

## **SPEECH OF THE HON'BLE FINANCE MINISTER DURING THE 26<sup>th</sup> ANNUAL CONFERENCE OF CCsIT / DGsIT AT NEW DELHI ON 9<sup>th</sup> JUNE, 2010**

### **Tax Collection**

Direct Taxes, now the major resource provider to the Central Government, have grown at an average annual rate of 24 percent in the last five years and have nearly trebled from **Rs.1,32,771 crore** in financial year 2004-05 to about **Rs.3,78,000 crore** in financial year 2009-10, increasing its share from **4.1** percent to **6.1** percent of the Gross Domestic Product (GDP). This tremendous growth has been made possible not only due to rationalisation of tax structure and improvement in tax administration leading to better tax compliance, but also persistent and unrelenting efforts of employees of the Income Tax department.

### **Tax Reforms**

2. To improve compliance further, tax laws need to be simple, stable and robust; tax rates should remain moderate; and multiplicity of tax exemptions and deductions should be gradually phased out in order to widen and deepen the tax base. Tax administration needs to be further toned up by appropriate use of technology on the one hand, and improving professional competence and responsiveness of the employees on the other.

3. A major tax reform initiative has already been announced in the proposed '**Direct Taxes Code 2009**' to simplify, rationalize and consolidate the laws and procedure, relating to direct taxes. Its draft is under revision, taking into consideration the areas of concern expressed by various stakeholders, and the discussion paper will be shortly in the public domain before introduction in Parliament in the forthcoming monsoon session. It will indeed be legislation for the 21<sup>st</sup> century, which will witness the emergence of an economically strong and vibrant India. I anticipate that the new code will usher in major changes in procedures and practices of Direct Tax. The Department, therefore, needs to draw a **roadmap** for administratively meeting the challenges and the **changes that will be introduced by the new Code**. The Human Resource Directorate of the Department should draw up plans for training in cooperation with tax training institutes for capacity building for implementation of the Direct Tax Code. The transition from existing law to DTC would require completion of delegated legislation in a time bound manner. CBDT should ensure smooth transition by planning the activities schedule well in advance.

### **International Taxation**

4. Growth in international trade and commerce driven by globalisation is throwing up new and complex challenges. Globalization offers a global market for product and services but at the same time it also poses challenges. The recent financial crisis has shown how an economic difficulty of one country can get exported to other countries. Similarly, the development of tax shelter products and use of tax havens is another challenge, which emanates from globalization. In our response to global challenges we have set up two Income Tax Overseas Units (ITOU) within

Indian Missions in Singapore and Mauritius to facilitate exchange of information. Eight more such units in USA, UK, Netherlands, Japan, Cyprus, Germany, France and UAE are also being created on similar lines. I am hopeful that these measures would result in seamless flow of tax related information from foreign tax jurisdictions and would strengthen our fight against menace of tax evasion using cross border transactions.

### **Taxpayer Services**

5. The department needs to improve its infrastructure to match global standards of delivery of taxpayer services. The effective roll out of **Sevottam** and **Aayakar Sewa Kendra (ASK)** would require adequate infrastructure. It is necessary to make the infrastructure state-of-the-art to improve the working environment and to make a visit to the tax office a pleasant experience. Processing of tax returns, now done on the National Computer Network, has to be made more efficient. Towards this, two more Centralized Processing Centres (CPCs) at **Pune** and **Manesar** should be set up expeditiously. Efforts should be made to further popularise and increase electronic filing of tax returns and electronic payment of taxes to reduce paper-work and make taxpayer services environmentally friendly. The scope of Large Taxpayer Units (LTUs), presently operational in four metropolitan cities, needs to be expanded for deepening of tax base as well as for centralized services to large taxpayers.

6. While taxpayer services have improved there are still large numbers of taxpayer grievances, including grievances relating to tax refunds and credit of TDS, which need to be attended on urgent basis. At the systemic level CBDT should ensure that Directorate of Systems take immediate steps to streamline the issue of credit of TDS. Apart from systemic changes, the grievance redressal mechanism including Ombudsman need to be integrated and streamlined. A holistic approach needs to be developed to cater to the rising expectations of taxpayers. The CBDT should immediately come up with a comprehensive and net-based grievance redressal mechanism in line with the best global practices.

7. A number of services offered by the department have become technology driven. It may not be possible to deliver the services of desired quality in the existing structure of tax administration. CBDT may come out with a new structure, which leads to faster adoption of technology and innovation. The CBDT may, therefore, consider hiving off its technology driven taxpayer services to a **Special Purpose Vehicle (SPV)**, which can better deliver such services in the **public-private-partnership mode**. This will lead to innovation in delivery of services to taxpayers and also involvement of public in delivering the services.

