CHAPTER-VIII
THE NEED FOR FURTHER REFORMS

Reform outcomes in the Indian national scenario as well as in the states have been spectacular. Further reforms in fiscal areas are inevitable to sustain and maintain higher economic growth trajectory and accordingly it is suggested that-

(A) Key Areas in need of further Reforms:

The next round of reforms needs to focus on a number of key areas that have potential to further boost economic growth, while ensuring that the expansion becomes more inclusive. Recent reforms have made a number of sectors of the economy more dynamic, especially the services sector. However, there are still a number of barriers to growth in product, labour and financial markets and the provision of infrastructure, where reform is needed both at the central and state levels. While the optimal policy would be to remove those bottlenecks across the country, the creation of Special Economic Zones (SEZs) that aim to reduce a number of these barriers locally might demonstrate the benefits of such reforms and so act as a catalyst for more generalized change. But care needs to be taken as to the extent of tax concessions that are granted. Furthermore, taxation policies need to be reformed in order to create a truly national market and improve incentives and release resources for reducing bottlenecks in infrastructure, which are a key constraint on growth. In addition, education needs to be delivered more efficiently, so as to improve the development of human capital.

From the viewpoint of long-term growth, the old economy must be further unshackled. A key deficiency of India’s growth process has been a failure of the conventional industry to pull workers out of agriculture into gainful employment. Today, in contrast to virtually all successful developing economies, approximately 60 percent of India’s workforce still remains in agriculture. The revival of conventional industry requires reforms in the following key areas;

(i) Revival of Small Scale Producers-A large number of highly labour intensive products remains reserved for small scale producers and they operate in a very non-competitive and complacent environment. They should be encouraged to adopt new improved and more productive and
at the same time labour absorbing intermediate technology like the SSI sector of Japan. Such measures will open scope for competition and quality improvement vis-à-vis the large scale sector industries.

(ii) Flexibility in Labour Market Regulations-Labour laws must be reformed so as to restore the employer’s right to layoff workers upon adequate compensation to them. At present, firms with 100 or more workers have no legal way to exit since they cannot layoff their workers. This works as a major barrier to entry of new firms on a large scale. They hesitate to enter into a world that has no exit doors.

(iii) Faster Privatization of PSUs-Privatization of public sector enterprises needs to be speeded up for industries incurring loss or generating fewer profits. With almost two thirds of the industrial output of the organized sector in these enterprises, it will be difficult to stimulate industrial growth in the short to medium run without appropriate structural and organisational reforms in the public sector units.

(iv) More Trade Liberalization-Trade liberalization must proceed apace with all tariffs brought down to 15 percent or less in the next three years. Again, this is necessary to reallocate production towards labour intensive products in which India has comparative advantages particularly in sectors like textiles, handloom and handicraft. It will also be salutary for poverty reduction.

(v) Speedy Growth in Regular Employment-Economic growth could be made more inclusive by achieving faster growth in regular employment, as opposed to casual and self employment. This can be made possible by expanding service sector economy along with labour intensive intermediate technology in the manufacturing sector for selective commodities where there is least possibility of losing comparative advantage by discarding capital intensive technology.

(B) **Strengthening the Competitive Forces:**

Improving the business environment is essential for boosting the growth potential of the economy. Excessive regulation of market is a barrier to the diffusion
of technology and lowers the speed with which labour productivity catches up to the level of the best performing economies. Recent reforms have already lowered regulatory barriers to international best practice. Nonetheless, regulations and regulatory procedures in India have proved to be more restrictive than in Brazil, Chile and all OECD countries. Moreover, there are wide differences in the extent of regulation across states, which affect their respective economic performance.

Innovation and responsiveness to changing market demands require an enabling environment favourable to the creation of new firms quickly. All levels of governments should lower the barriers to entrepreneurship by reengineering procedures to reduce administrative burdens on new and existing firms and reduce the extent of inspections as well as filing of number of returns. There is an urgent need for the new Competition Commission to become a fully functional agency capable to enforce the competition law introduced in 2003. There is further a need for modern bankruptcy law to reduce the burden of courts and fast settlements of the matter.

