work together with our stakeholders and partners to achieve common goals”. |

CHALLENGES IN THE NEW DECADE

In an ever changing environment, ITD seeks to have a clear focus on its goals and continually review its operating approaches and procedures for being responsive and adaptive to the changing business and legislative environment. In a globalized economy, ITD needs to assess risks to compliance, not only domestically but also internationally, on the basis of priorities identified under a sound risk management process. The Vision 2020 statement is intended to be a rallying point for the ITD to proactively address the challenges, seize the opportunities, build consensus and to take bold decisions.

3.1 TRANSITION FROM 1961 ACT TO DTC

The introduction of the new Direct Tax Code (DTC) in the Parliament is a landmark event in the history of 150 years of Income Tax in India. At an operational level, the transition from a fifty year old 1961 IT Act to the new DTC would pose both challenges and opportunities. The challenge before the ITD is to manage this transition smoothly with effective communication with the taxpayers through awareness programs about the new law. Departmental personnel will also have to be trained on the new tax code.

The need to develop a new ITD software application package for the new code, making it compatible with the legacy system, training the departmental personnel within the shortest possible time, will be a major challenge. But at the same time, it offers an all time big opportunity for the ITD to move to a fully automated technology-driven system on a single technology platform right from inception for fully integrating people, process and technology.

3.2 OPTIMIZATION OF REVENUE MOBILIZATION

3.2.1 Estimating the tax base

The starting point for the optimization effort would be to ascertain the potential tax base of the country and possible leakages of revenue. Absence of a scientifically

developed revenue forecasting model is a barrier that needs to be addressed. Estimation of the true revenue potential with a customized forecasting model will help ITD to quantify the gap between the potential revenue and the actual collection. A study on the size of the parallel economy with clear identification of the activities and the factors responsible for its growth will help ITD to quantify the revenue leakages.

3.2.2 Removing barriers to voluntary compliance

Excellent public service delivery mechanism

Promoting voluntary compliance is the prime concern of ITD. Voluntary compliance is enhanced when taxpayers find it easier to comply with tax laws. Compliance is easy when the taxpayers are aware about the law and their rights and duties, when the tax administration is fair, consistent and transparent and when the tax procedures are simple and user-friendly. The challenge before the ITD is to identify the barriers and take proactive steps to remove them by putting in place excellent public service delivery mechanism. ITD intends to be responsive and sensitive to needs of each and every taxpayer by prompt redressal of grievances in a consistent manner.



Promoting voluntary compliance is the prime concern of ITD. Voluntary compliance is enhanced when taxpayers find it easier to comply with tax laws



Quicker resolution of disputes

The rising litigation with the taxpayers and the quantum of revenue locked up in appeals is a matter of serious concern. ITD intends to address this concern with comprehensive proposal for reducing unwanted litigation with taxpayers, quicker disposal of appeals and accelerating the process of collection from outstanding arrears.

Ascertain compliance cost

Regulatory compliance costs impose a deadweight burden on the taxpayers. If it turns out to be a big percentage of the tax payable, that will deter small

& medium taxpayers from being a part of the tax system, leading to development of informal economy. The challenge before the ITD is to ascertain the extent of compliance cost for different categories of taxpayers and develop focused programmes to reduce the compliance costs for improving voluntary compliance.

3.3 MOVING TOWARDS NON-INTRUSIVE TARGETED ENFORCEMENT

When compliance is not achieved on a voluntary basis, ITD has to identify and address risks associated with non-compliance and develop strategies targeted at those risks. The challenge before the ITD is to identify and assess compliance risks by developing 360 degree profiling of taxpayers, computer assisted investigation of accounts and selection of cases for scrutiny, along with other methods for making non-intrusive and targeted enforcement.

3.4 HUMAN CAPITAL CHALLENGES

The human resource of ITD with over 65,000 employees is the strategic foundation of the ITD. Skilled and committed employees who are valued and treated equitably are more likely to act more fairly and professionally in their dealings with taxpayers. Creating opportunities for development and advancement of careers can be instrumental in developing an attractive work environment. The challenge is to motivate and equip each and every member of ITD to reach his or her unique and full potential.

The complexity of tax administration has increased over time. In response to the changing environment and increasing workload, ITD is making transition from a manual to an IT-enabled system. Traditional problem solving methods of working in isolation no longer work in a networked environment where cross-functional problem solving through collaboration is the new mantra. The challenge before the ITD is to map the new skill sets required with the existing

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In response to the changing environment and increasing workload, ITD is making transition from a manual to an IT-enabled system ”

“ Knowledge connotes ability to understand the law and its myriad interpretations as well as ability to understand accounts ”

skill sets of the personnel and coming up with a comprehensive strategy to bridge the gap through targeted training. ITD intends to inculcate a culture of collaboration across functional areas for achieving the overall objective of the department.

ITD has attracted and retained some of the best civil service talent in the country to man its managerial cadres. In the face of stiff competition for talent in the country, especially from the highly competitive private sector, ITD cannot remain complacent on this score. The way to attract and retain talent is to provide a very challenging and stimulating environment where talented employees can realize their full potential, contribute to the growth of ITD and take pride in the public service ethos.

