



**IMPROVED TAX PAYER SERVICES: HOW
TO STRIKE A BALANCE BETWEEN COMPLIANCE
AND FACILITATION- *LESSONS LEARNT FROM
KOREA AND SINGAPORE***

BY

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FOREWORD

While going through the exercise of making this paper, we felt that the phrase “Facilitation for Tax payment” is something like making Lord Shiva consume more poison for the sake of humanity yet not feeling the pain of it . There were differences in the group regarding the quantum and methods to ‘facilitate’ and hence, there is delay in submission of this paper. Sincere apologies to The ADG. We hope we have been able to come up with some substance.

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A. Introduction:

a. The perception of 'Tax' is that it has and always be associated to some amount of pain. It is to part with some hard earned money. A Tax Collector is not viewed as a friendly person. His role becomes further challenging when Chanakya in his book-*The Arthshastra* writes-“ Collection of tax should be done just like extracting nectar from flowers; without causing any harm and damage to flowers.” Therefore, the very objective of a Tax Policy is- “appropriate balance between the three different but related objectives, namely ensuring efficiency of a market economy, ensuring efficiency of the state with respect to its goals of providing requisite public goods and promoting equity, or what is often referred as good governance, and ensuring that the incentives for compliance are not distorted in a self-defeating manner”.

b. Most citizens dislike paying taxes. Tax aversion is because of decoupling of tax payments and the public goods obtained in return. Further, there is no influence of tax payers over tax spending. If we have to improve the Tax- payer services, there is a need to understand the psychology of tax payers. The key lies in cultivating conscience and focus on Behavioural Economics i.e.to recouple payment of taxes with its benefit, widely publicized information on the allocation of tax across expenditure, inform citizens on where tax money is being spent, increase taxpayers' engagement and compliance and allow taxpayers to express non-binding (advisory) preferences regarding the use of their tax money. The most crucial to stress upon is to provide the citizens the insights regarding tax and benefit policy by raising revenues efficiently, minimizing economic distortion, re-distribution of income and minimizing fraud and errors.

c. The topic has been chosen as in the present day context of Indian Economy, it is a challenge to reduce tax -gap by enhancing Tax- payer facilitation and

ensuring compliance. The tax- gap can be reduced by broadening the tax base i.e. getting more Tax- payers registered. Besides, a proper calibration of the threshold level of exemption and review of goods and services currently exempted, needs to be done. The stakeholders in the whole gamut are the Registered Tax- payers and the Government in the role of treasurer and manager of the tax expenditure.

d. Who are our tax payers?

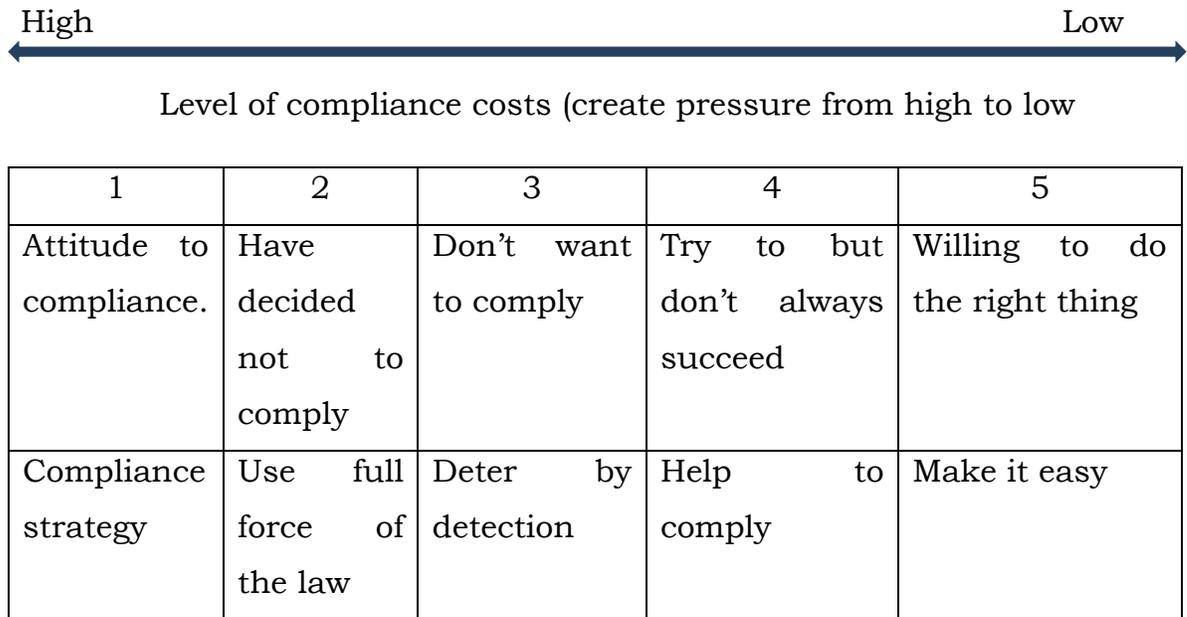
The indirect taxes are paid by every citizen of the country for the goods and services they consume with certain exemptions. These taxes paid by common public are deposited to the Government kitty through the Registered tax payers of Central Excise, Service Tax and Importers that constitute the organized sector.

