SUMMARY OF FINDINGS

AND

SUGGESTIONS
CHAPTER 7
Summary of Findings and Suggestions

Introduction

The main focus of the study is to examine the functioning of the Income Tax Department. All the relevant areas like organizational structure, staffing pattern, powers and jurisdiction, assessment procedure and assessee satisfaction are covered. The main recommendations and conclusions are as follows, and it is hoped that these will be helpful for the betterment of the Income Tax Department.

Taxation is the most important instrument available to the government for marshalling financial resources. Taxation diverts resources from taxpayers to the government, which uses them to support itself and to provide public services. No matter how well designed the tax laws in theory are, they may fail to achieve their purposes in practice unless they are efficiently implemented. Taxpayers can be induced and if necessary compelled, to comply with tax laws. An efficient and effective tax administration is therefore a prerequisite, if a tax system is to fulfill its object of mobilizing tax resources.

Organizational Structure

The study is carried out on the organizational structure of the Income Tax Department, which has indicated that the structure is bound by limitations of closeness, secrecy and rigorous rules. During the study it is observed that the department had taken note of the discrepancies in its organizational structure and restructured it twice since the enactment of the act 1961, to meet the challenges of the present scenario. The structure is made more systematic and organized with enhanced authorities and responsibilities to various levels.

The study indicates that most officers and officials dealing with the daily routine work are inexperienced and incapable to handle day to day matters. Without
giving the consideration to qualification, training, work, experience and expertise, the officers and officials are assigned jobs. Most of officers and officials had completed their education in unrelated streams, so they do not have knowledge of tax accounting matters. Further it is observed that the span of control in the organisation is quite wide. There is lack of coordination among the different wards and ranges due to the communication gap, poor understanding and unhealthy competition. It is found that there is no coordination between Head Office and Investigation Wing. Most of the officers and officials are inexperienced and has no knowledge about the work assigned to them. They all depend upon the officers who are able and knowledgeable, which lead to the delay in solving the cases and completing the enquiries. Besides setting targets to dispose off the cases, the number of cases disposed off every year are very less, which clearly shows the poor planning. It is further revealed that the field officers are generally irregular and inattentive in complying with instructions and directions of the Head Office. Sometimes the cases get spoiled due to the unhealthy competition and self interests of the officials, for which department bears the losses. Moreover sometimes the relations between the superiors and subordinates are not healthy due to which they do not cooperate in their functioning, which directly lead to the delay in disposal of work.

While studying it is observed that Income Tax Departmental organisation has poor infrastructure. Due to the non availability of infrastructure the department has not been fully computerized. The employees have very basic computer literacy, which is not enough for daily jobs. Decision making power is centralized at higher levels and asesssees have to wait for long time for assessment results and decisions. In the present structure, the officers and staff are too much burdened with paper work and they have practically very little time to do genuine work.
The Income Tax Department plays a vital role in socio-economic development of the country. Most part of tax economy is collected through Direct Taxes. The collection of Direct Tax depends upon the Income Tax Department. So it is necessary and important that the organizational structure of the department is adopted to meet the growing needs of the administration. For this it is suggested that unnecessary hierarchical levels should be removed. The powers should be decentralized at proper levels to help in minimizing the span of control. The specialists should not be appointed at higher posts because they don’t have knowledge of all the matters. For the better functioning it is further suggested that more powers and responsibilities should be delegated at appropriate levels. By doing this they feel more motivated and close to the department. Another important thing is that, there should be coordination among different wards and ranges. Sometimes the cases are failed because of lack of coordination among authorities. If investigation wing prepares a case then Head Office should cooperate. It is possible only when the authorities are sincere and competent towards their duties. There is a need to do complete computerization in the department. Centralizing the processing of returns for a region should be done. This will help in issuance of orders and refunds promptly. There is need for restructuring the Income Tax Department. This means that all scattered sections pertaining to Income Tax Department should be brought under one building.

