Chapter No: 7

Summary of Findings and Recommendations

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7.1 Introduction

This chapter brings together the findings of the study reflected in chapters 3, 4, 5 and 6 and then goes on to make suggestions for more efficient management of Tax Authority in both countries. By the analysis we were able to examine the various aspects of the activities and practices prevalent in the Income Tax System in both countries. We have discussed in detail, the feedback from the primary source on the various issues relating to Income Tax Systems in both countries in chapter six. We have also given the data from the secondary sources.

7.2 Summary and Findings

The results indicate that there is a wide spread agreement for the achievement of the objectives of the study. The findings of this study may be summarized as follows:

1. Many respondents with high ratios verified the application of the IASs by computation of taxes on income in both countries. 92.2% out of 192 respondents in India and 91.2% out of 102 in Yemen think that, there is a link between the application of the International Accounting Standards and the improvement of the Income Tax System.

2. The results indicate the extent of suitable income tax rate and its effect upon income of every individuals and institutions in the two countries through reading of results of comparison analysis in chapter five and questionnaires analysis in chapter six (54.6% out of 174 respondents in India and 9.6% out of 114 in Yemen said that in their countries tax system is fair).

3. The results show that, the adapted techniques in computation of income tax in both countries through observation in chapter five and chapter six ,(54.2% of respondents in India and 21.2% in Yemen have thought that audited financial statements by chartered accountants verify the reliability
of the primary information). Indian Income Tax System is dependent on financial statements as audited by chartered accountants under local accounting standards or IASs, while Yemeni Income Tax System is sometimes dependent on those financial statements.

4. The results of comparison analysis in chapter five have given clear differences on income tax ratios. Their actual amount of income tax revenue in India at about 21% out of the total revenue in 2000/2001, while the ratio in Yemen does not exceed 10%. Also we see taxes revenue more than 50% of the total revenue in India, but in Yemen it doesn't exceed more than 30% of the total revenue.

5. The results disclose that optimum pattern to increase income tax revenue collection is dependent on adopting the audited financial statements and taxpayers must be compelled to keep up the account books. (90.6% out of 191 respondents in India and 87.9% out of 116 in Yemen think that the taxpayers must be compelled to keep up the account books by which the tax collection would be increased).

6. The results disclose that the decrease in income taxes revenue collection is because it has not adopted the audited financial statements. Taxpayers must be compelled to keep up the account books, (51.5% in India and 67.5% in Yemen of respondents think that tax computation on bases to computation mode according to the account books). And, high percentage of the respondents in Yemen suggested determining the tax policy so that it helps in increasing income tax revenue.

7. The results disclose the techniques which will help to prevent the tax evasion according to opinions of the respondents in India and Yemen (1) reducing the tax rate 83.7%, in India and 71.2% in Yemen, (2) training the tax employees 67.3%, in India and 61.9% in Yemen (3) terminating the corruption in the tax administration 55.1%, in India and 69.4% in Yemen (4) increasing the penalties in law 42.9% in India and 55.9% in Yemen (5) the availability of accounting system that identifies the financial statements 42.3% in India and 63.6% in Yemen (6) increasing the tax culture among
the taxpayers 39.3% in India and 58.5% in Yemen (7) the proper use of revenue by the government 37.2% in India and 69.4% in Yemen

8. Through the analysis of comparing results in chapter five of the study we have seen that income tax plays pivotal role for the development and growth, in India and Yemen but by different ratios. While income tax revenue in India reached 30% of collection revenues, in Yemen it does not exceed 10% of collection revenues.

9. Through the analysis of comparing results in chapter five of the study we have seen that, income tax plays pivotal role for social life, analysis ratios in both chapter five and chapter six assert that Indian income tax has achieved some fairness between the members of its society while Yemeni income tax has not achieved fairness among its citizens.

10. The importance of income taxes in both countries has been declined in recent years. Income tax is not 10% of the budget in Yemen during 1998, while in India it is 21% of the budget during 2000/2001. The income elasticity of income taxes has not only declined but it has also remained lower than that of indirect taxes in both countries. Thus, income taxes have failed to become an effective instrument for the mobilization of an increasing proportion of national income for the developmental financing in both countries.