Role of Individual Tax Payers: All individuals in the country are paying indirect taxes but the sale and purchase of goods and services are not correctly recorded and accounted for. There is no insistence for Receipt of purchase by the ultimate tax payers even though the taxes are being borne by them. This results into suppression of the transactions made by the retailers/ dealers /manufacturers and is one of the reason for tax- gap. If we incentivise the citizens to insist on a receipt for all the transactions by way of schemes like cash back schemes / free coupons / lottery tickets etc, there will be more inclination by the Tax-payers to get the transactions recorded. Computerized billing system at retail outlets and an awareness through education/ publicity among the ultimate Tax- payers that if they don't get receipt of the transaction, the tax paid by them, does not reach the Government , can be a stepping stone towards this goal.

Role of Registered Tax Payers: The registered tax payers have actual interface with the Tax -administration. They are the target group who are to be facilitated by means of improved facilitation. To understand the psyche of the Registered tax payers, it is a must to provide increased facilitation level aiming

at increased compliance. Researches suggest that the Registered tax payer's attitude to compliance is as per the model given below. Accordingly, there is a need to adopt the compliance strategy.

Compliance model:



Both the extreme of the table constitute very less percentage of population. The focus should be on the people falling under Column 3 and 4. The challenge is to drift the population towards the right side of the table.

e. The general complexity of tax laws coupled with the relatively large populations of taxpayers to be administered means that all revenue bodies must rely substantially on taxpayers' voluntary compliance to achieve the outcomes expected of them. Taking a cue from the behavioural pattern of the tax payer, explained above, it is imperative that the tax policy should aim at improved Tax -payer service delivery to encourage the willing Tax- payers to comply voluntarily and at the same time should aim at making it lucrative both economically and socially for the Tax- payer to comply voluntarily. In fact, it was seen that the Taxpayer service delivery function can and does play a crucial role in the administration of the tax legislation in the country. Providing

services that are user-friendly, in the sense of being accessible and understandable for all, helps to maintain and strengthen the taxpayers' willingness to comply voluntarily and thereby contribute to improvements in overall levels of compliance with the laws.

f. Acknowledging the role of trade facilitation to boost revenues, WCO has set up a Procedures and Facilitation Sub-Directorate under its aegis. The Procedures and Facilitation Sub-Directorate is the Sub-Directorate in the World Customs Organization that primarily deals with securing and facilitating legitimate global supply chains through the simplification and harmonization of Customs procedures. In order to accomplish this, the Sub-Directorate, working closely with the WCO Members, develops international standards covering all aspects of trade. The unit has also developed recommendations to WCO Members that, if implemented, will contribute to trade facilitation.

g. The European Union in the 18th General Assembly of the Intra- European Organisation of Tax Administrations held at **Belgrade, 3 July 2014 has recognized the role of facilitation measures to boost revenues of the member states and therefore, the theme of the said General Assembly was** “engaging with tax-payers to improve compliance”. The opening address of the said GA is as under-