The machinery which is responsible for the functioning should be updated. Organisation must be staffed with personnel having knowledge, integrity, loyalty, restraint and discipline. There are number of organizational deficiencies like out-date concepts of administrative accountability, defective recruitment procedures, unproductive role performance, lack of integrity and status, absence of carrier development prospectus, a distorted scheme of rewards and punishment and inadequate training.
Further more, it is suggested that there is need for modifications in organizational structure to meet the demands of emerging changes in a world of economic relationships, necessitating greater reliance on internal financial resources. Grass-root levels need changes in organizational structure, to orient them more towards specialist tasks. It is required to prepare job description for various positions, including delineation of lines of responsibility and authority, creation of specialized units for tax auditing and tax investigation to improve taxpayer compliance. Further it is suggested that a unit to take legal action against tax offenders should be created. It is also suggested to increase in the functional autonomy of department in terms of legal, administrative and financial powers.

There should be effective supervision which ensures proper directions; coordination and control to help in improving efficiency. A close supervision between the authorities is especially important because of the coercive nature of the powers vested in the Income Tax Authorities.

**Appointment, Training and Control of Income Tax Authorities**

The success of administration depends on the ability, skills and knowledge of the personnel, who carry on the activities of the department. The first step in the recruitment of suitable staff is the preparation of clear job descriptions, setting forth the nature of the duties and responsibilities involved, the education and experience required and the salary and benefits offered. Candidates for various positions can be found internally or externally. It is desirable to establish a roaster of qualified persons. Aptitude tests should be desirable in certain cases and the recruitment process should seek to ensure that candidates understand the limitations of the job, and possess not only the requisites technical skills but also such qualities as a vocation for public service, a sense of responsibility and moral integrity.

Further it is observed that very long time between the advertising of the job and the actual appointment is taken. This creates a great deal of inconvenience and
harassment to the potential candidates, as they cannot take up temporary employment for fear of not being relieved in time. On the other hand, the government suffers from lack of competent person. There is need to cut short delays by modifying and streamlining the recruitment procedures.

Employees are the machinery of department. If any spare of machinery is not up to the mark in all respects the machinery will not run properly. The quality of work has deteriorated in government sector because we expect best from employees but pay worst. The principle of equality and justice is to be considered.

The recruitment of a suitable staff poses special problems. The number of people possessing the required skills may be limited, and in many cases, the private sector siphon off desirable candidates because it offers financial and professional conditions than the public sector, with its usually limited resources, find hard to match.

The present recruitment system of the department is not without limitation. During the study it is observed that there is not any political interference or any sort of pressure at the time of direct recruitment. The eligibility of the candidates at the time of recruitment is graduation in any stream. After selection the highly responsible and technical posts are given to them and they are incapable of handling such responsible posts due to limitations of knowledge and expertise.

It is not possible to guarantee the suitability of candidates through recruitment, as there is possibility of some unfit candidates entering the service. Therefore, the appointment in the first instance on probation is fine. The object of the probationary period is to give the appointing authority sufficient opportunity to observe and evaluate the ability, capacity and fitness of the employees. The probation period should be considered as an opportunity for the appointing authority to complete the selection process.
The interview test is intended to assess such qualities as coolness, initiative, depth of understanding, presence of mind, decision making ability, etc. The period of the interview is too small to judge the capability and capacity of a person. The few questions put at random may fail to reveal the real worth of a person. The interview should be done in an objective manner supplemented with psychological tests. Besides, patterned interview may be used which reveals the potentiality of the candidates. Expert must gauge the technical and administrative competence also.

Further it is observed that there is shortage of staff at all levels, which hinders the smooth functioning of the department. A large number of posts are vacant since last five years but no recruitment is made against the vacant posts of inspectors, stenos and clerical staff. Further the study revealed that the upper hierarchy grabs all the facilities and privileges and very little is done to remove the difficulties and problems of lower level officers and officials. Even the Sixth Pay Commission also gives great hike in the pay scales of class-I officers as compared to the lower officials. It will decrease morale of the employees at the lower levels.

The promotion policy adopted by the department is also not without problems. Income Tax Officials feel that recruitment from within should be based on merit cum seniority. The total time taken to get promotion from one post to another post is very long. It discourages the morale of employees. To get a promotion from Upper Division Clerk to Inspector, it takes twenty years of time and from Inspector to Income Tax Officer the time taken is almost same. It is also observed that some competent people qualify the examination but still they have to wait for many years to get promotion. The promotions from Assistant Commissioner onwards are based on Annual Confidential Reports. The method adopted by the department to write Annual Confidential Reports is not healthy enough to measure the ability of the candidates. It is also found that the
candidates selected through promotions are hesitating to take decision independently. Although, they have good experience in terms of time, but they lack knowledge to handle the most responsible and highly technical matters.