Further opening to the world economy needs tariff cuts to continue and to go beyond the government target of alignment with average ASEAN tariff by 2010. Restrictions continuing in some of the service areas such as removing the cap on FDI in the insurance sector would allow a welcome expansion of the industries’ capital base. Lifting the ban on FDI on retail trading would help improve productivity, supply chain management, reduce the exceptionally high ratio of waste of agricultural produce and so lower retail prices and raise producer prices.

(C) More Privatisations:

Public sector ownership is still extensive in India and produces 38 percent of business sector value added. There are many tall tales of loss making public enterprises, particularly at the state level and on average the productivity and profitability of publicly owned firms have been lower than that of the private sector. Private sector appears to offer considerable possibilities to improve productivity. Government firms represent a small share of output in manufacturing, construction and non-financial services. Privatizing firms in sectors where the government share of output is larger (banking, insurance, coal and electricity) would also be desirable, but need to be done in a phased manner.
(D) **Further Reforms in the Banking Sector:**

Successful reforms have already restored the health of public banks, most of which now have minority private shareholders and have created new regulations. Private sector services (new banks in particular) have been successful in India and so progressive privatization of public banks may further improve the efficiency of the sector, especially if they were given greater freedom to allocate assets and the sector is made free of restrictions on foreign direct investment in the sector. As capital would be better allocated, the efficiency of whole economy would be improved. Equity markets have been transformed as a result of private sector initiative and new regulatory agency and have become competitive with leading world markets. However, a much better range of exchange traded derivative instruments needs to be allowed in order to improve the market for bonds. In this regard, opening market to small participants would help. A more principle based approach to capital market regulations might help speed up the introduction of new instruments and as in product markets, supervisory bodies should be subject to periodic regulatory impact reviews.

(E) **Infrastructural Improvements:**

India’s experience in telecommunications and domestic civil aviation reveals that opening to the private sector produces exemplary results. Electricity is one sector where public enterprises are still dominant and demand consistently outstrips supply, representing a major constraint on growth, particularly in electricity intensive sector such as manufacturing. The underinvestment in the sector is due to low profitability. In 2000, as much as 40 percent of electricity was not paid for due to poor management of distribution enterprises and a failure to eradicate theft. Revenues were further limited by a legacy of political constraints on pricing policy at the state level, such as extensive cross subsidization in favour of farmers and households at the cost of industrial and commercial firms. In 2003, government of India introduced a new policy framework that addresses distribution problems, mandates a more competitive electricity market with more private sector involvement and progressively lowers the cross subsidies. The government should encourage speedier implementation of reforms, may reduce transfers into states that don’t advance sufficiently rapidly and rewarding those that find way to reduce losses and increase private participation in the sector to a greater extent than the existing electricity reforms programmes.
There is a need to change the tariff setting process in a way that encourages productivity improvements moving away from cost plus basis system of price determination. Involvement of private sector in ports, airports and roads area is meaningful, provided the contracts are monitored well.

(F) Public Finance Changes:

Despite increased use of Public Private Partnership Policy (PPPPs) in infrastructure provision, greater government investment outlays are needed and could be funded by a reorganization of public spending. At the same time, there is a need to reduce outlays on subsidies, which are much higher than in a number of emerging economies (such as Brazil and China). Moreover, electricity, food and petroleum subsidies do not reach the poor because of poor administration and corruption. The government should reduce outlays on subsidies by better targeting them to reach poor people, as well as lowering support to companies, including loss-making public enterprises. In this way, more funds could be made available for much needed infrastructure investment.