Quote

“There have been many developments at national, EU and international level which should help improve tax compliance substantially over the coming years. Yet, at the same time, many countries are still facing difficulties in finding the tax revenues to finance their public policies, and compliance (or lack of it) remains a central challenge for tax administrations. Recent studies showed that the size of this challenge – both in the EU and beyond – is still extraordinary. Losses due to tax fraud and evasion are estimated at several hundred billion euro a year in the EU alone. The shadow economy accounts

for nearly 15% of EU Gross Domestic Product. And the VAT gap amounted up to 18% in 2011.

To address these problems we have to take a dual approach.

On one hand, enhancing voluntary compliance to safeguard tax revenues must be at the core of every tax administration's mission. We must make it easier for those who want to respect their tax obligations to do so.

On the other hand, we need to come down hard on those who deliberately seek to evade taxes, or who engage in aggressive tax planning to minimise their contributions.

This is important not only from a revenue point of view, but also to ensure fairness in taxation. And, in line with your theme today, this fairness is essential to engage with honest taxpayers and ensure their continued compliance too.”

Unquote

h. CBEC as the apex body for administering the levy and collection of indirect taxes of the Union of India viz. Central Excise duty, Customs duty and Service Tax, and for facilitating cross border movement of goods & services, it has formulated its Citizens' Charter to improve the delivery of its services. The said Charter is the declaration of its mission, values and standards to achieve excellence in the formulation and implementation of Customs, Central Excise and Service Tax policies and enforcement of cross border controls for the benefit of trade, industry and other stakeholders. The said Charter is also the benchmark to determine their efficiency . It has envisaged Service Functions comprising of following-

- Dissemination of information on law and procedures through electronic and print media

- Enabling filing of declarations, returns and claims through online services.
- Providing information on the status of processing of declarations, returns and claims
- Assisting the right holders in protecting their intellectual property rights
- Responding to public enquiries relating to Customs, Central Excise and Service Tax matters
- Providing Customs services such as examination of goods and factory stuffing of export goods at clients' sites, as per policy.

However, as we understand, today is the time when the entire world is linked through continuous flow of information. Also, there is greater inter-dependence and linkages; there are international framework and regulations to guide various administration in terms of their functionality. As such, the above vision, mission, objectives and strategy of CBEC should be analysed in terms of the same of other countries of world to look into the role and relation between facilitation and compliance in maximizing tax -collection. Our study is limited to India, Singapore and South Korea only.

B. Experiences In South Korea

a. A sense of self- pride was displayed by the Korean Customs when they declare themselves as the 'Worlds Best Customs to realize an Advanced Trading Country' . This has gone a long way in improving the morale and motivation of the Customs officers.

b. The citizens too are Duty-bound to pay taxes. It was observed that in South Korea, the Constitution of South Korea made payment of taxes as prescribed under law, a duty of every citizen. Probably, this also makes a positive impact on the psyche of the Tax- payer that by paying the due taxes , he is performing a Constitutional duty and is contributing to nation building.

c. There was extensive use of information technology in the Transaction processing on the Customs side .It is used for targeting in the RMS system, where more than 95% of the consignments were allowed to be cleared without examination and the consignments which were opened for examination, the hit rate was almost 100% i.e. something wrong could be found out.

d. There was heavy reliance on Informational services to reduce the compliance costs.

e. There were other facilitation measures like ACP scheme, wherein the compliant Taxpayers were extended the facility of deferred payment of customs duty for a period upto 3 months.

f. Also, there were schemes under their GST regime like the Cash receipt System (CRS) and the E-invoicing system. CRS helps to bring cash transactions on record thereby preventing any presence of informal economy. The E-invoicing system accounts for each and every transaction further ruling out the possibility of any parallel economy.

g. An important lesson to be learnt from Korea Customs is in the field of Intellectual Property Rights. Protection of Intellectual Property Rights and

effective prevention of their misuse is an important aspect in any country's claim for being a major trading hub which involves an intrinsic trust in its ability to enforce Intellectual Property Rights.

