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## **Business Process Reengineering Project of Income Tax Department, Ministry of Finance, Government of India**

### **Part-I**

#### **1. Background & Need for the Project**

1.1 Collection of Direct Taxes which is administered by the Income Tax Department (ITD for short) has been growing at a very fast pace in recent years. Direct taxes collections in Financial Year 2008-09 stood at Rs. 3,27,147 Crores as against Rs 95,871 Crores in the Financial Year 1998-99. Similarly, the taxpayer base has also expanded and the number of tax payers at the beginning of FY 2008-09 stood at 3 Crores. This scenario coupled with globalization of the world economy, reduction of trade barriers and technology enabled methods of conducting business has redefined the performance expectations from the ITD posing a challenge to its capacity and functioning as an efficient organization. A need was thus felt to critically review the existing functioning of the Income Tax Department. The Hon'ble Finance Minister in his budget speech of 2006 announced that IT Department will undergo business process re-engineering. A Directorate of BPR was accordingly created in May 2006 headed by an officer of the rank of Director General of Income Tax. Through a global tendering process, M/s PricewaterhouseCoopers was appointed as external consultant for the BPR project. The Business Process Re-engineering exercise, was conducted by the BPR Directorate with the objective of enabling the ITD to deal with the challenges emerging from the new work environment.

#### **2. Objectives of the Project**

2.1 In recent years Income Tax Department has taken a number of initiatives and implemented projects aimed at providing better taxpayer service, reducing compliance burden on tax payers and improving enforcement. While these initiatives have benefitted the taxpayers, there remained severe operational bottlenecks and fundamental issues of aligning people, processes and technology.

2.2 The BPR project was conceptualized with the prime objective of identifying the bottlenecks and providing solutions in the form of redesigned processes which are simpler, efficient and will harness the advantages of the upgraded information technology which is being acquired.

2.3 The main objectives of the BPR project can be summarized as under:

- Re-evaluation of all current processes to remove the redundant and obsolete processes and redesign or create new processes which are more efficient and maximize use of resources to produce the best results
- Identification of stakeholder's needs and the ways in which the organization can meet them especially taxpayer's needs for information, convenience of filing tax returns & documents, payment of taxes and speedier issue of refunds
- Use best and leading practices of other organizations to develop milestones, objectives, targets to benchmark organizational performance
- Increase alignment between people, processes and technology
- Enhance employee involvement, skills and organizational creativity

### **3. Short Description of the Project**

3.1 The project commenced on 1<sup>st</sup> May, 2007 and was completed with finalization of 18 reports covering more than 2000 pages within a timeframe of eight months.

3.2 As a preparatory exercise prior to the BPR project, awareness was created in the organization through several meetings held with employees as well as their associations/unions. The desire for change was clearly evident during these interactions. This exercise was aimed at creating a larger ownership thereby ensuring support and involvement - an essential element for the success of such a mammoth exercise. Outreach initiatives also included setting up of internet discussion forums/blog to encourage participation and sharing of ideas. In all, approximately 840 departmental personnel from Chief Commissioners to Group C employees were consulted and participated in the exercise. Besides, a specially designed HR questionnaire was administered to 896 departmental persons to elicit their views. Further, Voice of Customer (VoC) survey was conducted at 12 stations in which a specifically designed questionnaire was administered to 754 taxpayers of different categories and tax consultants.

3.3 The study was focused on the key strategic areas of tax administration namely - pre-assessment, assessment, post-assessment and appellate/dispute avoidance as well as key enabling processes such as information technology, human resources, infrastructure, etc. The BPR project was undertaken in two phases- 'As-is' study phase and 'To-be' Model stage and was conducted at 15 locations which included metros (Delhi, Mumbai and Kolkata), mid-size cities (Hyderabad, Nagpur, Patna, Bhopal, Mysore, Lucknow, Guwahati, Ludhiana and Shillong) and moffusil areas (Hajipur, Mandya and Itarsi).