Further it is advisable to increase lower posts and retain only efficient officers who can extract work. Lower staff should be hard working and sincere. The vacant posts should be filled immediately. Next is the quality of officers, not merely in human terms but more important, in terms of ability. The officers directly recruited through competitive examinations rarely prove to be quite handy for Income Tax Department. Therefore, a policy change is called for recruitment for the Income Tax Department. The quality would improve greatly if the qualification for recruitment is restricted to accounting and law graduates only where direct recruitment is concerned. There may not be too many law graduates interested in taking up salaried jobs, but there will be no dearth of accounting graduates.

Another thing which hinders the smooth functioning is heavy workload. Steps should be taken to reduce this workload and the workload can be reduced by appointing new officers as well as clerical staff. As we know, the key to sound tax administration is finding good people and then training them, keeping them and protecting their integrity. The revenue services now have a very difficult time attracting and keeping the best people because the IRS pay scales have declined relative to those in the private sectors. It is also important that the hard choices be made on how best utilize the best people. Some of them clearly must be assigned to the critical tasks of drafting regulations, devising forms and internal manuals and organizing enforcement activities.

The salaries / allowances of the officers and officials should be compatible and comparable with their counterparts in private and public sector companies who are earning substantially more. If the salaries and needs of daily care of the
families of the employees are taken care of, there is no reason why they will not work sincerely and honestly.

The Income Tax Department must be able to retain the services of competent officials with high standards of integrity. It should be recognized that governments, on their efforts to attract people of the right caliber, are competing with tax consultants and other professionals in private sectors. Accordingly, conditions of service should be as attractive as possible, with provision of adequate remuneration, welfare schemes and retirement benefits. In order to improve tax administration, tax administrators should be provided with adequate recourses which can help them to do their work efficiently.

There is a need to bring about major changes in the performance appraisal system. The Annual Confidential Report should be replaced by Annual Performance Report and a copy of such report should necessarily be made available to the officer reported upon. The APR should become a tool for developing and improving the officers reported upon.

Further the study reveled that the quality of officers recruited through promotions from clerical positions should be improved. At present a certain quota is reserved to be filled by recruitment through promotions. Two steps might be considered for improving ranker quality. First, reduce the quota and next, promote on the basis of merit cum seniority not just on the basis of seniority. Intelligent and hard workers should be given more opportunities than others. Incentives should be given to boost the moral of good employees. It will help to increase the functioning of the department.

The lack of managerial capabilities seriously handicaps the effective functioning of the department. It is found that very few training policies are implemented by the department. Due to the shortage of well qualified training staff, poor training techniques to train the staff are followed.
Further the study reveals the shortcomings in the training procedure. Suitable training facilities for the staff are essential. Newly recruited staff is rarely fully prepared for the task they are to perform. A well conceived training program can thus do much to enhance the efficiency of the staff and motivate them by providing opportunities for personal development and carrier advancement. Training should include not only technical matters but also other aspect of revenue administration such as communication and public relations. Training is an investment which yields substantial dividends if properly administered and regularly provided.

Further it is observed that poor training techniques are adopted by the department. The trainers are not capable and committed. The expenses of training academies are very high and the allowances are very less. Printing work and other materials costs are very high. Another issue is that the training programs are not successful because the trainees do not attend the training seriously. Due to the adoption of the poor training techniques they found the trainings boring and less worthy. Training should be organized giving consideration to the needs. The courses and contents which are followed by the training academies are not sufficient to the officers and officials towards the growing needs of assesseees. Further it is found that there is shortage of staff at training academies and institutes and the available staff is not capable to train the officers and officials. The budget sanctioned by the government to these training academies is very less, which is insufficient to provide the better training infrastructure. Very few informal training programs are organized by the department.

It is suggested that most important prerequisites for an efficient and effective tax administration is undeniably the existence of adequate and well trained staff. Accordingly, person with the right aptitude and background for administration should be recruited and appropriate up-to-date facilities for on the job training for
all categories of staff should be provided. It is also important to possess the requisite management skills. Special consideration should be given to the establishment of regional training institutions to exchange ideas and experiences, by creating institutional facilities for training revenue cadres. Attracting and retaining good trainers through a well established scheme of incentives should be insured. The linkage between promotions and training should be established. Recruitment of staff should take into account the academic background of the employees, which will make them into good tax administrator after training. Long term and short term training programs should be planned, so that training becomes integral part of career development of employees.