3.5 ABSENCE OF ROBUST KNOWLEDGE SHARING MECHANISM

In a knowledge driven organization like ITD, it is imperative for the personnel to update their knowledge constantly because the rapid changes in the economy render the knowledge obsolete in a very less time. Knowledge connotes ability to understand the law and its myriad interpretations as well as ability to understand accounts. At another level, knowledge comprises the ability to detect evasion, devise strategies for improving compliance, improve internal efficiency and efficacy, innovate taxpayer friendly services, compete globally to attract and retain multinational taxpayers. The challenge is to create an institutional memory, institutionalize the process of co-creation of knowledge and develop a mechanism of real time sharing of knowledge.

3.6 EXPLOSION OF ELECTRONIC DATA

The volume of data the ITD is handling today is huge as can be gauged from 250 million entries

relating to tax deducted at source alone which is only to grow manifold in the coming decade. Data pertaining to high value transactions received from third parties is worth Rs. 64 trillion today. The present day network, which operates on “Single Application Single Database” model, is soon likely to be rendered inadequate. The challenge for the ITD is to develop a comprehensive “strategic technology plan” to address these issues.

3.7 ACCELERATING GLOBALIZATION

The administration of tax code is much more complex in an open global economy. Taxpayers are more sensitive to differences in inflation, tax treatment, exchange rates, tax rates and the ability of tax administrations to monitor trade and income flows. By increasing significantly the amount and type of income earned abroad, globalization has reduced the ability of revenue authorities to verify the accuracy of taxpayers’ returns. Thus, globalization has not only increased opportunities for generation of wealth but also increased risk of incidence of tax avoidance. The rapid expansion of sophisticated computer and communications technology are being used by the taxpayers to conceal economic transactions. The international tax advisors act in concert in putting together complex structures spanning various jurisdictions in order to take advantage of the technology and global cooperation. Therefore, collaboration amongst tax authorities becomes essential. The challenge before ITD is to take a leadership role in protecting the national tax base through concerted efforts and active participation in global fora.

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STRATEGIC GOAL, OBJECTIVES AND INITIATIVES

The broad strategic goal of ITD is optimization of revenue mobilization by ensuring compliance with tax laws with least burden to the taxpayers. Achieving this alone can create an impact in the nation building process by making enough resources available for supporting the country's developmental programs. The objectives of promoting voluntary compliance and targeted enforcement are natural corollaries of this goal. A strategy to realize the strategic goal would comprise a set of internally consistent initiatives that are capable of addressing the challenges proactively. The purpose of the strategy would be to augment the multi-dimensional "revenue mobilization apparatus" of ITD. The strategic foundations of this Apparatus are people, process and technology which are to be integrated effectively to augment the structure.

4.1 INITIATIVE 1: DEVELOPING STRATEGIC TECHNOLOGY PLAN

Objective 1: Make the transition for implementing the new DTC smooth

The coming of the new DTC offers an opportunity for ITD to integrate its people, process and technology through an integrated technology platform. ITD intends to outline a comprehensive Technology plan to address the diverse issues relating to technology. Tax collection process needs to be viewed as a chain and each of the elements in the chain from allotment of PAN to collection, enforcement, information matching, scrutiny of returns, assessment of income, appeals, and taxpayer services are to be integrated through an enabling technology seamlessly.

Action Point 1: Meet the challenges of technology by formulating a Strategic Technology Plan

Action Point 2: Augment computational capacity and network connectivity for handling huge data volumes in an environment of dynamic computing paradigms

- Action Point 3: *Plan to remain cost effective and avoid technology obsolescence*
- Action Point 4: *Resolve multiplicity of platforms in favor of uniform holistic rule-based application matrix that can optimally run on the state of the art hardware and networks*
- Action Point 5: *Integrate all the elements of tax collection process through technology with information seamlessly flowing to the users for informed decision making*
- Action Point 6: *Ensure security of all information assets and database through a systemic implementation of periodic vulnerability testing, security & forensic audits to prevent frauds*
- Action Point 7: *Create a single data center under a single custodian for storing all taxpayer and third party data*
- Action Point 8: *Make business intelligence out of processed data and make it available to the actual users almost on real time basis*
- Action Point 9: *Upgrade skills of the ITD personnel on a continuous basis*
- Action Point 10: *Develop a mechanism of knowledge sharing on real time basis within ITD*
- Action Point 11: *Plan to reduce carbon footprint through green technology*
- Action Point 12: *Consider setting up of Special Purpose Vehicle for quick*

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and effective response to the
Technology challenge

4.2 INITIATIVE 2: LAUNCHING RESEARCH BASED REVENUE OPTIMIZATION PROJECT

Objective 1: Develop a revenue forecasting model

For optimization of revenue mobilization, the first step is to ascertain the true tax base of the country. ITD intends to develop a revenue forecasting model by identifying variables influencing direct tax revenue from the perspective of tax administration. The existing revenue forecasting models used are conceptualized from a slightly different perspective without explicitly focusing on administrative aspect of tax policy. A customized model for ITD would identify and use variables affecting the compliance level explicitly, in addition to the GDP used as a proxy for the tax base.