Large cuts in direct taxes have strengthened the economy. Nevertheless, the tax system still bears some traces of past interventionalism, through extensive loopholes and exemptions which introduce distortions and complexity facilitating tax evasion. They are most noticeable in areas of saving, agriculture and corporate taxation. Agricultural incomes are not subject to income tax and numerous exemptions exist in corporate tax system. The government should consider reducing exemptions and loopholes in all these areas creating room for cuts in statutory rates and thereby moving towards equalization of effective tax rates across sectors and activities.

In indirect taxes area, further reform is needed to achieve a true internal market for goods and services. At present, there are a series of indirect taxes at the central and state levels that need to be integrated into a single tax that is neutral, both as to the sector and location of production and minimizes the possibilities for fraud.

In a country as large and diverse as India, a good system of revenue sharing across the country is essential. Without it, differences in government spending across the states would be extremely large.
A major drawback of India’s fiscal federalism is that the local level of government remains underdeveloped. Local authorities raise little tax revenue themselves and their autonomy to set rates is very limited. Key local authorities have been retained with state run boards and authorities those have generally been inefficient in meeting the rising demand for local services. Improving local public service provision is essential. An increase in the revenue base of local bodies is required by increasing tax sharing with state governments and through raising their autonomy (OECD Economic Survey of India 2007).

(G) Revenue Generation, Expenditure Management and Fiscal Transparency in the State of Orissa:

Prudent fiscal management prescribes that durable fiscal consolidation should be attempted through fiscal empowerment i.e. by expanding the scope and size of revenue flows. Generation of adequate revenues to finance expenditure responsibilities is an ongoing challenge for the state government. Revenue augmentation through non-debt creating sources is the most crucial element for creating fiscal space for the state government. Nearly 40 percent of revenue of the state is in the nature of devolution and transfer from the central government and about 60 percent is generated by the state. Implementation of VAT has turned out to be a buoyant source of revenue of the state. The revenue generation from non-tax sources by way of improving cost recovery from various public services is further essential. A fiscal strategy based on revenue maximization would also provide the necessary flexibility to shift the pattern of expenditure towards developmental purposes. On the other hand fiscal adjustment predominantly based on expenditure reduction results in welfare losses and risks the danger of triggering downturn in overall economic activity. The responsibility pertaining to the public expenditure on social services is vested with the state government. It is widely recognized that the level of social sector expenditure has important implications for the level of human development. As per the Millennium Development Goals (MDGs) prescribed by the United Nations in 2000, countries vis-à-vis states need to achieve certain targets relating to social sector by 2015 such as (i) reducing extreme poverty and hunger by half from their 1990 levels, (ii) ensuring universal access to primary education, (iii) eliminating gender disparity, (iv) reducing under-five year mortality rate by two-thirds and the maternal mortality rate by three-fourth, (v) reversing the spread of diseases of HIV / AIDS and
Malaria, (vi) preserving environmental resources through the integration of sustainable development policies, and (vii) access to safe drinking water and sanitation.

Development in the state of Orissa is impeded by several adverse socio-economic indicators like high infant mortality rate, lack of access to safe drinking water for many households, lower per capita income below the national average, highest percentage of population below the poverty line as per poverty estimates of 2004-05. In addition, more than one third of the total population of the state belongs to economically and socially disadvantage groups like Scheduled Castes (SCs) and Scheduled Tribes (STs). The state does not have adequate critical infrastructure like National Highways, Railway connectivity, Ports and Tele Communication facilities, etc. Towns and cities in the state lack adequate infrastructure including low cost housing, sewerage and sanitation facilities and public transport system to cater to the needs of the growing urban population. The state needs to allocate more resources for improvement in these areas. The state may embrace more privatization as the same has proved effective and efficient. Improving the quality of expenditure involves three aspects namely, expenditure adequacy (adequate provisions for providing public services), effectiveness (assessment of performance/output indicators for select services) and efficiency of expenditure used. Sizeable part of expenditure of the state consists of committed or non-developmental expenditure including interest payment, wages and salaries, pension obligation and administrative expenditure. This automatically reduces the discretionary component of expenditure. The state needs to place due emphasis on reducing committed expenditure in the budget and focus on “growth oriented” expenditure. The state needs to place emphasis on achieving an optimum mix of the programme design and inputs to achieve the desired outcomes. It has been well documented that public services fail to reach the poor people in terms of both quantity and quality. The World Bank guidelines for using resources like (i) focusing on those services that have most direct link with human development – education, health, water, sanitation and electricity, (ii) greater accountability in three key relationships in the service delivery chain: between the poor and service providers, between the poor and policy makers, between policy makers and service providers, (iii) increasing poor “clients” choice and participation in service delivery, (iv) rewarding effective delivery and penalizing the ineffective providers, and (v)
systematic evaluation and dissemination of information aimed at empowering the poor need to be adhered to.