### **Strategies for Meeting Tax Collection Target**

8. For the current financial year, the direct tax collection target has been fixed in the Budget Estimates at **Rs.4,30,000 crore** at a growth of **13.7** percent over the actual collection last year. We have deliberately called this conference in the beginning of the financial year to deliberate strategies and draw action plan to achieve this target. Apart from concentrating on big cities and towns, Department should also look to smaller towns and cities for widening of tax base. The

smaller towns and centres have emerged as centres of growth due to inclusive growth agenda of Government. Department may also develop special strategies to monitor TDS compliance at the District level, state level and at Central level.

9. The GDP is poised to grow at **8.5** percent during 2010-11. Sectors of the economy performing well should be monitored for tax compliance and we should get our due taxes. The department should also make attempts to widen and deepen the tax-base further. It should improve utilization of information relating to high value transactions available through Annual Information Returns (AIR), Central Information Branches (CIB) and other sources. Using multisource data, Department should refine risk profiling of taxpayers and assessments and investigations should be carried out accordingly. Using this intelligence data department should develop credible deterrence for taxpayers, who are habitual tax evaders.

### **Strengthening Manpower and Improving Employee Welfare**

10. Skills of the personnel working in the department need constant up gradation in view of changing tax regulations, technology and global economic environment. Though I find that the CBDT has taken some steps in this direction through Knowledge Management by yearly publication of the book titled **“Let us Share”**, containing the best orders and practices, yet further steps need to be expeditiously taken in its training and skill up gradation programmes adopting the best global practices. I understand that CBDT is already providing exposure to probationers at NADT about international practices through international attachments. This has to be taken forward by suitably designing mid-career training programmes for officers at regular intervals. This will equip officers to face challenges of dealing with complex international transactions and menace of tax avoidance schemes using tax havens and low tax jurisdictions. This will also help us in getting our due share of taxes especially from cross border transactions. **I am happy to announce that Advanced Mid-Career Training Programme (AMCTP) for IRS officers would be started during the current year.**

11. A satisfied work force is the backbone and strength of an organization. We have modified the transfer policy for the Indian Revenue Service (IRS) officers to improve satisfaction levels and minimise unwarranted service litigation with our own employees. The Standing Committee on Finance, in its report for 2009-10, has expressed concern about shortages of manpower in the Department. This needs to be addressed urgently, especially in the face of the exponentially increasing workload, and the challenges of maximising revenue generation along with efficient taxpayer service. I am told that cadre restructuring of CBDT is pending for quite some time, which has adversely affected the implementation of core areas of work in the Income Tax department. The tax laws can be implemented effectively by aligning the tax administration with the intent of tax policy. If there is a mismatch, then it may be difficult to implement a tax policy, however good it may be. CBDT should ensure that deployment of human resources is in consonance with requirement of the tax laws and this should be ensured by completing the timely exercise of cadre restructuring and by holding regular departmental promotional committee (DPC) as per the DoPT calendar. In the long term, we should aim for Human Resource policy,

which is conducive for specialisation, promotes administrative innovation, provides equal opportunity and keeps employees in high state of motivation.

12. In the last year's conference, I had emphasised the need for expediting vigilance matters. I find that though there is improvement, the progress is not at the desired levels. More focussed approach with proper adherence to prescribed time-lines is needed to expedite vigilance matters. I want to see that no charge sheets are filed against our own employees at the last day of retirement after more than 30 years of service to Government. We should ensure that guilty is punished but at the same time ensuring that those who have performed their duties and victims of frivolous complaints should be adequately protected. Department need to focus on preventive vigilance and adopt a strategy for zero tolerance for corruption. CBDT should set up a committee to examine the vigilance practices and procedures in few select countries. The experience of other countries can be used to streamline and strengthen the vigilance administration in Income Tax department.

### **Alternate Dispute Resolution Mechanism**

13. The rising litigation with the taxpayers and the quantum of revenue locked in appeals is a matter of serious concern. The strengthening of Settlement Commission, setting up Dispute Resolution Panel (DRP) may address the litigation issues with the taxpayers to some extent. I am told that under mutual agreement procedure (MAP) negotiations under Indo-USA DTAA a tax demand of **Rs.800** crore in **48** cases has been confirmed. This is a good development and taxpayers should be encouraged to invoke MAP, which has emerged as a preferred alternate dispute resolution mechanism. In spite of these efforts, we need to develop more strategies to reduce the litigation with the taxpayers. I would like CBDT to come out with a comprehensive proposal to address the issue of unwanted litigation with taxpayers and also to realise locked up revenue in appeals.

### **Income Tax Welfare Fund**

14. Before I close, I am happy to announce the operationalisation of the **Income Tax Welfare Fund**, which was pending **since 1998**. The Fund has a corpus of **Rs.100 crore** kept in interest-bearing deposit. The interest earned annually on this deposit, and other annual accruals to the Fund, will be available for welfare activities of employees of the Income Tax department. I am sure that CBDT will come out with innovative welfare measures, which will further motivate employees of the Department to excel in their area of work.