11. Income taxes in both countries have so far been ineffective in performing their redistribute the role of reducing inequality in the distribution of income and wealth, but we have reached a stage in which further inequality is not desirable either from the social point of view or from the point of view of economic growth. However, the existence of extreme inequality in the distribution of income cannot operate as an instrument for promoting savings and capital formation in India and Yemen to the extent as it took place in advanced countries. We can see that in chapter 5 of this study.

12. Although the income tax rates of two important income taxes in both countries namely, personal income taxes and corporation taxes seem to be on the high side, they are not as burdensome as they appear to be and have not produced depressing effects on the economy, (71.9 % of
respondents in India and 62.7% in Yemen think that high tax rate is cause of tax evasion).

13. The tax rates of income and corporation taxes do not seem to have adversely affected personal and corporate savings and investments in both countries in the years examined. The conclusion about the effect of the corporation tax is also confirmed by a study of the finance of some selected Yemeni and Indian industries which shows that corporate tax rate does not generally appear to have adversely affected the rate of capital formation and savings by Indian and Yemeni industries.

14. Unbalanced Tax System: The tax system in both countries is said to be highly unbalanced. There is more emphasis on the indirect taxes compared to direct taxes. Indirect taxes are more than 60 per cent of tax revenue and the percentage of GDP is more than 5%, while direct taxes are rations between 30-40 percent of tax revenue and between 3.0-3.5 per cent of GDP in both countries.

15. A large degree of tax evasion and avoidance in both countries have kept down the revenues from income and corporate taxes. (45.6% of respondents in Yemen believe that the income tax evasion is more than 50% of the collected amount, while 21% of respondents in India believe that the income tax evasion is more than 50% of the collected amount). A reduction in tax rates will limit the tax evasion in both countries and at the same time revenues will also increase.

16. The first problem that the inspectors in tax administration of Yemen encounter is the lack of sufficient and reliable information to verify information weather or not the taxpayer reports his actual earnings and spending (80.5% of respondents in Yemen). Also the present tax structure of Yemen does not fulfill the basic canons of sound tax like equity, ability to pay, elasticity and economy etc., as compared to Indian tax structure.

17. The Tax Authority of Yemen does not suffer only from insufficient information, but also from limited expertise needed to analyze and interpret the information wisely. (72.7% of respondents in Yemen think that they get the primary information of the organization from the taxpayers
themselves). But vital information and statistics are not systematically generated and cannot be obtained when needed.

18. The result discloses that Indian Income Tax System has given the exemptions more than Yemeni Income Tax System. For example, In India the entire salaried class with monthly income Rs. 6000 or less than does not pay any income tax, while in Yemen the entire salaried class with monthly income equal to Rs. 6000 or less than that does pay about Rs.750 income tax. This is shows in chapter five of this study.

19. Income Tax Act, 1961, of India is clearer than Income Tax Act No, 31 and its amendments in 1999, of Yemen, where it is clear by relationship between the Tax Authority and taxpayers, it exactly determines exemptions, penalties & prosecutions, and procedures of tax computation.

20. The results disclose that Indian Income Tax System is dependent on the Chartered Accountants and the audited financial statements (54.2% of respondents in India), computation of taxable income and determine after of due taxes, while Yemeni Income Tax is dependent on its inspectors (69.7% of respondents in Yemen) of the auditing of financial statements, computation of taxable income and due taxes.

21. Income Tax laws are highly complex and thus provide enough opportunities to unscrupulous elements to avoid as well as evade taxes (49.2% of respondents in India and 55.1% in Yemen think that the important problem which faces the Income Tax System is a legislative problem). There are definitional defects in income tax system in India and Yemen, which give elaborate power to tax authorities to interpret tax laws according to the fancies. This has resulted in widespread corruption in various tax administrations. Tax evasion is common in both countries.

22. Indian income tax has adopted federal finance system under which the Union and the States levy taxes separately at different rates. It lacks coordination.