The persisting high debt to GSDP ratio should further be minimized in order to reduce the interest component of expenditure and utilization of large portion of the state’s revenue in capital expenditure as well as in the social sector. The state may also explore rationalization of subsidies and restructuring of the state PSUs. The state must design appropriate post-FRL fiscal architecture taking into account the experience gained so far. It may also be desirable to fix some numerical targets in respect of certain categories of expenditure aimed at reprioritization of expenditure.

Fiscal transparency which is considered to be one of the corner stones of good governance has been gaining critical importance in the recent period in the context of prudent fiscal management and attainment of macro economic balance. Fiscal transparency requires providing comprehensive and reliable information about past, present and future impact of economic policy decisions. Transparency in the government fiscal operation of the state need to be strengthened in tandem with the process of fiscal consolidation and the financial sector reforms so as to enhance credibility of the fiscal stance of the government of Orissa.

(H) Recommendations relating to VAT Collection Improvement :
1. Increasing Audit Effectiveness

While the tax audit function is one of a tax agency’s most important tools for ensuring that taxpayers comply with the tax laws, it has not been made much effective.

Risk analysis modules need to be developed basing on fraud/evasion parameters to rank potential defaults of tax payment. In addition, management value judgment profile on risky dealers need to be built up basing on information gathered from public, news sources, from complaints and their tax payment behaviour.

Audits now conducted are more numerical in nature and resulting in many cases with either no appreciable results or at times nil results. As VAT is based on self assessment, effective auditing can enhance compliance either
voluntary or enforced otherwise the traders shall try to reap the benefits arising out of weaker administration lowering their compliance. It is widely recognized that tax payers’ perception of the probability of being audited strongly determines their degree of compliance. Audit may be focused on potential risky dealers and auditing be made on designing proper fraud / evasion detection techniques.

It becomes important that following audit report, prompt action for imposing penalties and their realization is essential to set right the erring traders. Professional analysis to document reasons of audit by risk analysis module should be made to develop a computerized system to rank potential defaulters based on accounting ratios and tax payer’s compliance with regard to VAT legislation. Audit programme may follow international standard of auditing of the international federation of accountants for planning, collection of audit evidence, standardization of paper, etc.

2. **Implementing Performance Measurement System**

The main purpose of this initiative is to develop a comprehensive set of measures to evaluate Commercial Tax Officials’ performance. The idea is to broaden the Commercial Tax Officials’ narrow focus from achieving an annual revenue collection target which is thought to create perverse incentives for arbitrary administration to improving its core administration processes. This is to create greater accountability and enhanced transparency in administration.

The new system in our view is needed to feature performance measures at three levels – (1) strategic, operational and individual, (2) in broad areas – tax administration programme, (3) Tax payer satisfaction and employer satisfaction. The new performance measures need be implemented gradually as an integral part of tax modernization programme.

The programme can be designed by formulating an initial set of performance indicators covering key aspects of operations. Limited benefits of IT systems may be a hindrance and therefore, the IT system need be developed. Performance measurement is a well accepted management concept
that has been successfully implemented by many tax administrations around the world, even those with limited IT capacities. As such, the implementation of a performance measurement system should be a top priority in the ongoing tax administration.