h. Korean Customs has developed and is using a computerized trademark searching system which enables searching image, right holder, brand name etc. This also includes a violation alert system which issues an automatic alert upon violation of declared trademarks. [There are 3122 trademarks declared]. The system also pops up a warning message when goods of high risk trademark are declared.

i. Moreover, Korean Customs has also established a Customs to Business cooperation which involves a direct-line between Customs and Right holders. The National Police Agency (NPA), Korean Intellectual Property Office (KIPO), The American Chamber of Commerce in Korea (AMCHAM), European Union Chamber of Commerce in Korea (EUCCK) are closely involved with the Korean Customs in the formation of Joint Investigation Support Team to investigate intellectual property rights.

j. There is a strong emphasis on Data collection and Data analytics by extensively using information technology to frame the new tax collection strategies. Also, there is an almost every day exchange of data with other Departments so that any tax evasion is red- flagged at the earliest.

C. Experiences In Singapore:

a. Tax administration was non-intrusive and technology- based. The Tax Department has transformed itself from being a Tax- collector to a Customer oriented service organization and they believed that excellence in service delivery would lead to reduction in cost of compliance and thereby, would increase voluntary compliance.

b. The emphasis on the Capacity building of the tax administrators and the compensation structuring was such that the tax administrators showed an immense sense of belongingness to the Organization and also, that they were contributing to the nation building. Employee engagement programmes were run every year to gauge on- work satisfaction levels of the Tax administrators and if the need was felt, corrective measures were taken.

c. The capacity for change is a competitive advantage for organisations. Taking this into consideration, Singapore Customs followed three policies-

i. One, Singapore Customs was relentless in pursuing its mission, but it also *nurtured the health of the organisation*. It invested in practices that helped staff own organisational issues and care for its well-being. It did so by reaffirming that Customs officers' work, voice, and well-being mattered.

ii. Two, Singapore Customs *recognised that deep and lasting organisation transformation happened only when people changed*. It engaged staff in conversations and reframed mental models of their work, invited and gave them a choice to participate, equipped them with information and new skills, and empowered them with a safe environment to experiment.

iii. Three, Singapore Customs *designed structures and systems to enable the practice of leadership across the organisation*. Firstly, it created the conditions for practice by enabling Customs officers to take ownership of organisational issues and hence share in organisational leadership responsibilities. Secondly,

it nurtured a corporate culture of "openness and mutual respect" and reduced the power-distance gap with open communication and an invitation to act. Thirdly, it established various avenues for Customs officers to influence initiatives that impacted them. Last but not least, it equipped supervisors with the necessary skills to develop people as coaches. Even non-graduate officers led teams, were appointed as mentors to younger colleagues, and taught at the Customs Academy. For change to permeate the organisation, change leaders had to be at work at all levels of the Organization. It followed- *"Everyone, as long as you supervise someone, is a leader. Everyone has that role."*

D. Evaluation of these experiences and the relevance in the Indian context:

a. We could appreciate that people would readily undergo pain if they believe it will benefit them personally immediately or in the foreseeable future. The moment they feel the results (howsoever small) are not coming in, this motivation is gone. Thus, for a government which needs to collect taxes (pains), the need to advertise/ demonstrate effectively, the services (gains) it is providing to the citizens can hardly be overemphasized. This may be in the form of providing roads, hospitals, schools, potable water, law and order, safety of women, a clean environment etc. Tax collecting arms of the government should actively involve themselves in this advertising of the gains. We could see this in South Korea as well as in Singapore. The Tax Administrators had a holistic view as to how they are playing an important role in their Country's development. The Tax payers could also witness that their money is used by the Government to build infrastructure and other public goods and it was well advertised in the form of booklets, pamphlets, posters etc. at Tax offices, in Billboards displayed at various public places and it was also shown on TV. Therefore, CBEC should also closely associate itself with the Ministry of Information and Broadcasting and spread the message as to how the tax administered by it is being used for public good. CBEC should present its work in such a manner that it makes to appear the voluntary tax- payers as nationalists and all evaders as anti-nationalists (persons not doing their fundamental duties) so that in a scenario when voluntary tax- payers are presented as staunch nationalists and tax evaders as anti nationalists, the rate of voluntary tax compliance may sky- rocket.

b. We could appreciate that both in South Korea and Singapore, the Tax-administrators and the Tax- payers worked with each other, they were not hesitant to approach each other and there was absolutely no trust deficit.