23. Income Tax System in both countries lack administrative efficiency; corruption exists in the entire administrative machinery from top to bottom (39.8% of respondents in India and 80.5% in Yemen think that, inefficiency
of tax administration which is the cause of tax evasion. Also, 53.8% of respondents in India and 55.9% in Yemen think that the important problem which faces the tax system is corruption). The existing system encourages the spirit of corruption amongst tax system. Also, Income Tax System in both countries is inconsistent and unscientific, as it is not based upon any organised planning. Thus, it fails to affect production, investment and saving of the economy in an efficient way.

They will be clear from the above findings that all four statements of hypotheses under study have been proved.

7.3- Recommendations and Suggestions

Since the findings reveal non-adherence of risk –return approach by most of the Income Tax Systems, we would like to make the following suggestions which will institutionalize the consideration of risk and return factors in the case of Income Tax System. Some of the suggestions are directly relevant to the above objective and some other would contribute to the perusal of the above stated objectives. In the beginning, we have discussed about the areas, which Tax Authority in both countries has to look into for taking care of the risks involved in fixed income securities and later we have focused upon some of the areas where tax authority in both countries have to concern themselves as they are also essential for effective Income Tax System by Tax Authority. Suggestions for income tax reform in both countries must be made on the basis of these findings. The immediate suggestion, which comes to our mind, is that the role of income taxes as a resource of mobilization should be progressively increased in both countries. This step is long overdue. If income taxes do not gradually grow in its importance in a developing country like India and underdeveloped country like Yemen in which due to the impact of economic development and the national income are showing a rising trend a vast amount of public revenue may be lost and bad distributional consequences will follow.
First: Yemen Government

1. Increase in income tax exemption limit in view of continuous inflationary trend in the Yemeni economy the initial exemption limit for the levy of individual income tax should be raised to YR 300,000 every year.

2. A taxpayer (employee) is allowed a deduction of a certain percentage of his salaries income subject to a maximum amount as standard deduction in the computation of his salaries income chargeable to income tax:
   - A married person should pay less income tax than a single person.
   - Taxpayer who has a wife and children should be given family exemption based on number of the family members.
   - Family household should be treated as the union tax a scheme of adequate family allowance should be incorporated with it.
   - The maximum marginal rate of tax should be moderate, so that the distortions in the economic behaviour of taxpayers and the incentives to evade tax payment are minimized.

3. Simplified tax procedure: Yemeni Income Tax System is quite complex, it is suggested that tax procedures should be simplified to the extent that it can be understood by an average Yemeni easily.

4. Account books of business and profession should be made compulsory in all cases and the Income Tax Law must oblige tax payers to apply them.

5. The income of business and profession should be computed in accordance with the methods of accounting and they must be obliged to make it compulsory in all cases.

6. Control on evasion of taxes: a large degree of evasion in Yemen has kept down the revenues from personal and corporate taxes. It is suggested that the cases of evasion of taxes should be strictly dealt with, it should be treated both as civil and criminal offence.

7. Emphasis on corporate income tax: Emphasis should be laid on the corporation income tax as compared to personal income tax.
8. Compulsory Audit: In order to check the tax evasion, we suggest compulsory auditing of accounts of incomes beyond of YR 20,000,000 in case of business income and YR 10,000,000 in case of profession incomes.

9. We suggest finding ways and means of increasing the elasticity of tax revenues and increasing the share of income tax as a proportion of total tax revenues and of GDP.

10. Depreciations allowance: we suggest the general rate of depreciation on assets under International Accounting Standards.

11. Complete separation between private ownership and public ownership.

12. The tax structure should be constructed in a way, which has minimum adverse effects on the economy. Every part of it should be complementary to each other.

13. Distributional consequences have come to be associated with the problem of economic growth in Yemen. We have seen that direct taxes in Yemen have so far remained ineffective in reducing inequality in the distribution of income and wealth. The emphasis shifted from direct to indirect taxes and direct taxes could not effectively perform their redistribute role. Direct taxes should collect more revenue from those sectors which generate most of the national income such as the agricultural sector; this sector is very lightly taxed.

