Tax administration in India

What is the issue?

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- India has taken various initiatives to improve tax administration in recent decades; the latest one being the GST reform.
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- The developments bring to the fore the ideas of taxpayer's rights and taxpayer's obligations.
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How has tax administration been?

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- The initiatives and reforms in the past, despite its own benefits, have been causes for many tax disputes as well, due to the shortfalls in them.
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- **DTAAs** - Double Taxation Avoidance Agreements were signed with different countries to attract investments.
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- However, the exploitation of legal loopholes in these DTAAs led to multiple disputes relating to capital gains.
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- **Transfer pricing** - the mechanism provided for rules and methods for pricing transactions between enterprises under common ownership or control.
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- Despite introducing a dedicated transfer pricing segment in the Income Tax Act, the determination of price of such international transactions in open market conditions led to chaos.
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- India thus ended up being party to more than half of the global transfer pricing disputes by 2014.
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- **Income Tax Act** - retrospective amendments were made to the Income Tax

Act after the government lost to Vodafone on a capital gains dispute case.
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- The corrective measures were aimed at augmenting the government's revenue generation capabilities and also countering abusive tax avoidance strategies by taxpayers.
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- **GAAR** - the revocation of ‘presumption of innocence’ of the taxpayers under General Anti-Avoidance Rules is another contentious issue.
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- Under this, the burden falls on the business entities to prove that their tax mitigation techniques do not qualify as ‘impermissible avoidance arrangements’.
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- This goes against the fundamental principle of ‘innocent unless proven guilty’.
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- **GST** - the latest GTS reform has apparently achieved a balanced model of fiscal federalism through a dual GST system.
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- However, there seems to be many procedural complications with GST Network, other technical glitches, etc.
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- Tax collections, input tax credit claims and tax refunds are bound to face the impact of these technical and procedural roadblocks.
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- Ex: cash crunch woes due to the delayed refunds - a prominent grievance of the trading community after GST implementation in Malaysia.
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What lies before the government?

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- The GST reform is for sure a constructive approach by the government if not for its minor shortfalls.
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- As, GST seems to have recognised and materialised the major recommendations of the Tax Administration Reform Committee formed in 2014.
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- The provisions include -
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i. improvement in taxpayers’ service,
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ii. enhanced use of information and communication technology,
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iii. exchange of information with other agencies,
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iv. expansion of tax base, compliance management, etc.
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- These measures can result in a higher degree of trust between the tax collector and taxpayer.
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- The recent introduction of a citizen’s charter in both direct and indirect tax statutes can help in enforcing the existing rights.
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- India is thus witnessing a shift from enforcement-based strategies to service-based strategies in tax administration.
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- But only a proper understanding and implementation of these can bring in a fair balance between the rights and obligations of taxpayers.
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Source: The Hindu

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