Perhaps, when CBEC has declared 2015 as **Year of TAX PAYERS SERVICES** and for that purpose a **Directorate of Tax payer Services** has been created, we can take up the major challenge that lies with us which is to increase the tax -payer willingness to do the right thing (pay taxes on time, file return etc.) and make things easier for them. A man starting a business is willing to pay tax but the system through which he has to navigate is complex. To encourage compliance, focus should be to make things easy. We as Department should reach to the assessee first instead of them approaching us. CBEC should start to disseminate information regarding indirect tax laws through print media /radio/ visual medium/ internet and by conducting regular workshop at zonal level/ NACEN.. In Singapore and South Korea, we found that the Tax Administration trained consultants who visited various Tax payers to help them comply with tax laws. On one hand ,it created employment and on the other hand, it helped the Tax payers and eased out their problems; overall resulting in increased compliance. CBEC can emulate this module as it is in spirit of Tax payer facilitation and increased compliance. We may create **INDIRECT TAX PAYERS SEVA MITRAS** who may provide all the necessary information to the potential tax payers or if required, may even visit them providing them all inputs regarding their eligibility , obligations and rights and duties as a Registered tax payers.

c. Use of ICT ,Data mining tools and Data Analysis in vogue in South Korea and Singapore may well be replicated by CBEC also particularly, when there is acute shortage of staff at all levels. In fact, we were told that in year 2000, Korean Customs had a manpower of 4500 which has reduced to 4300 in year 2015; yet the tax collection, fraud detection, seizure cases etc. have increased manifold. The reason is that they have used ICT extensively to supplement the shortage of manpower.

d. Another area we could appreciate was that the Tax administration in South Korea and Singapore helped and groomed officials as per their skills and deployed them accordingly. There were incentives given for specialization .For

example,an official with IT background shall be retained in work related to ICT and a person good at investigation is allowed to continue there. We feel CBEC should emulate this.It will help in better management of available human resource and will also help officials aim for specialization.

E. Recommendations:

a. Certainty of Tax statutes

The clarifications that are issued from time to time by the Board can be front -rolled so that the statute / notification is accompanied with the examples to explain the intention of the Legislature so that the Tax payer is not forced to approach a legal forum for a clarification.

b. Communication with the tax payers

The data collection about the tax payer has to be comprehensive as that enables direct communication with the assessee. This would definitely help in reducing the compliance cost and improve voluntary compliance with tax statutes would increase.

c. Customs:

- i. In the case of Manufacturer Importers, the duty payment at the time of clearance may be deferred with and an option to pay duty interest free till certain fix time line.
- ii. Not charging interest and / or penalty, if any amendment is carried out by the importer subsequent to the clearance of the goods but before the initiation of PCA or OSPCA.(Develop trust with the importers)
- iii. Strengthen ICT infrastructure so that frequent system breakdown are avoided.
- iv. More frequent assessment and review of the performance of the tax intermediaries like Custom Brokers, accredited clients etc.,
- v. The information dissemination can be fast tracked by making intensive use of Information Technology by ways of mobile apps and net based communication strategy.

F.CONCLUSIONS-

Providing the TAX PAYER SERVICE is the heart and soul of the Tax- paying nation. The onus is with the Department to move from enforcement orientation to Service orientation. The training imparted in MCTP exposed us with plethora of initiatives taken towards service orientation in Tax- administration of other countries We learn it or lose it. The lessons learnt above and recommendation made in this paper may be accepted to add value to the service orientation aspect so that we achieve the mission of CBEC.