14. Any suggestion for income tax administration reform in Yemen must be made on the basis of these findings to bring about a significant improvement in tax administration and enforcement:

- We think that the Control Board of Direct Taxes be set up so that:
- The Assessing Officers should be made accountable for their actions so as to remove harassment caused to the taxpayers.
- The design of tax policy has a concern of critical importance. The tax policy must be conclusion oriented rather than input specific; for instance tax incentive may reward higher usage of particular factors of production (inputs) or provide tax breaks for specific savings instrument.
Optimal tax policy should be pursued for the general interest of the economy rather than for catering to sectional interest. There should also be the periodic updating and simplification of procedures.

Expansion of taxpayer services in both qualitatively and quantitatively and easy access to taxpayers through Internet and email and extension of facilities such as Tele-filling and Tele-refunds.

Extension of Permanent Accounts Number to cover all economic activities/agents/citizens/professions etc, and the Income Tax Act provides for allotment of a Permanent Tax Number (PTN). Every person who fulfils any of the following conditions has to compulsorily apply to the Assessing Officer.

• Introduction of transparency and objectivity in the process of selection of cases or when auditing files of taxpayers.

• Income Tax Act should be amended to provide for submission of “annual information return” by third parties in respect of various transactions as may be prescribed. For this purpose, a proper format of the return also needs to be prescribed.

• Reduction in corporate tax rate from the existing levels to 30 per cent for domestic companies and an increase in corporate tax rate from the existing levels to 40 per cent for foreign companies.

Second: India Government

1. Increase in income tax exemption limit in view of continuous inflationary trend in the Yemeni economy the initial exemption limit for the levy of individual income tax should be raised to Rs.100,000 every year.

2. There is a need to review the whole question of constitutional allocation of tax powers between the center and the states as existing division of tax bases are a source of many inequities and contributes to inequalities of income and wealth.

3. The Income Tax Department must expend, qualitatively and quantitatively, the present scope of taxpayer service.
4. Power of settlement commission to grant Immunity from interest, penalty and prosecution may be restricted to cases other than those where the taxpayer admits of tax evasion consequent to search and seizure action taxes by the department in his case.

5. Reduction in corporate tax rate from the existing levels to 30 per cent for domestic companies' ant to 40 per cent for foreign companies.

6. We recommend short-term capital gain on equity should continue to be taxed; the long-term capital gain on equity should eliminate.

7. The Permanent Account Number (PAN) should be extended to cover all citizens and every person who fulfils any of the following conditions has to compulsorily apply to the Assessing Officer.

Third: General Recommendations

We suggested of income tax reform in both countries must be made on the basis of the following general recommendations.

1. Control of Evasion of Taxes: It is suggested that the cases of evasion of taxes should be dealt with strictly. It should be treated both as civil and criminal offence.

2. Scientific: Income tax system in India and Yemen should be made scientific and be based on economic planning according to the needs of the economy. It should encourage production, investment and saving.

3. War against Black Money in both countries; there is a heavy accumulation of black money in an economic field. An organised war should be launched against the accumulation of black money on different fronts. In this connection voluntary disclosure of income scheme.

4. The need for developmental planning in both countries is to collect larger taxpayers and larger amounts of revenue for capital formation when incomes are rising. In India and Yemen, progressive direct taxes will bring about such built-in-flexibility for giving the government larger revenues without even changing the taxes rate. It is now generally recognised that progressive direct taxes not only bring about built-in flexibility in the tax structure but they also provide governments with built- in protection
against inflation. Thus, the growing role of a progressive direct tax in both countries will be a powerful check on inflationary expansion of money incomes and prices and at the same time they will bring about more revenue for economic development.

5. Efforts should be made to direct tax evasion either at a time when the attempt is made to evade taxable income or when evaded in unaccounted money is utilised for some purpose. Measures should be taken to discourage wrong reporting of taxable incomes, maintenance of multiple sets of account books and fraudulent changes in such account books. In both countries, the evaded or avoided incomes generally take the form of black money which is utilised for investments in real estate, construction of luxury housing, purchase of gold and jewellery, opening of bank accounts under assumed names, securing of contracts in the name of dummies, purchasing of smuggled goods and unauthorised foreign exchange, payment of bribes etc. Whenever the authorities suspect that a taxpayer has adopted any of these methods, which are not in keeping with his usual income declared, the wrongdoer should promptly be brought to book and give exemplary punishment. Taxpayers should also be given adequate help to fill in their tax returns and to pay their dues. The government should try its best to boost up the tax morality of the people. These measures, if adopted sincerely, must pay dividends within a short period. However, once a taxpayer has been found evading tax, the government should never hesitate in adopting the negative measure of severe punishment. In order to put an end to a large degree of tax evasion and avoidance in the self employed sector in the economy of the two countries. The income tax officers may make a presumptive assessment on defaulters, unless the taxpayers were to prove their lower liabilities for tax by producing accounts and books.