Action Point 1: Constitute an expert group for developing a revenue forecasting model with departmental officers and outside experts including economists, statisticians and other government agencies

Objective 2: Institute a study on parallel economy

In its optimization effort, ITD needs to identify the extent of leakages to the tax revenue due to proliferation of parallel economy. A study on the parallel economy with an objective to ascertain the evasion prone sectors of the economy, reasons of non-compliance and possible methods, with the help of a broad based group of experts coordinated by departmental officers is to be commissioned.

Action Point 1: Set up a research unit having a multi-disciplinary team

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revenue
forecasting
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policy
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coordinating efforts on tax research as an ongoing program

Action Point 2: Make a multi-year commitment to research program to determine research requirements of ITD

Action Point 3: Develop research-driven methods to detect non-compliance and other aspects of tax administration

Action Point 4: Encourage research by trainee officers at NADT and officers pursuing study leave for inculcating a new culture of research-backed tax administration

Action Point 5: Constitute an expert group for conducting a study on parallel economy with departmental officers and outside experts including economists, statisticians, other social scientists and other government agencies

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A study on the parallel economy with an objective to ascertain the evasion prone sectors of the economy, reasons of non-compliance and possible methods

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Objective 3: Develop a collection strategy

Even with the best possible revenue forecasting model, actual revenue mobilization may not reach the potential unless the collection machinery is geared up for this purpose. ITD intends to put in place a detailed collection plan for improving efficiency and productivity in collections.

Action Point 1: Regular updating of tax credit statement of taxpayers

Action Point 2: Develop an annual collection plan that would set targets and time standards for arrears to be collected

Action Point 3: Analyze the trends in tax arrears and collection to identify pattern

Action Point 4: Analyze the debt records of taxpayer groups

Action Point 5: Use risk scoring techniques to create risk profiles of debtors

Action Point 6: Improve communication to make taxpayers understand their obligations

Action Point 7: Develop elaborate procedures for writing off uncollectable tax arrears

4.3 INITIATIVE 3: WALKING ON TWO-LEGS: BALANCING SERVICE DELIVERY WITH TARGETED ENFORCEMENT

ITD will balance its initiative of providing excellent taxpayer service for facilitating voluntary compliance with targeted enforcement.

Part A: Service Delivery

Objective 1: Improve service to make voluntary compliance easier

The Citizens' Charter of ITD contains the standards of service delivery promised by the ITD of its key services to the taxpayers. The same is being implemented through Aayakar Seva Kendra (ASK). ASK is the new concept of front office of ITD with standardized design with a brand identity of its own and a mechanism for implementing the philosophy of "Sevottam" (Excellence in Service delivery). It is a single window system for taxpayers to file all applications for services & grievance redressal including paper returns. Currently operating at 3 buildings at Pune, Kochi and Chandigarh on a pilot basis, ASK is going to be operational at all the buildings of ITD in a phased

manner during the strategic plan period 2010–15, conforming to IS: 15700:2005 standards. Service Quality Manual released in March 2010 contains the quality policy of ITD along with its Grievance Redressal mechanism.

- Action Point 1: Display Citizen’s Charter of ITD prominently at all buildings of ITD*
- Action Point 2: Communicate service standards contained in the Citizen’s charter to all taxpayers through different channels*
- Action Point 3: Make all out efforts to meet the service standards*
- Action Point 4: Monitor implementation of Citizen’s charter*
- Action Point 5: Conduct periodic surveys to measure taxpayer satisfaction*
- Action Point 6: Expand the bundle of services to be provided at ASK by providing facilities for online filing of applications including grievances, acknowledging all applications from taxpayers on real time basis, providing facility for online checking of status of all applications and making all relevant information materials available to taxpayers*
- Action Point 7: Set up Integrated Call Centre facility to check status of applications filed at ASK centers across the country*
- Action Point 8: Set up ASK at all buildings of ITD on fast track*

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It is a single window system for taxpayers to file all applications for services & grievance redressal including paper returns

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“ ITD intends to maintain centralized contact with both tax practitioners and business associations for bridging knowledge gap ”

Action Point 9: *Make all ASK centers of excellence and IS: 15700 compliant*

Action Point 10: *Segmentation of taxpayers to develop appropriate channel strategy for communication and for providing targeted and timely guidance*

Action Point 11: *Develop mechanism for taking feedback from taxpayers*

Action Point 12: *Develop FAQs centrally for use across the country*

Objective 2: Incorporate taxpayer perspectives to improve service delivery

ITD intends to take proactive steps to better understand compliance issues from the perspective of taxpayers.

