

# **The Modernisation of Direct Tax Systems**

One of the most significant moments in the history of direct tax modernisation relates to the landmark recommendations made by the task force under the leadership of Vijay Kelkar during the early years of the last decade. Keeping in mind the fundamental principles of efficiency, equity and effectiveness, the task force focused on four operational objectives, including institution of a simple and transparent system, reduction of transaction costs of tax revenue collection and compliance costs of taxpayers, alignment of incentives of taxpayers and the tax administration, and widening of the tax base. The recommendations generated a wave in the modernisation efforts of government processes and procedures. Since then, the department of direct taxes has initiated several modernisation exercises. Some noted ones are: permanent account number (PAN) application receipt and processing, electronic filing of tax deducted at source, development of all-India network for e-delivery of taxpayer services, e-filing of income-tax returns and a centralised processing centre at Bangalore. For successful implementation of most of these programmes, government procurement system and procedures have been considered a basic hurdle to achieve the objectives. To overcome challenges, several models have been tested in the past to simplify procedures. Of the many innovative models, a transaction-based approach is seen to be one of the preferred ones being used in e-governance projects. Transaction-based model is typically used in a situation where output can be defined, transaction volumes are known and predictable, and transaction volumes are tied to service providers cost drivers. In transaction-based pricing, what and how many resources are involved and how much time is taken to process the transaction while meeting the quality and service-level agreement (SLA) requirements are variables typically managed by the service provider. While the model has definite advantages of reduced technology risk and efficiency improvements, it presents unique challenges if not exercised properly. In most cases, it has been observed that officers concentrate only on the output and generally don't involve in the internal process changes and technology investments by service provider from time to time to meet SLAs. Even though there is a provision of periodic work audit in the contract, it is hardly exercised in practice. Such an approach of monitoring simply favours service providers. As a matter of strategy, they will have a tendency to carry out intrinsic changes in the system to make the exercise of the exit clause difficult and unviable and create a situation wherein extension of contract becomes the only option due to fear of financial loss, possible disruption, delay or discontinuity of services to citizens. Even in the case of a build-own-operate-transfer (BOOT) model, a similar situation is likely to occur. As a result, at the end of the contract period, the government may face either a no bid or single bid situation and find it extremely difficult to manage challenges posed by the prime bidder and its consortium partners or other interested group of technology and service companies, creating a situation of near-cartelisation. Given the pace of modernisation, it is time the government takes cognisance of these facts and aggressively institutes a strict audit mechanism to safeguard its interest. It may be a good idea to introduce a system of having a mandatory panel of experts (technology and process) to assist officers in carrying regular internal audits, including technology audit. Since some large transaction-based e-governance programmes are leading to the end of a contract period in less than a year or so and many more projects are yet to start following similar models, immediate action and necessary measures by the government would be most desirable to incorporate lessons and take meaningful control of various mission-mode programmes to realise its vision of effective and efficient delivery of services to citizens. –

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