6. A good system of tax collection and administration is the single variable, which can go a long way to increase the income tax revenue and at the same time bring about social justice in taxation. In both countries, attempt
should therefore be made, to attain improved collection methods and a clean, efficient, and honest tax administration.

7. Effort should be made to improve effectiveness of existing processes through the work reorganisation which reduces taxpayer or tax collector interface, provides pre-audit anonymity of auditors, assigns and distributes functions and responsibilities in a manner that reduces discretion of assessing officers, promotes one window operation, assigns functional responsibilities to specialised divisions, relieves assessing officers from non-assessment functions, and moves to a systematic basis for selection of cases for tax audit.

8. Management Information System Division: It should responsible for data entry, processing, storage, up-keep, access and security of all databases. This will be networked with the enterprise data management system. It will have the capabilities to identify taxpayers, provide on-line access from any point in the network, process data, generate notices and compute taxes and penalties, track tax collections, monitor payment of refunds allow monitoring progress of audit cases, handle electronic filing of returns and statements, and integrate information on all taxes through a common tax identification number.

9. Survey and Research Division: It should responsible to liaise with government departments, public and private institutions, collect information on taxpayers’ incomes, expenditure, bank accounts, properties, assets and investments. It will also bring them together in one place information concerning all taxes.

10. Inspection and Internal Audit Division: It should responsible for internal audit of the operations and audit division, audit of tax refunds, and reopening of assessments under income tax Act, in both countries. Large corporate taxpayers should develop system of audits for their record keeping and accounting systems to evaluate its comprehensiveness, control procedures and transaction flow systems.
11. We recommend creating a healthy relationship amongst the three groups in the tax system viz: Tax Authority, Chartered Accountants and Taxpayers.

12. Specific targets for manpower rationalisation to be recommended. The restructured tax administration should undertake manpower rationalisation on a unit-to-unit evaluation. The actual officers to staff ratios are expected to change after reform of business processes, reduction of layers, installation of automated information management system and greater reliance on professional staff in executive group performing specialised responsibilities.

13. Performance appraisal process should include its documentation, quarterly performance evaluation with regular feedback, proper job description, realistic target settings through a consultative process, and training of staff and the performance evaluation of official.

14. Electronic filing of declarations and electronic payment of taxes. Income Tax System in both countries should allow taxpayers to prepare and file their tax returns and pay taxes on-line. Electronic filing reduces errors, provides taxpayers with immediate proof of filing and reduces the tax of administrative processing workload. Also to encourage the electronic submission of data, certain professional firms and large taxpayers should be allowed to do so. Service firms should allow data entry and validation of manual returns/ submission of the electronic forms to Tax Authorities over communication link, and facilitation of tax payment through generation of chains related to automated payments as well as payment through transfer entries.

15. While different tax administration reform projects in recent years have had specific variations, most have sought to (i) improve the organization and management of tax administration; (ii) strengthen the legal and regulatory framework; (iii) broaden the tax base by registering potential taxpayers; (iv) facilitate voluntary compliance; (v) improve capacity to process the massive information flows resulting from declarations filed by taxpayers, payment transactions and administrative actions; (vi) enhance availability
of information about taxable transactions from third parties; (vii) develop risk-analysis capacity to zero in on cases involving potential violations of tax laws; (viii) strengthen investigation, audit and enforcement capacity; (ix) improve appellate procedures; (x) enhance analytical ability to carry out fiscal studies to assess tax burdens, collection trends, compliance gaps and impact of tax policy changes; and (xi) reduce corruption.