Action Point 1: *Take operational decisions after incorporating the views of the affected parties*

Action Point 2: *Facilitate participation in the tax system by all segments of taxpayers*

Action Point 3: *Institute a study on barriers to non-compliance as on ongoing program*

Action Point 4: *Institute a study on compliance cost of different categories of taxpayers on a periodic basis*

Objective 3: Strengthen partnership with tax practitioners and tax deductors and third party partners

A vast majority of taxpayers interact with the ITD through the tax practitioners. These tax practitioners play a critical role in the compliance process at different stages. In order, to improve the quality of service to the ultimate taxpayers, ITD intends to maintain centralized contact with both tax practitioners and business associations for bridging knowledge gap.

There are also a large number of third party partners of ITD who act as agents by collecting taxes on its behalf and depositing them within a stipulated period of time. This group is diverse and has differing levels of tax literacy and ability to access technology.

A large number of agencies furnish third party information to the Department which forms the basis data for converting them into actionable intelligence. ITD intends to collaborate with such partners with meaningful dialogue and education programs.

Action Point 1: Constitute central and zonal Direct Tax Advisory Councils and make these fora effective through regular interaction

Action Point 2: Disseminate information through tax practitioners and extend services to them

Action Point 3: Strengthen partnership with tax deductors with proper handholding and education programs

Action Point 4: Strengthen partnership with third party information providers with guidance

Action Point 5: Devise standardized format for supply of third party data and create facility for electronic submission of data

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ITD intends to collaborate with such partners with meaningful dialogue and education programs

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4.4 INITIATIVE 4: DEVELOPING A LITIGATION MANAGEMENT MECHANISM

Objective 4: Expedite and improve dispute resolution

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Let us Share – A
compilation of
Best Practices
and Orders,
an annual
compilation
for both ITD
personnel and
taxpayers
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Delay in resolution of tax disputes adversely affects voluntary compliance. Protracted litigation results in wasteful expenditure of time and resources for both taxpayer and the Department. A systemic approach to resolve disputes would be a win-win situation both for the ITD and the taxpayers. ITD intends to put in place a mechanism for putting an end of unproductive litigation.

ITD intends to expand the scope of Dispute Resolution Panel currently used for transfer pricing and international tax issues.

ITD intends to improve the administrative machinery of the Appellate Commissioners by working out new work norms and introducing new mechanism of “Appeal Registry” for redistribution of work.

ITD intends to develop consistent views across the Department on disputes arising out of the Income Tax Act through knowledge management. “Let us Share – A compilation of Best Practices and Orders”, an annual compilation for both ITD personnel and taxpayers, is expected to be expanded further and evolve into an online real time knowledge sharing mechanism.

For reducing litigation, ITD intends to issue revenue ruling on important legal issues having wider implications and making the Departmental stand known to the taxpayers on such issues.

ITD intends to complete the work of departmental judicial referencing system on a fast track for having a database of legal issues which are being agitated before various higher appellate authorities.

A committee is working to develop a set of safe harbor rules in respect of transfer pricing for providing certainty.

Action Point 1: Set up mechanism for putting an end to unproductive litigation

Action Point 2: Make dispute resolution panel work efficiently and effectively with proper administrative support

Action Point 3: Implement appeal registry and strengthen appellate commissioner machinery for quicker disposal of appeals

Action Point 4: Issue revenue rulings on important legal issues having wider ramifications

Action Point 6: Make knowledge sharing on real time basis

Action Point 7: Complete work on the Judicial Referencing system on fast track and make it available to all personnel

Action Point 8: Finalize safe harbor rule in transfer pricing

Objective 5: Ensure that tax practitioners and departmental personnel adhere to professional standards

Recent developments in India regarding manipulation of accounts by public corporations and failure of the public accountants to notify the same to public have raised certain critical ethical issues. In the interest of the nation, it is important for the ITD to reiterate the importance of ethical standards in public life. The

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A database of legal issues which are being agitated before various higher appellate authorities

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same ethical standards are to be followed by the departmental personnel as well.

Action Point 1: Administer effective system of sanctions for those who fail to follow the law

Action Point 2: Make departmental personnel demonstrate exemplary ethical standards while implementing the tax laws

Part B: Enforcement

4.5 INITIATIVE 5: DEVELOPING DATA WAREHOUSING AND BUSINESS INTELLIGENCE SOLUTIONS

Objective 1: Enforce law to ensure full compliance by everyone

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In the interest of the nation, it is important for the ITD to reiterate the importance of ethical standards in public life
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ITD intends to use innovative methods to supplement its traditional enforcement tools in order to reduce the tax gap in the coming years. A conscious effort is being made to move towards non-intrusive enforcement tools. Even while resorting to enforcement action, ITD will respect taxpayer rights and will make continuous efforts to reduce taxpayer burden by resolving enforcement issues at the earliest.

Action Point 1: Move towards a non-intrusive but targeted enforcement

Action Point 2: Extensive use of data mining solution for just in time enforcement capabilities

Action Point 3: Create actionable intelligence by mining databases from within and outside the Department

Action Point 4: Ensure justifiability of enforcement by following cyber forensic best practices

Action Point 5: Strengthen partnership across government agencies to gather and share information

Action Point 6: Upgrade current data mining and other initiatives to a comprehensive Business Intelligence and Data Warehousing Solution

Action Point 7: Make Cyber Forensic best practices standard operating practice (SOP) for acquiring, analyzing and archiving digital data flowing into the system

Objective 2: Develop data-driven approach to target existing and emerging high-risk areas

ITD intends to focus its enforcement tools on activities that pose the highest risk of non-compliance by enhancing its selection process for scrutiny assessments.

