Rethinking tax policy and tax administration

Indian Economic Policy Strategy Conference
12-13 January, 2015
Institutional framework within the Executive

- Framework through which tax policy is developed
- Framework through which tax policy is implemented (tax administration)
Institutional Framework for tax policy (As is)

- Tax policy making is exclusively the domain of the MOF;
- Institutional framework for tax policy is fragmented across Departments within MOF;
- Absence of an integrated Tax Policy Unit;
- Strong dominance of the tax administration in policy-making.
Institutional framework: Cross country experience

• Centre for Business Taxation, Oxford University has studied the existing framework in 10 countries;
• Study covers Australia, Finland, France, Germany, Ireland, Jersey, New Zealand, Sweden, UK and the USA;
• These are countries where the tax policy unit is located in the treasury and is independent of the tax administration; the latter’s role is very limited.
Key findings of the Study

• In all countries, the importance of tax policy-making is undervalued and, it is under-resourced compared with other functions of government;

• In every country, tax policy is made and influenced by a very small group of people. The narrowness of the process has the potential to create unbalanced outcomes in the absence of other safeguards;

• The fundamental link between taxation and representation has been weakened in many countries; this potentially limits governments’ ability to undertake tax reform.
Key findings of the Study

• Most of the tax policy-making processes within government is concentrated within one institution, to the detriment of policy outcomes;

• There is a lack of challenge to emerging policy ideas in some countries that weakens policy development;

• The potential contribution to the tax policy-making process that can be made by the tax administration is generally undervalued;
Key findings of the Study

• Governments do not sufficiently encourage external institutions to participate in the policy process, and rarely maximize their potential to add value to it;

• Executive believes that parliament adds little value to the policy process.

• Experience of locating a tax policy Unit outside the tax administration is not an unqualified success. Hence, the need for a more balanced mechanism for developing tax policy.
Institutional framework for tax policy: Way forward

• Build capacity for developing tax policy both within the Public Finance Unit of Economic Division and the TPL / TRU in Department of Revenue;

• Activate the mechanism as it existed in the 1980s;

• Delink tax policy from the Budget exercise;

• Set-up Tax Reform Committees more frequently to make recommendations on tax policy issues;

• Sponsor research program outside the Government for analyzing tax policies.
Institutional Framework for tax administration: As is

- Statutory bodies created under CBR Act
- Organized by type of tax;
- Functions are not specified in CBR;
- In practice performs legislative, executive and judicial functions specified in the tax laws;
- No legally enforceable accountability;
- Lacks autonomy;
- Chairman and members of the two Boards perform the dual function of a statutory authority and Government;
Restructuring the tax administration: Key issues 1/2

• What should be the level of autonomy?
  – Departmental form
  – Statutory body but wholly dependent on Government
  – Statutory body enjoying a high level of autonomy in respect of financing, governance, personnel policy, procurement policy, and accountability relationships
Restructuring the tax administration: Key issues (2/2)

• How should the TA be organized?
  – Type of tax (e.g., with departments responsible for income tax, value added tax, excise taxes, and other taxes);
  – Functions performed (e.g., with departments responsible for taxpayer audits, collection of tax arrears, and other functions);
  – Type of taxpayer/client (e.g., with departments responsible for large enterprises, small/medium enterprises, wage and salary earners, and other taxpayers); or
  – Combinations of two or more of the types of organizational structures above.
Restructuring TA: Way forward

• Merge the two Boards into a single TA;

• Reorganize the internal departments on the basis of functions performed and type of taxpayers;

• Provide autonomy and fix responsibility and accountability;

• Introduce a comprehensive and separate tax procedure code
Thank You