For making the functioning of Income Tax Department more professional, citizen friendly and delivery oriented, it is necessary that the officers and officials are fully and properly trained by capable and committed trainers. In order to attract qualified and capable officers to the training sector, it is necessary to give them good incentives.

Faculty members are required to put in lot of additional working hours in order to design and execute training programs. If they are motivated to plan and take such initiatives, this can bring additional revenues to the training institute.

The economy is now booming, revenue collections are going up and deficits are coming down. The cost of the direct tax collections in India is the lowest in the world and, therefore, increase in training allowance is desirable as well as feasible.

Income Tax Department is switching over to fully computerize networked environment and is aiming at making the officers more computer responsive and customer friendly. Therefore, the training sector is expected to design training programs to bring about attitudinal change and also develop technical
competence of its manpower. The best talent amongst the IRS officers should be attracted to serve as faculty in the training sector if there are reasonable incentives.

Further it is suggested that steps needed to be taken for knowledge, empowerment of the trainers by providing them the best training opportunities in India and abroad. With the liberalization and globalization of the economy, it is necessary that the government servants are so capable and efficient that they should be able to compete with the best in the private sector. Tax administrators, in particular, have to get empowered and use their investigative skills to ensure that the taxes, which should flow to the government of India, do not get diverted to other countries. Training has a very important role to play in achieving this objective. Therefore, the tax trainers should be sent for being trained in training institutes of international repute in subject areas like fiscal policy, money lending, international taxation, e-investigation, training methodologies etc.

Training aspects of the Income Tax people should be given great deal of attention so that people don’t get annoyed with the dealings of Income Tax Authorities.

The training if properly designed is an investment which would yield rich dividends. There is a need to design economical methods. Training must be linked with carrier development. Training should not be a formality, but should be purposeful. Written information is by far the most economical as it can be used by a large number of persons without using official time.

At present, in service trained employees in the department have not been given any incentive by way of promotion, advance increment. As a result, the trainees themselves feel reluctant in evincing any interest in training programs and later on applying the newly acquired skills of their job situation. The participant in a training program lack seriousness and purpose, as there are no examinations
leading to certain qualifications. There is need that training must be sanctioned by an examination leading to the award of certificate, which should be given due weightage while promoting a staff member from one grade to another or from one post to another. This would provide motivation to learn more and more during the training courses.

The government does not provide adequate funds for the training programs. Besides, training resources are not distributed to any rational or equitable basis. It must be clear that human, rather than material resources hold the key to development. It is the human element through which its faculty of deciding the use of other productive factors involved determines the quality of results.

Most of the training institutions impart only theoretical training. Learning what tasks an executive performs does not make a successful executive. Academicians can do this as they have no responsibility for results. Training must be relevant to the practical situation.

Training programs are developed by Personnel Departments, without involving individual staff members or their staff associations. For any staff development policy and program to be affective and acceptable, it must not only have the backing, but also the active involvement of the staff side, through their staff association, in its formulation and execution. It is only in this way that mutual confidence can be secured. It is responsibility that creates and develops capability.

In the department, it has been found that the top management does not evince interest in the training programs, as they themselves are not fully trained for the job. There is a need to start the training program from the top. This would encourage the training of lower level personnel.
Training is designed primarily to induce more effective behavior. This is so, no matter whether the training is directed towards the work situation, management processes, educational contexts or the community in general.

The officers of the IRS, like their counterparts from the IAS may be allowed to take up deputation assignments with organizations under UNO, constitutional and statutory bodies, multilateral and bilateral organizations, apex bodies of industries and commerce, specified NGOs and organizations registered under the Societies Registration Act / Charitable trusts Act.