ITD intends to apply risk management techniques to a family/business group/group of companies instead of an individual/single business/single company as a unit in order to draw a holistic picture. This is expected to make tax evasion difficult.

ITD intends to document modus operandi of concealment of income noticed during enforcement action for sharing the same within the Department. Research capabilities for making enforcement action more focused and targeted are to be enhanced.

ITD will endeavor to develop more IT-enabled tools for its aid in examination of complex accounting practices such a computer assisted examination of accounts.

Action Point 1: Bring all data of ITD under a single custodian for deploying effective data mining tools

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A conscious effort is being made to move towards non-intrusive enforcement tools

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Research capabilities for making enforcement action more focused and targeted are to be enhanced
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Action Point 2: Use risk management methodology for detecting non-compliance

Action Point 3: Identify high risk taxpayers by continuously revising and enhancing case selection procedure

Action Point 4: Extend the unit for risk assessment from individuals to group of taxpayers

Action Point 5: Use IT-enabled tool to navigate through software accounting packages

Action Point 6: Extensive sharing of knowledge within the Department for creating awareness regarding specific methods of non-compliance

Objective 3: Develop mechanism for monitoring tax-exempt sector

The size and diversity of the tax exempt sector makes it incumbent for ITD to oversee its activities and provide necessary guidance for ensuring compliance. ITD will continue to monitor the activities of this sector to ensure that tax forgone is well deserved.

Action Point 1: Develop a national data base of tax-exempt entities and list out their activities

Action Point 2: Extend facilities for timely registration of the tax-exempt entities

Action Point 3: Proactively address misuse of tax-exempt status

Objective 4: Meet the challenges of International tax administration

Proliferation of tax avoidance schemes across national borders due to advancement in technology is posing a challenge to tax administrators across the world. Complex structuring of transactions by Multinational corporations makes it difficult for the tax authorities to comprehend the full impact unless regularly updated on various issues relating to tax laws across revenue jurisdictions.

In order to effectively meet the challenges brought about by increased globalization and to protect its tax base, ITD needs to continue to raise its international profile. It has to play an increasing role in the international fora to shape international tax standards, to push for greater transparency and exchange of tax information in order to curb tax evasion and avoidance.

Action Point 1: Expand knowledge base of employees on the latest trends in international taxation issues

Action Point 2: Capacity building in complex areas of transfer pricing and international taxation

Action Point 3: Enhance cooperation with the treaty partners and other international organizations and work towards raising its international profile

Action Point 4: Exchange and sharing of information with other tax administrations

Action Point 5: Set up overseas units for facilitating exchange of information

Action Point 6: Set up good administrative practices for quicker disposal

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of disputes through mutual agreement procedure

Objective 5: Ensure surveillance of fund flow that impact the physical and economic security of the country

“
Effective Criminal Investigation will necessarily include a comprehensive international strategy to combat offshore tax evasion, and fund flows that threaten security of the country
”

The next decade will see an increased role of the ITD in the areas of national security, terror and narcotic funding. This will require the ITD to deploy considerable resource and energy on Criminal Investigation. Effective Criminal Investigation will necessarily include a comprehensive international strategy to combat offshore tax evasion, and fund flows that threaten security of the country.

Action Point 1: To develop a robust system of Criminal Investigation with focus on fund flows that impact national security

Action Point 2: To develop an outreach program to sensitize stakeholders about economic and financial security

Action Point 3: To keep tabs on fund flow relating to money laundering, narcotics and terror.

Action Point 4: To ensure exemplary enforcement against abusive schemes and corporate tax frauds

4.6 INITIATIVE 6: DEVELOPING STRATEGIC HRD PLAN

Objective 1: Aligning HR strategy to goals

The strategic foundation of the “revenue mobilization apparatus” being the human capital, constructive use of the same is critical for realization of the vision is of paramount importance. A comprehensive HR strategy covering all aspects of manpower planning and

development needs to be formulated with a strong structural support for HR Directorate.

There is acute shortage of manpower at all levels within ITD. A detailed study needs to be carried out to assess the shortages and action needs to be taken immediately to fill up the shortfall.

A 3600 profiling of jobs as well as personnel profiling needs to be done so that the employee skills can be matched to their tasks. ITD intends to bring greater transparency, certainty and predictability in the job placements to improve the morale of the employees. There will be conscious effort to reduce service litigation to the minimum. Upholding high professional standards by providing effective training opportunities to employees would enable them to address complex taxation issues associated with both domestic and international laws. Real time knowledge sharing mechanism is intended to be put in place for enhancing revenue productivity of the personnel.