This initiative is meant to increase the productivity and integrity of tax officers providing tax administration. The existing HR regime based on standard civil service system, may be found poorly suited for motivating its workforce and establishing accountability for results. The HR should be tailored to meet all types of tax challenges and get transformed into a high performance revenue collection agency. The reforms may include right selection of staff, a code of conduct for tax officials, and the issuance of special allowance that had substantially increased salaries.

The priority may be given to new job classification scheme (that would rank jobs on the basis of complexity of work, overall responsibilities, and specific skills and competence required), new compensation and promotion policies and improved staff appraisal regime. At present, officers governing tax are frequently changed to other departments before acquiring adequate knowledge and experience relating to tax mobilization and collection efforts. Similarly, in some cases the most experienced and knowledgeable persons on tax matters are transferred to other departments on routine transfer ground thereby affecting the efficiency of Tax Department.

In order to improve the department’s efficiency, Tax Department should function as separate wing/unit and the officials should be allowed to function in one stream by developing specialization on tax affairs. Difficult job responsibilities may be assigned to the officers depending on their skill and past track record.

4. Designing Information Technology Master Plan

The IT initiative can provide more support to the tax payer services and enforcement programmes which are the keys for increasing compliance and revenue. Advanced information technologies can also help improve the
business climate of reducing the need to have face-to-face contacts between taxpayers and tax officers, thereby providing tax payer with greater convenience and limiting the opportunities for rent seeking behaviour of tax officers.

The programme may include centralizing the processing and storage of tax payer data, creating a data warehouse and a broad range of new web-based services (such as electronic registration and taxpayers’ on-line access to their accounts with the tax department) that would facilitate compliance functions.

5. Creating an Internal Investigation Unit

In the light of widespread complaints among the tax payers about malfeasance of tax officers, the initiative to set up an internal investigation unit is sought to restore tax payer’s confidence in the tax administration (Brondolo, Silvani, Brogne and Bosh 2008).

6. Focusing on Tax Payers

It is difficult to estimate the extent of tax administration focus on tax payers which is one of the elementary conditions of its effectiveness and efficiency. This is not indicated in the tax act. Tax payer should expect friendly behaviour. The law constantly mentions the tax payers’ duties and responsibilities, but is silent about officers’ behavior and responsibilities towards the tax payers.

In view of this, the tax administration must ensure that the tax officials (i) should act polite and have prompt communication with the tax payers, (ii) should be trained in democratic principles and good rapport building with the public and (iii) organize special customers’ service units.

7. Specialized Training for Tax Administration Officials

To improve the quality and expertise of the employees, the following are recommended. Trainings in such places as (i) institution of post graduate studies in public finances, (ii) continuous in-service training of tax officers, (iii) fundamental, frequent and constant specialist education carried out separately for each type of job and (iv) paying special attention to
predominantly economic or legal education of personnel when employing new tax officers or shifting them to other jobs.

8. **Prevention of Tax Evasion**

The taxation system should have as few exemptions, deductions and allowances as possible. It should have an efficient control and supervision system especially on largest enterprises along with institution of special units for large enterprises. The penalty system may be regularly examined and adequate publicity given to any penalty increase. The tax administration can substantially reduce its wasteful and unjustifiable large expenditures by critically evaluating its existing expenditure pattern.

The reputation and impartiality of the tax administration should be constantly strengthened and become visible to the taxpayers. Special tax payer’s identification numbers are very essential to prevent tax evasion. Regular assessment and monitoring of tax evasion is necessary. VAT officers need to be vigilant in areas like risk analysis, failed fiscal receipt, credit balance, non-reporting of sales, exaggerated claims of credit and VAT chain break. Also, adoption of joint and several liability rules by which traders can be held responsible need to be implemented effectively.