16. Large Taxpayer Units (LTUs) have been established in both countries. LTUs allow closer monitoring of compliance by important taxpayers, who have a major impact on aggregate revenue collections. Since these taxpayers also have more extensive or complicated transactions, the concentration of their cases in LTUs enables the tax administration to deploy their best auditors and investigators to scrutinize these cases. LTUs are also an important mechanism for maintaining revenue collections at a reasonable level, while the rest of the tax administration is being modernized. The LTUs are an apparent exception to the functional organization principle, as they perform all tax administration functions with respect to specified taxpayers. However, internally, most LTUs are usually organised along functional lines.

17. Changes in laws and rules in both countries, especially, those aimed at strengthening enforcement capacity of the tax administration often face concerted opposition from the business community, lawyers and accountants associations and citizen groups. While some of the opposition stems from the desire to prevent the tax administration from being able to check tax evasion, in other cases it comes from genuine fears of likely misuse of authority and breach of privacy. The ensuing debate has often delayed enactment of required changes or has led to their dilution.

18. The tax administration receives a huge number of tax declarations. It also processes multiple payments by taxpayers during the year. Efficiently managing the massive documentary and information flows is critical to the taxes collection effort. For this purpose, both countries have turned to automation of the related processes. In addition, many tax administrations have delegated the task of receiving and processing tax declarations and
payments to banks, requiring taxpayers, especially, and large taxpayers; to file their tax declarations electronically is also becoming popular. This reduces the data processing burden of the tax administration and increases data accuracy, as the electronic system forces taxpayers to correct filing errors, before accepting the declaration.

19. Encouragement and assistance of taxpayers in complying with tax laws would not lead to higher tax collections, unless taxpayers perceive the risk of being caught and the penalty for non-compliance to be high. The aim of strengthening enforcement is to heighten the risk perception and demonstrate the tax administration’s capacity to detect and punish evasion. This perhaps is still the weakest area in tax administrations in most developing countries.

20. One tool used for improving compliance is a computer system that detects stop filers, non-filers and taxpayers who have not paid the full taxes shown as due in their returns. The system identifies defaulters soon after the statutory dates for filing and payment of taxes and automatically issues form letters to them asking for compliance. This heightens the perception that the tax administration knows of the defaults and would pursue it. Consequently, a significant percentage of defaulters to comply.

21. In order to improve the ability of the tax administration to verify the truthfulness of declarations, databases containing information provided by taxpayers to third parties, or relating to their transactions with third parties are being developed in most countries undertaking reforms. The comparison of the information contained in the third party databases with the information provided by the taxpayer is an effective way to identify potential concealment.

22. Strengthening audit capacity itself is a major objective of most reform projects. Improvements in audit planning, collection of relevant information, methodology of conducting the audit and training of auditors are the key areas of focus.

23. Most tax codes provide for appeals to the courts against decisions of tax administration. However, the process can be quite long and expensive,
both for the taxpayer and the tax administration. Efforts are now being made to set up transparent and neutral administrative appeals bodies that would act as appellate authorities of the first instance and provide a mechanism for expeditious disposal of a majority of the cases. A good appeals process is also essential for improving voluntary compliance, as it increases the taxpayers' trust in the fairness of the tax administration.

24. All modernizing tax administrations recognize the critical importance of good information systems for improving performance. As a result, recent projects have invariably included heavy investments in information and communication. The standard suite of modules of tax administrations usually includes the following recommendations:

- Taxpayer registration and assignment of TIN: The system collects basic information about the taxpayer: name, address, phone numbers, legal status, economic activity, bank accounts etc. In case of legal entities, the information also includes details of place of business, names and particulars of top managers, shareholders etc. The information contained in the registration system helps the tax administration to communicate with the taxpayer, send non-compliance notices and collect tax arrears. The registration process culminates in the allotment of a unique Taxpayer Identification Number (TIN) that must be quoted in all declarations, payments, and correspondence with the tax administration and in major potentially taxable transactions. All information relating to a taxpayer in the tax administration's information systems is keyed to the TIN. Since taxpayer information is dynamic, the system also includes mechanisms for periodic updating. The information included in the tax declarations and verifies its completeness, checks the arithmetical accuracy of computation of the taxable base and the tax payable and posts the resulting tax liability in the current account of the taxpayer.