**Powers and Jurisdiction of Income Tax Authorities**

While studying about the powers and jurisdiction of income tax authorities it is observed that the authorities never go beyond their jurisdiction. All the authorities work within the boundaries of the powers assigned to them by the board. But it is observed that most of officers as well as officials misuse there powers. Sometimes to make influence in front of assesses they misuse their powers. It can also be seen at times that the officers unnecessary harass assesses by using their powers. There is a problem of corruption which is pervasive, especially at the assessment level. This is the root cause why the tax base is so narrow and the tax administration so ineffective. The authorities misuse there powers at the time of survey and during investigations also.

Further it is observed that the powers given to these authorities are insufficient to perform their duties. The power given to these authorities are not enough in regard to collect information, to call for information and during survey. At the time of search, even if the person is found guilty, the authorities do not have powers to impose tax at that time, instead of the case is finalized at the time of assessment. Sometimes the cases are failed because of less power given to these authorities. During the search, resources available in terms of staff, police, and information are very less. Further it is observed that the authorities feel that even if they
perform their duties efficiently at the time of search no incentives are given to them which cause de-motivation among the authorities and staff.

It is suggested that strict action should be taken by the government against the officers and officials who misuse their powers. Jurisdiction should be clearly mentioned. There should be provision to make complaint against the authorities who unnecessary harass assesses.

Furthermore it is suggested that the Income Tax Authorities should be given more powers to perform the functions. More powers are also necessary at the time of investigation and to collect information. Assessing officer should have more powers to resolve the cases. Time to time incentives should be given to increase the morale of authorities.

**Assessment Procedure**

The assessment procedure of Income Tax Department is quite complicated. While studying it is observed that the advocates, charted accountants and even Income Tax Authorities help assesses in tax evasion as these people know the loopholes of department. Another important factor is that assesses are not aware of the taxes. They do not file the returns on time. While discussion with the authorities it is observed that sometime the search cases failed because assesses approach the higher authority at the time of assessment. The field officers make the report in favor of assesssee because of vested reasons interests.

Another major flaw that the assessment procedure had that bogus Income Tax Returns claiming large refunds on the basis of bogus TDS certificates were being filed in companies’ circles. To prevent repletion of these types of scams in future the following steps have been taken. Introduction of the Electronic Clearing System (ECS) for credit of refunds directly in the bank accounts of the tax payers, in respect of refunds of certain types, it is proposed to make ECS
applicable for all refunds in future. It has been made mandatory for all tax payers claiming refund of tax to mention their bank account details in the income tax return. Letters have been issued to the cadre controlling Chief Commissioner to ensure that the books of refund orders should be kept in the personal custody of the Assessing Officer concerned. Further it is observed that the behavior of income tax officials is not cooperative. Officers never guide assessees properly.

After the restructuring made in 2000, it is observed that:

- Rupees Twenty Eight Hundred Crore of additional revenue is generated from the stop filers.
- Rupees Six Hundred Crore of additional revenue has been mobilised through expeditious disposal of assessment.
- Rupees Seventy Hundred Crore of revenue has been realized as a result of increase in the number of Commissioner (Appeals) and Tax Recovery Officers.
- 200% increase in productivity at the organizational level.
- Income Tax Department is down sized by 4.70%.
- Release of Rupees Three Hundred Crore per annum on account of reduced claim of interest on refunds.

However, it was expected in the restructuring proposals that the growth of revenue and increase in the productivity will be much more.¹

It has been reported in the newspaper regarding the tax evasion, that the Income Tax Department has nailed tax evasion of rupees 1,700 Crore by companies and high net worth individuals, who had filed returns online. During the verification of electronic returns, the department found that as many as 1,714 tax payers under the self assessment scheme (where tax payers determine their tax liability and

pay accordingly) had not paid their tax dues. In a few cases, the amount due was around rupees 100 Crore.

It may be mentioned here that the government made it compulsory for companies to file their returns online from 2006, for other large tax payers. This was made mandatory from 2007. About 750,000 e-returns have been filed by these two categories so far and they ought to have paid their tax dues by March 2008.²

Further it can be suggested that educating tax payers and providing information and assistance we can enhance the effectiveness of the Income Tax Department by increasing volunteer compliance. There is the need for broad education campaigns designed to improve volunteer compliance, aimed at the public at large and seeking to raise tax consciousness and tax conscience by explaining tax payer rights, duties and the rationale for paying taxes. Patriotism can be appealed to by implying that tax paying helps to build the country, suitable slogans can be devised and displayed in public places and in the media. Such campaign can bring public’s attention to the consequences of tax cheating, in the form of penalties, and make it clear that all those found guilty will be punished impartially as per the law. The law should be followed strictly so that while doing the crime one should have a fear of it.

