

# **Rethinking tax policy and tax administration**

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# 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

(1/3)

- 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

(2/3)

- 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

(3/3)

- 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**