- Processing of payments and tax accounting: The core of the system is the Taxpayer Account Number that contains complete chronological information about the liabilities and payments of a particular taxpayer. When payments are made, the system relates specific payments made
by the taxpayers to the relevant tax type, assessment year, nature of payment i.e. whether advance tax payment, withholding payment along with the declaration or payment in response to assessment or recovery notices. The payment system is the basis for revenue accounting and generates reports relating to aggregate collections made on account of different taxes and by different tax offices.

- **Recovery of tax arrears:** Once tax payments become overdue, the information from the taxpayer current account is passed over to the tax recovery system. The system helps in analysis of arrears and prioritization of recovery actions. It guides the processes of persuasive recovery and, if these do not work, those of coercive recovery. Since recovery proceedings involve intricate legal issues, the assistance provided by the system in managing these processes is extremely useful. As and when arrears are recovered, the payments are posted into the taxpayer current account.

- **Risk analysis and selection of cases for audit and investigation:** The system uses information from national statistical organizations, third parties, the tax administration's own databases containing information about compliance behavior of taxpayers and information received through complaints and intelligence operations. Through the use of multiple macro-economic, industry-specific and taxpayer-specific criteria the risk analysis system selects cases that need detailed specific examination. The system is also used to identify cases for post-release audit.

- **Third party information system:** This system compiles information about tax transactions from official and non-official third parties. The system includes information from multiple public sources (registrars of companies, registrars of land transactions, customs, social security administration, foreign tax and customs administrations, Interpol etc.) and from private sources (sellers of luxury cars, banks and financial institutions, brokers of financial securities, large taxpayers selling and buying from other taxpayers etc.). The information supports the risk
analysis process, enables comparison of actual taxpayer transactions with those declared and assists in investigation and audit.

- System for administrative actions: Tax administration takes a number of administrative decisions that impact taxpayer liabilities. These include auditing of declarations, assessment of additional tax payable, including interest and penalties, issuing refunds for overpaid taxes, granting of installments for payment of dues, waiver of tax arrears, forgiveness of obligations in certain circumstances, review and modification of orders by superior administrative and appellate authorities etc. Many tax administrations have developed systems to support such administrative actions. The relevant authorities directly issue the relevant orders through these systems. This creates a transparent record of who took a decision and on what basis. At the same time, the impact of these decisions on taxpayer liabilities is automatically reflected in the taxpayer current account.

25. The implementation of new computer systems has often been accompanied by extensive analysis of current administrative procedures and significant business process re-engineering. In addition to developing and implementing new software systems, reforming tax administrations have invested heavily in building up the informatics infrastructure. This has included developing local-area and wide area networks, improving communications between local, regional and national offices, allowing local and regional offices access to national level databases to enable monitoring and investigation of cases spanning activities in multiple jurisdictions, increasing the density of computer availability within the tax administration, so that more and more employees have access to the automated systems. E-mail based communications within the tax administration are becoming increasingly important.

26. Tax administration reform is a serious undertaking, involving considerable costs and a multi-year effort. Support of the top political executive, Parliament, in case of legal amendments is needed.
27. While computerization is necessary to improve efficiency and effectiveness in the Tax Administration, it is not sufficient. It is necessary to address a broad range of institutional weaknesses in order to achieve lasting performance improvements.

28. Rights and Obligations of Taxpayers – to find a proper balance between the implementation of tax laws and observation of individual taxpayers rights, thus facilitating voluntary tax compliance. Ethics to enhance taxpayer confidence in the tax administration through the display of fairness, impartiality, honesty, integrity and professionalism and through the development of transparent systems and procedures, which support this aim thus increasing voluntary tax compliance.

29. Successful implementation of tax administration strategy must be supported by human resource, training, and Information technology, communication strategies that would promote and facilitate the achievement of strategic objectives of tax administration. The most valuable resource of tax administration is its personnel. Development of personnel management system is particularly important during the implementation of changes.