Reverse charging, reverse withholding and adoption of VAT accounts (a distinct account in Bank) for refund verification and compulsory use of third party guarantee for VAT payments either in general or particular sector be included in the legislation. Stock transfer need be taxed at the applicable VAT rate of 4 percent or RNR with the proviso for set off in the other states under clearinghouse mechanism. The tax legislation may be amended accordingly (Ott 1998).

9. **Inclusion of Capital goods and Industrial inputs in the Tax rate of 12.5 percent category**

Indian VAT system allows for a concessional rate of four percent on capital goods and inputs. Several commodities are sold both as inputs and final products. A lower rate on inputs implies a loss of revenue on the latter kind of sales. Also, a manufacturer may prefer to pay the input tax of four percent and
may not declare final sales at all, as the differential in rates (four for inputs compared with 12.5 percent for finished products) is significant. It is, therefore, recommended that the inputs may be taxed @ 12.5 percent (Prasad 2008).

10. VAT Gap Analysis

Study of VAT gap to set realistic enforcement plans and targets be used. This can be also a yardstick to measure performance of officers or zones. Aggregate data on consumer spending with a commodity classification corresponding to VAT rates minus sale by informal sector can be prepared to measure the VAT gap.

11. Rationalization of Tax Rates and Harmonization of Tax Structure:

(a) Uniformity in rates

There is a need to bring uniformity in tax rates under VAT system across states. The objective of VAT is to make India a common market and to improve the competitiveness of the Indian industry. Lack of uniformity in the VAT rates brings disparity in business operations with price variation across the states for identical products offered for sale as also loss of higher credit when such goods are stock transferred from states where VAT rates are higher.

(b) Continuation of multiple taxes

The states are still continuing with taxes like entry tax, special entry tax, etc. Under VAT system all taxes, levies and cess should be integrated.

(c) Levying of VAT on Imports

Imports should be brought under VAT net in order to provide a level playing field to indigenous manufacturers. Countervailing duty should also include collection of VAT along with excise duty wherever necessary.
(d) **Uniformity in Classification**

At present, the tax rates of industrial inputs under various state VAT laws are different. There is a need to have uniformity in industrial inputs classification. We need to adopt the harmonized system of nomenclature under VAT.

(e) **Inclusion of natural gas in the list of declared goods**

The central government may favorably consider inclusion of natural gas in the list of declared goods as provided under section 14 of the CST Act.

(f) **Construction materials need be taxed @ 4 percent**

Some of the inputs used in the construction sector industry such as ceramic tiles, cement, marbles, etc. are at present placed under the high tax category goods. This affects the growth and expansion of construction sector as a whole and indirectly squeezes the employment opportunity of people in this labour intensive sector. If tax is reduced, this would give boost to the construction industry which would ultimately result in higher economic growth of the nation. It is suggested that such goods may be included in the list of goods of special importance U/s 14 of the CST Act of the government of India. This will create healthy surroundings, improved health status of people and the overall housing scenes of the country. At the same time, there will be better tax compliance from the industry and balanced growth in the revenue level of all states.

(g) **Refund of VAT on inputs for Exports**

Exports are zero rated and hence not liable to pay VAT; the value of VAT paid on inputs by the exporter is refundable. However, to avail of the same, export units have to register and submit returns of inputs to qualify refund of the same. This increases the cost of compliance. It is suggested that VAT paid on inputs for exports should be refunded.
within 30 days of submission of the returns and should be made automatic through VAT account of the trader/industry.

(h) **Issuance of Statutory Forms**

Vide notification 588(E) dated 16th September 2005 of the GoI, Sales Tax (Registration and turnover) Rules, 2005 were amended to the effect that the form C’,F,’E-1 and ‘E-2’ shall be furnished on a quarterly basis to the assessing authority. Prior to the amendment the furnishing of forms was on an annual basis.

