

EXCERPTS FROM THE SPEECH OF
THE FINANCE MINISTER
ON CELEBRATION OF 150 YEARS OF INCOME TAX
24th JULY 2010
FICCI AUDITORIUM
AT 1530 HRS.

It is my proud privilege to be part of this momentous occasion in the history of the Income Tax Department, which is celebrating 150 years of Income Tax in India. For the first time in the legislative history of India, a Bill for imposing duties on profits arising from property, professions, trades & offices was passed by the Legislative Council of India and received the assent of the Governor General on 24th July 1860. This Act was precursor to the modern income tax law in the country. On this very special day, Department should rededicate itself to partner in the nation building process through progressive tax policy, efficient and effective administration and improved voluntary compliance.

2. It would befit the occasion to say a few words about the person, who laid the foundation for taxation in India. James Wilson, before he quit the British Parliament to join as the Finance Member in the Council of India in 1859, had a distinguished career as a Member of the Privy Council and the founder of the globally acclaimed magazine “The Economist”. He came to India to establish the tax structure, a new paper currency and to remodel the finance system. In 1860, James Wilson breathed his last in Kolkata. His grave was recently rediscovered in Kolkata by an officer of the Income Tax Department and restored.

3. Since 1860 to the present day, the Income Tax Department has traversed over three centuries and has witnessed the collapse of imperial rule in India and rise of a magnificent democratic economy. The emergence of India as an economic power-house has also been reflected in our enhanced revenue collection from direct taxes. From meager revenue of **Rs.1.35 crore** in 1860-61, the Income Tax Department has collected nearly **Rs.3.80 Lakh crore** in 2009-10. The contribution of direct taxes to the GDP has increased three-fold from **1.9%** to **6.1%**. The annual growth rate of direct taxes has averaged about **24%** in the last 5 years. This was despite two low-growth years in **2008-09** and **2009-10** due to slowdown in the global economy. With the Indian economy poised to grow at **8.5%** during the current fiscal, we expect the tax growth to regain its past buoyancy.

4. Tax administration has undergone significant changes in the last **two-and-a-half** decades, steadily moving towards lower tax rates and enhanced voluntary tax compliance. The role of tax Department and the tax officer has changed from that of a tax-enforcer to that of a tax facilitator. Whereas earlier tax administration enforced laws with intimidation, today it facilitates compliance by creating atmosphere conducive to voluntary payment and discourages tax evasion by credible and non-intrusive technology-driven deterrence.

5. The new DTC, which is now at final stage of drafting, is a major attempt to rewrite the existing direct tax laws. It will simplify, rationalize and consolidate the laws

and procedures relating to direct taxes. The DTC will provide a taxation regime which is simple and broad based leading to lower tax rates, better tax compliance and reduced litigation. The simplified direct tax laws will also provide a conducive environment for investment and will make India an attractive destination for foreign investors. The Department has embarked on many “taxpayer friendly” schemes and services such as PAN or the taxpayer identification number; electronic filing, payment, refund, accounting and verification of taxes; Centralized Processing Centres to process tax returns faster and for better management of bulk operations; and Sevottam Scheme & Aayakar Sewa Kendras for improved tracking and redressal of taxpayer grievances.

6. A lot more remains to be done. The Department needs to reinvent itself to meet the challenges of the next 50 years. The Department should concentrate on its core functions of data mining, risk profiling and risk-assessment; tax enforcement and recovery; dispute resolution and grievance redressal; taxpayer awareness and education; and other administrative, judicial, audit and Parliament-related functions. One area of concern is litigation with taxpayers. Department is filing appeals in a routine manner without careful thought and examination leading to the Department earning the dubious distinction of being the biggest litigant in the Government of India. I have noticed that some of the appeals filed by the Department have been dismissed by the courts on account of gross delays. These issues require a relook at system of legal and judicial management. The Department also needs to strengthen its administrative structure, including its headquarters, to enable it to undertake greater responsibilities. It needs to evolve functionally to cater to highly specialized and new areas of work.

7. In a vast, populous and diverse country like India, a Department with a customer base of 3.5 crore taxpayers and nearly 10 crore PAN holders, needs huge resources for manpower, infrastructure and communications systems. I am aware that there is a strong case for increasing the manpower and material resources of the Department. But huge resources bring greater responsibility. The Department should gear itself up to bear the increased responsibility of managing its resources efficiently and effectively.

8. Department has revised its **Citizen’s Charter** to reflect the endeavor of the Department to meet the aspirations of the people of India. I dedicate the new Citizen’s Charter to the nation. On this Occasion, I extend my best wishes to all officers and staff of the Income Tax department.