ITD has institutionalized a system to acknowledge and reward innovations and other quality work by all its employees. "Let us Share" provides a platform for showcasing good work done by the employees. Employees are given yet another platform for showcasing good work in the sphere of Public Administration by sending nominations for extraordinary initiatives for PM's award of excellence every year.

Action Point 1: Formulate a comprehensive HR strategy encompassing all aspects of personnel requirements and development with a sound structure for HR Directorate

Action Point 2: Match job requirements with skill sets of employees for placements by developing Human Resource Information System (HRIS)

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Upholding high professional standards by providing effective training opportunities to employees would enable them to address complex taxation issues associated with both domestic and international laws

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- Action Point 3: Create motivational climate for employees to excel by designing a career progression path*
- Action Point 4: Reinforce a culture of cross-functional problem solving approach through collaboration*
- Action Point 5: Encourage innovations at work*
- Action Point 6: Conduct training needs analysis and invest in high quality training for overall development of personnel*
- Action Point 7: Set up real time knowledge sharing mechanism for enhancing revenue productivity*

IMPLEMENTATION PLAN

5.1 IDENTIFICATION OF STRATEGIC PROJECTS

A set of initiatives has been identified with corresponding action points for achieving various objectives to realize the strategic goal of optimization of revenue mobilization by augmenting the revenue mobilization apparatus. On the basis of common elements, these initiatives have been clubbed together to form the following seven strategic projects:

8. Tax Research Plan: Revenue Forecasting Model

Study on parallel economy

Collection strategy

9. Strategic Technology Plan

10. Taxpayer service delivery Plan

11. Data warehouse & Business Intelligence solution plan

12. Real time Knowledge Management plan

13. Litigation Management Plan

14. Strategic HRD Plan

The elements of the projects with the associated goal, objectives and action points are summarized at Annexure A.

5.2 TASK FORCE

To work out the modalities of the projects, seven task forces are to be set up separately by an executive order. The task forces would conceptualize the projects and work out the detailed implementation schedule along with the time frame for execution and milestones to be achieved over the implementation period. The project sponsor, project coordinator, implementing and supporting teams

with specific responsibilities are to be specified by the task forces. As these projects are likely to have multi-year duration, these will have to be broken up into smaller parts which can easily be integrated in the Central Action Plan of ITD. Measurable objectives associated with these projects, Critical success indicators along with target values have to be submitted by the task forces for monitoring progress within the overall framework of result framework document.

5.3 OVERSIGHT BOARD

The strategic projects are cross functional in nature. Accordingly, there will be an increasing need for collaboration across cross functional areas. Each functional area may have separate priorities, but once becomes a part of a strategic project, ITD's priority has to be factored in.

In addition to the benefits of wider perspective, collaboration also brings in conflict which would have to be resolved. An Oversight Board would have to be put in place for monitoring the project implementation and resolving conflicts wherever required.

5.4 MEASURES OF PERFORMANCE

There has been limited effort on the part of ITD to develop comprehensive tools for measuring the performance of the tax system. One of the tools often used for performance measurement of the ITD is the total Direct Tax collection made during a particular financial year. The other measures of the performance have also revolved around the tax collection indices, namely, tax collection out of current demand raised and reduction of outstanding tax arrears.

As optimizing revenue mobilization is multi-dimensional and involves augmentation of revenue mobilization apparatus, ITD would require a separate set of performance measures in addition to the existing set of measures.

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Measures of performance could relate to various levels of the Department. ITD has identified certain enterprise-wide long term measures in addition to the existing target of budget collection that can be used to evaluate performance. These measures however, cannot be put to use for performance evaluation immediately but would be more in the nature of indicators of progress made towards achieving the new strategic vision during the initial period.

ITD will put in place a new institutional mechanism of research-backed revenue administration and work towards developing these long-term measures. The measures will also include a tool for measuring satisfaction of the two main stakeholders of the Department, taxpayers and employees. Certain measures will be developed for measuring effectiveness of the existing enforcement instruments such as scrutiny assessments, survey & search & seizure operations as part of its ongoing research programs. A few measures of performance identified below are only indicative. The Task Forces will examine this issue in depth and make recommendations on these measures of performance.

5.5 VOLUNTARY COMPLIANCE RATE (VCR)

VCR is an estimate of the amount of tax for a given financial year that is paid voluntarily and timely, expressed as a percentage of the corresponding amount of tax that the ITD estimates should have been paid. It reflects taxpayers' compliance with their filing, reporting and payment obligations. Once the baseline estimate of tax gap is prepared, ITD will make efforts to reduce the gap by improving voluntary compliance.

5.6 E-FILE RATE BY NON-MANDATORY CATEGORIES

The Citizen's charter 2010 promises to issue refunds to the taxpayers filing e-returns within a period of 6 months compared to 9 month period for paper

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Certain measures will be developed for measuring effectiveness of the existing enforcement instruments such as scrutiny assessments, survey & search & seizure operations as part of its ongoing research programs

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returns. This could provide incentives to taxpayers to go for e-filing even if it is not mandatory.