30. In order to provide successful implementation of strategic objectives transparent and honest exchange of information should be promoted at all levels of the organisation. The principle of high level of information and understanding of employees about strategic objectives and tasks of the tax administration raises the level of their motivation.

31. An adequate level of autonomy is necessary to ensure successful work performance, to increase the efficiency of work performance and to create a flexible policy of material and human resources. Continuing the work on more precise identification of the level of autonomy of tax administration in the process of the development of draft amendments to legislative acts, it must be taken into consideration that the increase of autonomy is only one of the measures, which in combination with the development of clearly defined objectives and appropriate strategies can achieve efficient performance.
32. Tax administration must have sufficient powers providing legal basis for enforcement and control activities in compliance with tax legislation, thus fulfilling the functions and tasks set out in the normative acts in compliance with the existing tax legislation. It is also necessary to improve the norms of the legislative acts dealing with the mutual co-operation between government, local government and other institutions and tax administrations of other countries.

33. Taxpayers service one of the most important directions of the strategic plan of Tax Authorities is the creation of an organisation focused on the client - taxpayer. Continuous improvement of services provided to taxpayers, fair and open treatment of taxpayers reduces the need of additional activities and is the best way of the facilitation of voluntary compliance. The most important principles in taxpayer servicing are clarity, speed, accuracy and careful attitude. Within the framework of modernization project client service halls are being established in the local offices of center. This will considerably improve taxpayer’s service and will reduce the time spent by taxpayers to comply with their obligations. In order to achieve the increase of voluntary compliance, in continuation of already taken measures to improve taxpayer service, the following tasks will be accomplished:

34. Taxes revenue collection and enforcement: The main objective of tax administration is to provide tax and taxpayers accounting, collection of state taxes, fees and other obligatory state payments. Objective of revenue collection is to organise operation in such a way that would facilitate voluntary tax compliance as well as raise efficiency of tax collection and diminish necessity for tax enforcement. In order to procure promotion of revenue collection following tasks should be carried out:

35. In case of tax evasion or partial tax payment it is necessary to manage corresponding and timely enforcement of tax payments. Tax enforcement procedures and methods should be clear so that to provide transparency and uniform approach to their application. Development of enforcement activities registration system has been started. Objective of the system is to support all activities and stages of enforcement process of duly unpaid taxes
beginning from stating the start of enforcement process and closing with registration of the end of process in the database.

36. Tax control: The main objective of tax control is to timely detect cases when tax collection is endangered due to non-compliance related to taxpayers' registration, correct and timely calculation and payment of taxes in compliance with requirements determined by tax legislation. It is particularly important to raise the efficiency of tax control, as it is one of the most expensive functions of tax administration. In order to achieve a corresponding level of tax control, the following tasks will be carried-out by improving control strategy and implementation mechanism. Tax control strategy forms the background for the development of corresponding system and procedures in order to detect tax fraud and prevent tax evasion. Tax control provides additional tax revenue as well as facilitates prevention of unfair competition in relation to taxpayers that are voluntarily complying with their tax obligations. Tax control must incessantly adapt to new needs and requirements regarding increasing amount of entrepreneurial activity, international trade and investments.

37. Education in administration and economy in public expenditure should at least diminish people's unwillingness to suffer an increase in tax burdens. The knowledge of the widespread tax evasion undermines moral, puts a heavy strain on tax compliance by the honest taxpayer and undoubtedly impairs taxable capacity. Public expenditure in both countries has been moving increasingly towards beneficent expenditure but it cannot be said with equal certainty that it is moving also towards economy and efficiency.

**Directions for Further Research**

This study started as a proposal three years ago, after the achievement of this research we hope that Tax Authority in the Republic of Yemen, the Department of Income Tax in India, taxpayers and the researchers in both countries get the benefit of the fruitful efforts spent in this research. However, interested the researchers can carry out further studies in these topics:

- Tax Evasion in both Countries in Comparison to the Developed Counties.
• Role of Penalties in Reducing Tax Evasion in both Countries.
• Role of the Applied Accounting System in Increasing Tax Revenue.
• Influence of the Accounting Standards in decreasing the Tax Evasion and Increasing Tax Revenue.