The provisions contained in the amendment are difficult to comply with, as it is not practically possible to obtain and issue the statutory forms every quarter in view of the administrative delays that take place in obtaining statutory forms from the tax offices. It is suggested that issuance of statutory forms should only be on an annual basis. Further, as a measure of simplification, the dealers may be permitted to use self generated stationery.

Apart from the general recommendations about VAT augmentation, in the context of Orissa the following recommendations are specifically made to augment revenue generating capacity of the state.

1. **Ensuring Issue of Sales Bills**

The essentials of VAT being a billing system, state must ensure vouching of all purchases by the traders correctly and record all transactions of sale at each sale point. But, it is frequently observed that VAT chain breaks after the wholesale point in many cases, causing unaccountability of ‘Value added’ at next stages to be taxed, in result, negating the potential VAT collection.

2. **Discouraging Undervaluation of Goods**

Undervaluation of goods continues as a ‘Dracula’ to tax collection and it is uncurbed. It had its tentacles and paws in Orissa Sales Tax (OST) regime, killing the vitals of taxation theme and continues to reign over the inefficiency of the system. Laws in sales tax and VAT regime framed focusing to curb such cases, have had almost no effect on the pseudo transactions like
undervaluation of goods made through fake documentations not reflecting the real transaction. There remains a hidden agreement between the buyer and seller, and also in connivance of the transporter, the tax payers evade the VAT. This needs to be hammered out by stringent law and deterrent penal action to the extent of confiscation of such goods. The government should provide adequate funds for purchase of seized undervalued goods on payment of an additional margin of 15 percent over the purchase value disclosed. Sufficient number of government godown need be opened for temporary storage of those goods till their disposal/sale by way of public auction. A database of cases of undervaluation detected need be prepared with the name of the trader, category of goods, area of business and frequency of incidence in case of a particular trader. This database will help close monitoring on the particular trade and trader and can be used as one of the audit parameters. Besides, this would discourage others to resort to such type of trade.

3. Change in the Attitude of Tax Officials

The government of Orissa has been trying to establish a dealer friendly environment in VAT regime to usher in optimal voluntary compliance of tax. The law has been harmonized and uniform classification of commodities has been made with a view to insist voluntary compliance. To meet the above objective of the government, the behaviour of tax officials, their attitude and their perception need a dramatic change to match the environment. The tax officials should give helping hands to the traders instead of maintaining bureaucratic behaviour and should focus on facilitating trades.

4. e-Matching of Returns

Harmonization of tax rates and uniform classification of goods across states leaves no scope for any ad hoc nature of changes to augment tax revenue in VAT. Officers should go for a vigorous scrutiny of returns and take follow up actions as per the statute to set right the erring ones. Besides, fetching input tax credit by claim on fake invoices has been a blow to the VAT mechanism and huge revenue is leaked through such irrelevant claims. Officials need to resort to cross matching mechanism to establish the veracity of the transactions at the sellers/ purchasers end. In e-filing of returns, the traders
(TIN dealers) are required to give their invoice details on which the input tax is claimed and availed is easily traceable and can be matched through the information system. The cross matching of returns can save fake claims and can save the state from huge revenue loss. Deterrent penal actions in case of detected cases and their sufficient advertisement is highly desired to orient the traders towards higher voluntary compliance, as it is practically not possible to check all individual cases of evasion.

5. Curbing Escapement of Tax on Agro Products

In the unorganized sector, large amount of agro-based goods such as Biri, Mung, Kolthi, Maize, Ragi, Mustard Seeds and Coconut which goes unaccounted for sales need be brought under control. The state government need make provisions of ‘Mandy’ sales i.e restrict sale of such goods outside ‘mandies’ installed by the government. This will not only ensure higher VAT compliance but also be accounted for in the GSDP of the state.