A measure very closely associated with the VCR is the rate of electronic filing by the non-mandatory category. ITD has been closely monitoring the rate of e-filing and has noticed the increasing number of non-mandatory categories filing e-returns. This rate reflects the convenience of e-filing to the taxpayers. The increase in this rate over time through administrative measures of providing more facilities and streamlining of operations of Centralized processing centers (CPC) would be good measure of performance of e-governance initiatives.

“ ITD has been closely monitoring the rate of e-filing and has noticed the increasing number of non-mandatory categories filing e-returns ”

5.7 INDEX OF TAXPAYER SATISFACTION

The Department has undertaken to implement a Citizens Charter with assured quality of services to the taxpayer. In this backdrop, a measure to capture the level of taxpayer satisfaction level with the quality of products and services is the need of the hour. An indicator to measure taxpayer satisfaction determined by conducting taxpayer survey through a professional agency will help the Department to improve its service delivery mechanism.

5.8 INDEX OF EMPLOYEE ENGAGEMENT

Human resource is the strategic foundation of the Department. Ascertaining their satisfaction level on a wide range of workplace issues by conducting appropriate surveys is the key to the development of a targeted HR Strategy. Improved satisfaction through employee oriented policies will help ITD to optimize its revenue mobilization efforts.

5.9 PROJECT BASED EXPENDITURE BUDGETING

For achieving the goals envisaged in the vision, ITD needs to consider a mix of both short-term and long term goals. But cutting across all the initiatives, there is a requirement of a robust mechanism for

expenditure budgeting including a new structure for preparation of expenditure budget and linking the same with the identified projects, requirements of funds and mechanism for channelization of funds to the projects.

5.10 ALIGNING ORGANIZATIONAL STRUCTURE

One prerequisite for implementing the strategic projects is to have an organizational structure that is cohesive with no functional area having duplicate responsibilities. Taking a leaf out of outsourcing of PAN allotment experience, ITD would explore other areas for such controlled outsourcing or exploring the alternative of corporatization of some of ITD's functions to impart business focus and managerial autonomy for such tasks requiring flexibility in approach.

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Improved satisfaction through employee oriented policies will help ITD to optimize its revenue mobilization efforts
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CONCLUSIONS

Vision 2020 is neither a prediction of what will happen, nor simply a wish list of desirable but unattainable goals. It is a document that contains what the Department believes is possible for it to accomplish provided it is able to integrate its people, process and technology together to augment the **“Revenue mobilization apparatus”**.

Vision is what vision does. Vision must be articulated, internalized and acted upon. At the end of it, the worth of the vision is in its executed reality. As a professional organization, therefore, ITD needs to bring the power of shared vision to the workplace and act upon it. An effective communication strategy needs to be put in place immediately. It is time for the Department to take stock of the achievements and look deeply into the shortcomings as lost ground can be retrieved and lost opportunities regained if action is taken now.

A set of seven strategic projects encompassing the working of the entire organization has been formulated which are to be implemented within a given timeframe. ITD is committed to throw its full weight behind the goals and the strategies to realize the positive potentials revealed by the analysis documented here. Activation of the strategies would require prompt decision making, disciplined execution, systematic implementation, and by inculcating a culture of collaboration across functional areas with cross-functional teams implementing the projects.

ANNEXURE

Initiatives	Objectives	Action Points/Strategies	Project
<p>Developing Strategic Technology Plan for integrating people, process & technology</p>	<p>Make the transition for implementing the new DTC smooth</p>	<ul style="list-style-type: none"> • Meet the challenges of technology by formulating a STP • Augment computational capacity and network connectivity • Plan to remain cost effective and avoid technology obsolescence • Resolve multiplicity of platforms • Integrate all elements of tax collection process through technology • Ensure security of all information assets and database • Create a single data centre under single custodian • Make business intelligence out of processed data • Upgrade skills of ITD personnel on a continuous basis • Develop a mechanism of knowledge sharing on real time basis • Plan to reduce carbon footprint through green technology • Set up SPV for quick & effective response to the technology challenge 	<p>Strategic Technology Plan</p>
<p>Launching research based revenue optimisations projects</p>	<p>Develop a Revenue Forecasting Model</p> <p>Institute a study on Parallel Economy</p> <p>Develop a Collection Strategy</p>	<ul style="list-style-type: none"> • Constitute an expert group for developing a revenue forecasting model with departmental officers and outside experts including economists, statisticians and other govt agencies • Set up a research unit having a multi-disciplinary team co-ordinating efforts on tax research <ul style="list-style-type: none"> • Make multi-year commitment to research program • Develop research driven methods to detect non-compliance • Encourage research by trainee officers at NADT • Constitute an expert group for conducting a study on parallel economy • Regular updating of tax credit statement of taxpayers • Develop an annual collection plan • Analyse the trends in tax arrears and collection to identify pattern • Analyse the debt records of taxpayer groups • Use risk scoring techniques to create risk profiles of debtors • Improve communication to make taxpayers understand their obligations • Develop elaborate procedures for writing off uncollectible tax arrears 	<p>Tax Research Plan</p>

