

# Government panel calls for overhaul of tax regime

The tax administration and reforms commission headed by economist Parthasarathi Shome has called for a sweeping overhaul of the country's tax administration to make it more friendly to both taxpayers and investors.

The panel has recommended large-scale structural changes and greater coordination in the functioning of both the direct and indirect tax arms of the government—the Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC).

The report, submitted last month to finance minister Arun Jaitley and made public on Monday, proposed a complete revamp of the dispute resolution mechanism, widening the use of the permanent account number or PAN and spending 10% of the tax department's budget to improve taxpayer services.

It called for the abolition of the post of revenue secretary, setting up of a tax council to develop a common tax policy and legislation for both direct and indirect taxes and meritbased promotions of officials in the tax administration.

Shome, a tax expert who also headed a panel that constituted guidelines for general antiavoidance rules (Gaar), was last year given the task of heading the commission to streamline the country's tax administration.

It remains to be seen if the Bharatiya Janata Party-led National Democratic Alliance (NDA), which came to power in the April-May general election accepts the recommendations of the commission appointed by its predecessor, the Congress-led United Progressive Alliance.

The Indian tax administration has been often blamed for its aggressive stance while raising tax demands, and also for the time taken to resolve disputes.

The administration is involved in tax disputes with companies including Vodafone Group Plc., Nokia Oyj, International Business Machines Corp. and Royal Dutch Shell Plc. that have been seen as tarnishing its image as an investment destination at a time when the country's economic growth has slowed to decadal lows of below 5%.

The Shome committee report reaffirms the need for greater accountability and efficiency in the tax administration, said Rahul Garg, leader of the direct tax practice at the consulting firm PricewaterhouseCoopers.

“The tax department and taxpayer should have a service relationship rather than one of enforcement,” he said. “The tax department may resist such large scale changes but it can go through if there is political will. It is consistent with the best practices followed worldwide.”

The report was critical of the current way of functioning of the tax department. Stating that the tax administration had reached its nadir, it said the tax department's singular objective of protecting revenue without accountability for the quality of tax demands has severely affected the investment climate in India and needs to be changed for investment to be revived.

The report highlighted the complete absence of customer focus in the running of the tax department. It went on to add that the lack of accountability of the tax officer in raising tax demands without accompanying responsibility for recovery had led to a situation where India has the "highest number of disputes between the tax administration and taxpayers with the lowest proportion of recovery of tax while arrears in dispute resolution are pending for the longest time periods".

It also flagged the issue of tax department officers demanding bribes to repay refunds or drop tax demands.

To ensure better customer focus, the commission recommended issue of refunds within a set timeframe. It also suggested an online tracking system for resolving grievances and refund applications.

It suggested that for large taxpayers, services should be provided by CBEC and CBDT under one umbrella.

For greater accountability, the commission has proposed setting up an independent evaluation office to monitor the performance of the tax administration and evaluate the impact of tax policies.

It suggested that a tax council under the chief economic adviser in the finance ministry be set up to develop a common tax policy and legislation for both direct and indirect taxes. It proposed merging the two tax policy wings of CBEC and CBDT into a common tax policy and analysis unit comprising of economists, statisticians, tax law experts and social researchers.

For better performance of income tax officers, the department recommended meritbased promotions and greater freedom in functioning.

It suggested that PAN be developed as a common business identification number to be used by other government departments. Also, there should be a provision for de-registration, cancellation or surrender of registration numbers and PAN.

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