There is also a need to provide the specific detailed information that tax payers need in order to complete their returns fully, accurately and on time. Tax payer must be informed where to obtain the tax forms, where, when and how to file their returns and pay the taxes due and what penalties they will incur by failing to fulfill their obligations within the established and limit.

Tax forms should be as simple and few in number as possible, and shall be accompanied by detailed instructions for their completion. It is the duty of

authorities to cooperate with Assesssee, make them aware about the law and some unclear aspects as well as terms. If the tax payers are illiterate the authority must cooperate with them in filing returns. Information should be provided to such tax payers by radio and television.

If voluntary compliance is to be achieved and relations between taxpayers and the revenue administration rendered as cordial as possible, officials must be prepared to assist taxpayers in an efficient, courteous and considerate manner. Tax offices should be made as convenient and comfortable as possible. Such offices, either in person or by telephone, can help small taxpayer complete their returns. Audio visual aids, such as video cassettes, can be used to explain filling procedures to groups of taxpayers, who can then ask for further help if necessary.

Tax laws are generally too complicated and difficult to administer. The efficiency and effectiveness of the tax administration would be greatly enhanced if the tax administration is consulted in the formulation of tax policy, with a view to ensuring the simplicity and administerability of the law. Frequent changes in the tax laws should be avoided as far as possible and the whole tax system is examined periodically with a view to revising tax laws that are costly or difficult to administer.

Development of a system of field audit especially for assessment and collection is also important for Income Tax Department. Development of action plans to guide operational activities and monitor performance at all levels. Conducting taxpayer surveys to identify register and control taxpayer performance. Department should create a system of revenue intelligence to keep watch on economic offenders. Department should organize regional level seminars and conferences of tax officials so that they can learn from each other's experiences. Department should develop a comprehensive scheme of incentives for tax officials to minimize the effects of temptations and consequent mutual
understandings between taxpayers and tax collectors. Sometimes the problem has resulted with the way tax officials are compensated. The targets or quotas themselves may be necessary enforcement tools. It is important to set the targets logical enough. Sometimes collectors will tend to meet the targets set even if twice as much is missed in the process. The administration should have an authority to get rid of employees that are not meeting their quotas or are otherwise not performing well. The prospect of loosing ones job is a powerful incentive to perform well.

Furthermore a great deal of attention has to be paid towards the behavior of Income Tax Authorities who directly come into contact with assessees. If the authorities make little change in their attitude and behavior and adopt a friendly relationship with assessees then the functioning of the department will be improved.

**Assessees Satisfaction**

Assessees are part of Income Tax Department. The taxes are collected from assessees. So the assessees must be satisfied with the efforts done by authorities. But the study revealed that assessees are not satisfied with the working of Income Tax Department. Assessees feel that behavior of authorities is not friendly. They never cooperate assessees at the time of assessment also. Even assessees feel that the authorities do not make them aware about the law and the consequences. While filing the returns they have to face lot of problems. The refunds claimed by assessees are not received on time.

Assessees on their part should cooperate in assessment proceedings. Income tax act should be very clear ensuring strict compliance of the provisions. The number of assessees can be increased by giving handsome concession to the assessees and by giving some incentives to the good regular taxpayers. The authorities should organize campaigns to make public awareness. The
authorities should gain the confidence of assessees by removing the harsh provisions from the law. Door to door surveys should be carried out to increase the number of assessees.

The chapter can be concluded by giving some more suggestions and it is sure if the Income Tax Department follows these suggestions the working can definitely be improved. It is suggested that after the completion of search at least 15% of the amount so collected should be rewarded to the deployed staff and officers. All the member of Income Tax Department should discharge their duties honestly without any pressure and fear. Every assessee must be listened to with patience and to be told very frankly about the duties and right of assessees. Assesees must be guided politely about the consequences and effects if the default is committed or tax is sought to be evaded. To make it friendlier with the assessee the bottom level at staffing should be widened and improved. Whereas the position is adverse at present, being the top level heavy and bottom narrow, particularly after the restructuring of the department. There should be some effective measures to check the workload given to an officer / official.