

## Tax administration in India

### What is the issue?

\n\n

\n

- India has taken various initiatives to improve tax administration in recent decades; the latest one being the GST reform.

\n

- The developments bring to the fore the ideas of taxpayer's rights and taxpayer's obligations.

\n

\n\n

### How has tax administration been?

\n\n

\n

- 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.

\n

- **DTAAs** - Double Taxation Avoidance Agreements were signed with different countries to attract investments.

\n

- However, the exploitation of legal loopholes in these DTAAs led to multiple disputes relating to capital gains.

\n

- **Transfer pricing** - the mechanism provided for rules and methods for pricing transactions between enterprises under common ownership or control.

\n

- 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.

\n

- India thus ended up being party to more than half of the global transfer pricing disputes by 2014.

\n

- **Income Tax Act** - retrospective amendments were made to the Income Tax

Act after the government lost to Vodafone on a capital gains dispute case.

\n

- The corrective measures were aimed at augmenting the government's revenue generation capabilities and also countering abusive tax avoidance strategies by taxpayers.

\n

- **GAAR** - the revocation of 'presumption of innocence' of the taxpayers under General Anti-Avoidance Rules is another contentious issue.

\n

- Under this, the burden falls on the business entities to prove that their tax mitigation techniques do not qualify as 'impermissible avoidance arrangements'.

\n

- This goes against the fundamental principle of 'innocent unless proven guilty'.

\n

- **GST** - the latest GTS reform has apparently achieved a balanced model of fiscal federalism through a dual GST system.

\n

- However, there seems to be many procedural complications with GST Network, other technical glitches, etc.

\n

- Tax collections, input tax credit claims and tax refunds are bound to face the impact of these technical and procedural roadblocks.

\n

- Ex: cash crunch woes due to the delayed refunds - a prominent grievance of the trading community after GST implementation in Malaysia.

\n

\n\n

## **What lies before the government?**

\n\n

\n

- The GST reform is for sure a constructive approach by the government if not for its minor shortfalls.

\n

- As, GST seems to have recognised and materialised the major recommendations of the Tax Administration Reform Committee formed in 2014.

\n

- The provisions include -

\n

\n\n

\n

- i. improvement in taxpayers' service,  
\n
- ii. enhanced use of information and communication technology,  
\n
- iii. exchange of information with other agencies,  
\n
- iv. expansion of tax base, compliance management, etc.  
\n

\n\n

\n

- These measures can result in a higher degree of trust between the tax collector and taxpayer.  
\n
- The recent introduction of a citizen's charter in both direct and indirect tax statutes can help in enforcing the existing rights.  
\n
- India is thus witnessing a shift from enforcement-based strategies to service-based strategies in tax administration.  
\n
- But only a proper understanding and implementation of these can bring in a fair balance between the rights and obligations of taxpayers.  
\n

\n\n

\n\n

**Source: The Hindu**

\n

