

## **Hard Task Is To Bring Habitual Jumpers Under Tax Net** THE FINANCIAL WORLD

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The Finance Minister's order to the Income Tax Department to target persons with bank lockers *for* filing tax returns reflects the desperation of the ministry to find new tax payers. Keeping in view the manpower required to enforce this, it appears to be a penny-wise, pound foolish approach to target people with bank lockers and credit cards. Not to *forget* that the Income Tax department is already overburdened with the rising number of tax returns, mostly nil returns due to the *one* by six criterion.

Inability of departmental officers to take quick and pragmatic decisions and a performance evaluation system that is heavily skewed in favour of tax collection affects adversely the department's productivity. High tax rates, low income thresholds *for* entering the tax net and an *ineffective* tax administration together create opportunities that encourage tax-payers to arrange affairs so as to avoid being caught in the tax net.

My interaction with the assessee tells me that the assessee has more than *one* reason to play the evader:

There is no denying the fact that the main object of taxation is to collect revenue *for* the larger public good. Other countries of the world, specially some European *ones*, have a personal rate of income tax which is much higher than the 30 per cent rate in India. However, the striking *difference* in the Indian context is that the government provides no social security *for* the unemployed, the retired, the uneducated *or* those who are terminally ill. While education and medical facilities are available in the urban areas, the quality of both falls much below desired standards

Schemes *for* the unemployed announced from time to time have only scratched the surface of the problem with substantial amounts not reaching the intended target population. Indians have, therefore, to provide for their old age, their medical needs, education of their children, and marriage expenses of daughters. In this environment, far from there being a stigma *on* tax' evaders, such' practice is socially accepted and approved in every strata of Indian society. In a nutshell, people feel that the government policies, taxes and provisions are not in synchronization with social requirements of the citizens.

Thus, the department has the onerous task to bring into the net people who have a seemingly convincing philosophy to back their jumping the system everynow and then. To accomplish the arduous task, the department will have to concentrate only on its key functions : make reliable tax assessments, detect large tax leakages and enforce compliance through convincing or goading, instead of getting bogged down with the load of regular trivials/clerical job which can be handled by less focused group of people.

There are *few* suggestions *for* improving the tax collection:

- ❑ A single and moderate tax rate of 20 *or* 25 % across all taxpayers and high-income thresholds;
- ❑ The outsourcing of key tax compliance processes to a specialist, (Outsourcing) could drastically change this public perception. The department will then be able to concentrate *on* its key functions, make reliable tax assessments, detect large tax leakages and enforce compliance. Some of the key processes that could be outsourced are:
  - ❑ filing income tax returns .
  - ❑ Completing prima facie assessments;
  - ❑ issuing tax refunds, income tax clearance certificates, withholding tax orders, permanent account

numbers, tax deduction account numbers;

- receiving taxes and various applications for registration. For example for trusts etc.
- issuing notices for assessment proceedings and all routine correspondence with tax payers and the public.
- Liberations may help in minimizing the arbitrage opportunities which have given successful results when applied *on* exchange control regulations by the RBI through the delegation of powers to commercial banks as it has shown the judicious *outsourcing* of its functions.
- Providing incentives for settling of disputes with taxpayers; . Stiffer fees *for* filing tax appeals. . Penalizing tax officers *for* tax assessments that do not stand the scrutiny of appellate proceedings.
- Harsh and effective deterrents to unlawful behaviour will instill fear *for* law and help reduce tax offences.
- Permitting officers of a particular level only to interact with the assessee. This is necessary to reduce chances of arbitrage.
- Educating the general public through seminars, talks and meetings.
- Recognition to the counsel who convinces and brings a maximum number of new assesseees in the tax fold.