

**Excerpts from the speech of the Finance Minister before the Central Direct Tax
Advisory Committee (CDTAC)
(Delivered on 18.05.2010 at North Block, New Delhi)**

1. The Tax reforms involve changes in tax policy and improvement in tax administration. Tax policy has undergone significant changes in the last 2 ½ decades, constantly moving towards lower tax rates and encouragement of voluntary tax compliance. The role of tax department has also undergone a major transformation. The role of a tax officer as a tax-administrator has changed from that of a tax-enforcer to that of a tax facilitator. Whereas earlier the tax administration was primarily expected to enforce tax payment by the taxpayers, today it is expected to facilitate voluntary tax compliance by creating a conducive atmosphere wherein the taxpayer is encouraged to pay his taxes, and discouraged from tax evasion by means of a credible deterrence. The Income Tax Department is making its best efforts to collect due taxes by adopting the best Global practices.

2. The central taxes tax-to-GDP ratio has been steadily increasing over the years, from about **9%** in **1983-84** to about **12%** in **2008-09**. This has happened despite lowering of tax rates, decrease in the number of tax slabs, and increase in the quantum of tax slabs. There is, thus, clear evidence of improved and increasingly voluntary compliance. The Government's policy of reposing trust in taxpayers has paid off.

3. While the ratio of direct taxes to GDP have increased three-fold from **1.9%** in **1983-84** to **6.2%** in **2008-09**, the ratio of indirect taxes to GDP have declined from **7.2%** to **5%** in the same period. The trend indicates that direct taxes are the taxes of future and would be

the main resource provider to the Government, as it should be in any developing economy.

4. The average annual growth rate of direct tax collections has been about **24%** in the last 5 years. This was despite two bad years of tax growth in **2008-09** and **2009-10** due to the effects of slowdown in the global economy. With the Indian economy poised to grow at **8.5%** during the current fiscal, we expect the direct tax growth to climb back to the level, which we have witnessed in the past.
5. A major direct tax reform initiative has been announced in the proposed 'Direct Taxes Code 2009'. The Code is a major attempt to simplify, rationalize and consolidate the laws and procedure relating to direct taxes undertaken after a gap of nearly 50 years. Its draft was launched in August last year for public debate and received mixed response. I have identified nine core areas of concern expressed by various stakeholders. We have taken into consideration all these concerns to re-draft the draft code and expect to put it shortly in the public domain. After a short interaction with the important stake-holders, we intend to introduce it in the forthcoming monsoon session of Parliament.
6. Permanent Account Number (PAN) provided by the Income Tax department has become the most popular financial identity number. The process of receiving applications for PAN and printing and despatch of PAN cards has been outsourced, reducing the turn-around time to about 15 days. With nearly 10 crore cards issued, PAN is now treated as a quality service and a reliable identity document.
7. Taxpayer services such as e-filing, e-payment of taxes and refund banker scheme have reduced the compliance cost. The Citizen's Charter of the Income Tax Department

promises speedy and time-bound redressal of taxpayer's grievance, while the **Sevottam Scheme** will help the Department implement it effectively. The Income Tax Ombudsmen is an additional forum to resolve taxpayer grievances in an effective and time-bound manner.

8. A major step towards improving taxpayer services was setting up of a **Centralized Processing Centre** (CPC) at Bengaluru. The project will enable faster processing of tax returns, faster and more accurate tax refunds and better record management leading to improved tax administration and better tax compliance. Two more CPCs will be set up during the current year. The use of technology in non core areas in the functioning of the Income Tax Department would spare the valuable human resources for deployment in investigation of high revenue yielding areas involving cross-border transactions.
9. The **Refund Banker Scheme**, which enables refunds directly to the bank account of the taxpayers and eliminates interface between the Department and the taxpayer, has been extended to **9** more cities during last year, taking the total number of cities covered by the scheme from **6** to **15**. The scheme will be extended during the current year to cover more cities.
10. We have taken steps for better regulation of financial transactions and also steps to improve exchange of tax-related information and bilateral tax cooperation with several countries. As part of this exercise we have written to **65** countries with whom we have DTAA to revise the existing article on Exchange of Information to make it more effective and also to remove the Secrecy Clause. Apart from this we have also identified **20 no or low tax** countries and jurisdictions for negotiating and signing of Tax Information Exchange Agreement (TIEA). The strengthening of legislative framework for Exchange

of Information along with streamlining of administrative setup will help us in collecting our due share of revenue from cross-border transactions.