Initiatives	Objectives	Action Points/Strategies	Project
Developing a taxpayer service delivery mechanism	Improve service to make voluntary compliance easier	<ul style="list-style-type: none"> • Display Citizen's charter of ITD prominently at all buildings of ITD • Communicate service standards contained in Citizen's charter • Make all out efforts to meet the service standards • Monitor implementation of Citizen's charter • Conduct periodic surveys to measure taxpayer satisfaction • Expand the bundle of services to be provided at ASK by providing facilities for online filing of applications including grievances, acknowledging all applications from taxpayers on real time basis, providing facility for online checking of status of all applications and making all relevant information materials available to taxpayers • Set up integrated Call Centre Facility to check status of applications filed at ASK • Set up ASK at all buildings of ITD on fast track • Make all ASK centers of excellence and IS: 15700 compliant • Segmentation of taxpayers to develop appropriate channel strategy for communication and for providing targeted and timely guidance • Develop mechanism for taking feedback from taxpayers • Develop FAQs centrally for use across the country 	Taxpayer Service Delivery Plan
	Incorporate taxpayer perspectives to improve service delivery	<ul style="list-style-type: none"> • Take operational decisions after incorporating views of affected parties • Facilitate participation in the tax system by all segments of taxpayers • Institute a study on barriers to non-compliance • Institute a study on compliance cost of different categories of taxpayers on periodic basis 	
	Strengthen partnership with tax practitioners and tax deductors and third party partners Ensure that tax practitioners and departmental personnel adhere to professional standards	<ul style="list-style-type: none"> • Constitute Central and Zonal Direct Taxes Advisory Councils and make these fora effective through regular interaction • Disseminate information through tax practitioners and extend services to them • Strengthen partnership with tax deductors • Strengthen partnership with third party information providers • Devise standardised format for supply of data with facility for electronic submission of data • Administer effective system of sanctions for those who fail to follow the law • Make departmental personnel demonstrate exemplary ethical standards while implementing the tax laws 	

Initiatives	Objectives	Action Points/Strategies	Project
Developing Litigation management mechanism	Expedite and improve dispute resolution	<ul style="list-style-type: none"> • Set up mechanism for putting an end to unproductive litigation • Make dispute resolution panel work efficiently & effectively • Implement appeal registry & strengthen appellate commissioner issue revenue rulings • Make knowledge sharing on real time basis • Complete work on Judicial Referencing System • Finalise safe harbour rule in TP 	Litigation Management Plan
Developing data warehouse and business intelligence solution	Enforce law to ensure full compliance by everyone	<ul style="list-style-type: none"> • Moving towards a non-intrusive but targeted environment • Extensive use of data mining solution for JIT enforcement capabilities • Create actionable intelligence by database mining • Ensure justifiability of enforcement by following cyber forensic best practises • Strengthen partnership across govt agencies to gather and share information • Upgrade current data mining and other initiatives to a comprehensive Business Intelligence 	Business Intelligence Solution Plan
Developing Real time Knowledge Management mechanism	Develop data driven approach to target existing and emerging high-risk areas Develop mechanism for monitoring tax-exempt sector Meet the challenges of International Tax Administration	<ul style="list-style-type: none"> • Bring all data of ITD under a single custodian for deploying effective data mining tools • Use of risk management methodology to detect non-compliance • Identify high risk taxpayers by continuously revising and enhancing CASS • Extend unit for risk assessment from individuals to group of taxpayers • Use IT enabled tool to navigate through software accounting packages • Extensive sharing of knowledge within the deptt for creating awareness • Develop a national data base of tax-exempt entities and list out their activities • Extend facilities for timely registration of the tax exempt entities • Proactively address misuse of tax exempt status • Expand knowledge base of employees on the latest trends in national and international taxation issues including IFRS • Capacity building in complex areas of transfer pricing • Enhance cooperation with treaty partners • Exchange & sharing of information with Intl Tax Admn • Set up overseas units • Set up good administrative practices for quicker disposal of disputes through MAP 	Knowledge Management Plan

Initiatives	Objectives	Action Points/Strategies	Project
	<p>Ensure surveillance of fund flow that impact the Physical and Economic security of the country</p>	<ul style="list-style-type: none"> • Develop robust system of criminal investigation with focus on fund flows • To develop an outreach program to sensitize stakeholders • Keep tab on fund flow relating to money laundering, narcotics and financial security • To ensure exemplary enforcement against abusive schemes and corporate tax frauds 	
<p>Developing Strategic HRD Plan</p>	<p>Aligning HR Strategy to goals</p>	<ul style="list-style-type: none"> • Formulate a comprehensive HR strategy encompassing all aspects of personnel requirements and development with a sound structure for HR Directorate • Match job requirements with skill sets of employees (HRIS) • Create motivational climate for employees • Reinforce a culture of cross-functional problem solving approach • Encourage innovation at work • Conduct training needs analysis and invest in high quality training • Set up real time knowledge sharing mechanism for enhancing revenue productivity 	<p>Strategic HRD Plan</p>



Income Tax Department
Department of Revenue, Ministry of Finance
Government of India