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A NEW TAX PACT

Tax system needs efficiency in case selection, consistency in assessment

AN ECONOMIC CONTRACTION this year will deal a severe blow to tax collections. With a shrinking tax base, any calibration of rates or the tax base is difficult since a hurried approach can have wider consequences. In light of the limited policy space, the only tool available to the government to maintain its tax base is to urge voluntary compliance. Historically, compliance is achieved through a fine balance between enforcement and encouragement. In the past, while enforcement-driven measures have been implemented, the taxpaying population has remained at a fraction (6 per cent) of the total population. Thus, the only way to boost collections is to build trust between the administration and the taxpayer. To this end, the government has announced measures to usher in transparency in the system. This includes a taxpayer's charter and faceless assessments.

A taxpayer interacts with the system at numerous instances, therefore, compliance is also a function of the perception of the administration. Perceived complexity can discourage individuals from filing returns. This could reflect simply in the difference between the number of taxpayers and the returns filed — the former exceeds that latter by around 20 million. Such behaviour is bound to impact tax collection. With the lower withholding rate this year on certain incomes, it is important that taxpayers file their returns on time.

In practice, a taxpayer's charter is often perceived as a means to build taxpayer's trust, especially in countries where compli-

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ance is an issue. Countries such as the UK and Canada had introduced a charter in the 1980s, while India earlier had a citizen's charter. The charter is a document that lists a taxpayer's rights and obligations. India's citizen charter also specifies timelines for completion of different administrative processes. However, a charter does not necessarily translate into law. It remains, as in many countries with exceptions such as Germany, a document that lists the standards that the tax department imposes on itself. Therefore, these cannot be enforced, unless backed by legislation.

While the rights and obligations mentioned in India's new charter — such as confidentiality, right to representation and fair treatment — are in line with global practices, there are a few interesting additions. In the new form, India's charter conveys a commitment to reducing compliance costs in administering tax legislation, holding its authorities accountable and publishing a periodic report of service standards. While these are important considerations for a taxpayer, it is critical that the details are spelt out concerning how these may be implemented in practice. Ideally, a tax ombudsman can ensure that some of these standards are met. However, in 2019, the cabinet approved the abolition of the quasi-judicial post.

The other important element of the government's proposal is faceless assessment. This tends to the taxpayer's grievance that the assessment process is often bogged down by corruption and delay. To end personal interface, e-assessment was intro-

duced in 2019, wherein a taxpayer could digitally respond to any query related to their return. Developing this idea further, faceless assessment now seeks to further automate the case selection and the distribution function of the assessing officer — assessment, scrutiny and drafting order — among various units located outside the jurisdiction of the taxpayer. The intent of this initiative is to divest and distribute the functions of a single assessing officer so that assessment is carried out in a fair manner. This does not apply to search and seizure cases, and cases related to tax evasion and international taxation.

While this can perhaps alleviate concerns of possible corruption, it is important that it does not undermine the concerns of taxpayers. Tax returns can be voluminous and the information contained therein can be unique. Therefore, taxpayers must ideally have an opportunity to explain their case in person. Further, for smoother functioning of the new system, swift co-ordination is necessary among various units.

One of the major concerns for the taxpayer has been dispute resolution. There is evidence of inconsistent and delayed decisions often culminating in the poor success rate of the tax department at various levels of dispute. If the commitment to a fair and impartial system and a time-bound resolution of matters is to be met, the new processes, with reviews and anonymity, must ensure efficiency in case selection and consistency in assessment.

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