6. Installation of Border Check-gates and More Internal Checks

It has been realized that road check posts have positive revenue benefits that cannot be made well by other information based enforcement mechanism. In sales tax regime, there were quite a good number of border check posts and interception points inside the state on national and state highways. In Orissa, commercial goods flow in transport vehicles, cargo vans and through railways. Now except four border check posts all other check posts have been removed. This has resulted in commercial goods safely reaching their destination as there are no checks on their way. Also, goods carried in railways are unloaded in railway stations where inspection of the goods is not possible as tax offices are at sizeable distance from those places. Till delivery of the goods to the buyer who booked, the property in transit belongs to the government of India. In the event of improper documentation of the goods, legal and administrative complicity arises for the check/seizure/confiscation of the goods under the state act in VAT. In most of the occasions, such goods are delivered by railway authorities to the buyer may be in his own name or in a false name. In VAT regime in Orissa, thrust is given on internal checks but there is no adequate manpower for the purpose for checks round the clock. Many traders
have their undeclared godowns where such unaccounted for goods are stored and sold without tax realization in all stages in VAT. It is therefore suggested that borders sensitive to clandestine goods flow like Andhra Pradesh, West Bengal and Chhatisgarh should have border check posts and the enforcement wing of Commercial Tax Department should have adequate manpower and infrastructure as well.

7. **Re-designing of Way Bills**

Way bill of the Government of Orissa is a crucial document for the traders for purchases of goods and sale of goods from/to outside Orissa. Instances of misuse of waybills are frequent in nature in the hands of dubious dealers causing loss of revenue to the state of Orissa. Tighter checks at the time of grant of registration are not only essential but also a third party guarantee from any solvent trader or a nationalized bank is essential to avoid future misuse. Public Sector Undertakings/ Public Limited Companies are consuming huge way bills and scrutiny of their way bills may not serve our purpose. They should be allowed to print their way bills as in government form and use those after due authentication by the tax office. Report containing particulars on the use of such way bills they should submit each month. Way bills of government should be printed with watershed mark ‘Government of Orissa’ on it so that its printing otherwise is not possible. The excess printing expenditure is well compensated from savings on account of use of self stationary by the above category of business. The tax official can use the saved time on scrutiny of the return of other traders.

8. **Creating Database on Penalties under VAT**

Penal provisions in VAT are stringent and are 5 times of the tax due in case of goods carried by unregistered traders. Similarly, other penal provisions are there for non compliance of tax, making false representations of input tax or refund. Penalty imposed and collected is another measure of efficiency of VAT as it orients traders towards voluntary compliance. Penalties are imposed in the tax offices located in different places and are not separately reported to the administrative office. It is suggested that penalties imposed by all the tax offices should be reported to the office of the commissioner of commercial
taxes where it needs to be compiled after each month end and be given in the media for wider publication. As it is practically not possible to trace and impose penalty in all cases, such advertisement would discourage the traders engaged in clandestine business. It is, therefore, suggested to reward the high performers in cash or otherwise and punish or pull up the low performers/less performers.

9. **Discouraging Irregular Refund Flow**

Refunds are given when the output tax becomes less of input tax. Temptation arises to avail excess refund than it is due. For the purpose, fake documents can be prepared showing excess of input tax payment which can now be minimized by cross checking of e-filing of returns as suggested above. Further, to ascertain instantly the correctness of all VAT paid by a trader and to avoid excess of refund payment or adjustment, VAT laws may be required to be modified to the extent to make it compulsory for all the traders having TIN number to operate a separate account on VAT in any nationalized bank. It is suggested that the office should match the claim in the system in addition to all VAT paid, the penalty and interest if any imposed are paid in time in returns and in vouchers. This will regulate the irregular refund flow from the state expenditure.

10. **Tax Gap Analysis**

Tax gap analysis is another important aspect. There is escapement of tax in some way or the other. The need to assess the actual tax potency beginning from the bottom level office or at zone level is essential to arrive at the tax gap. A taxation research section comprising of senior officers having experience in enforcement work need be made operational to take up this assignment specifically.