3.4 The success of the project depended on ensuring that correct facts were captured during the 'As-is' study as only then correct solutions could be found. To dispel any apprehensions in the minds of the employees about the aim of the exercise, it was made clear during the field study that the exercise conducted was neither an inspection/audit nor was it for individual fault finding

3.5 The 'As is' processes study was conducted by using check-lists to gather factual data from study of files, registers and records as well as questionnaires to elicit responses from various stake holders. These checklist and questionnaires were prepared and validated through participation of a large number of Departmental Officers from across the country. The As-is study phase included mapping of existing processes in the Department and was followed by a Gap analysis to identify problem areas and bottlenecks. The best global practices in the area of tax administration were also studied. All the above were incorporated in re-designing the processes and suggesting 'To-be' Models. Detailed To-Be models and recommendations have been prepared in respect of the following:

- Bulk Operations Division including Regional Processing Centre
- Facilitation Centres and Receipt and Despatch Units
- Changes to PAN / TAN Issuance and Management
- Assessee Tax Credit Accounting System
- Core Processes Redesign – Assessment
- Core Processes Redesign – Post Assessment
- Core Processes Redesign - Appellate
- Risk Assessment System
- Knowledge Management System
- Record Management System
- Human Resources and Infrastructure

- Grievance Redressal Management
- Change Management

#### **4. Outcomes of Study:**

4.1 The Business process Re-engineering of the Income tax Department is first such project initiated by the Government of India where a comprehensive study of such a large Department has been undertaken and changes have been recommended taking a holistic view of the Department that would fundamentally change the way the Department functions in as much as all activities which do not require exercise of discretion in individual cases and are amenable to large scale automation will be dealt by Bulk Operation Division(BOD) where there will be no taxpayer interface. The creation of BOD would help in reducing the pressure on the inadequate manpower and infrastructure across various ITD offices by leveraging economies of scale and technology, thereby de-cluttering the office of the Assessing Officers and enabling them to better perform their compliance functions.

4.2 Whereas all the recommendations made in the BPR report cannot be summarized here, some of the recommendations focused around taxpayers services and revenue augmentation are highlighted here:

##### **Recommendations focused on Taxpayer Services:**

- Setting up a Directorate of Taxpayer Services to address the issues of taxpayer grievances and education
- Additional channel for filing tax returns/documents at Facilitation Centers
- Ensuring that correct details payments are recorded and credited to taxpayer's account
- Effective recording/tracking of all taxpayer communications
- Ease of payment of taxes through ATM for individuals
- Call-centers to deal with taxpayer queries
- Automatic updation of address from returns in PAN/TAN database
- Functional segregation-IT enabled processes to ensure quicker processing/issue of refunds
- Use of SMS for information dissemination to taxpayers
- Better infrastructure facilities for taxpayer in ITD offices like waiting lounge, drinking water, hygienic toilet, etc.

### **Recommendations focused on Revenue augmentation**

- Detect stop filers and non filers through use of 3rd party and TDS data
- Non-intrusive Measures such as sending pre-populated returns to the tax payer in cases of clear and apparent mismatch of information given in the return and that available with the ITD to be settled by accepting payment of tax plus penal amount. Similarly, for a limited number of cases falling in a small band below the risk score at which cases are selected for scrutiny, total wealth statement to be called and kept on record.
- Work-flow based system of working with no option at any level to work manually
- Robust risk profiling system for selection of cases for scrutiny.

4.3 The BPR exercise has come up with a major recommendation of functionally segregating the working of the Department across two broad lines – a Bulk Operations Division (BOD), handling routine and repetitive activities not requiring the exercise of discretion in individual cases and a Compliance Operations Division (COD) to carry out specialized activities for a smaller number of taxpayers.

4.4 These initiatives aim at improving taxpayer services and ensuring that the core function of enforcement is effectively carried out.