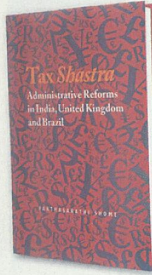


Bookmark



The Third World Of Change

by satya poddar

TAX SHASTRA ADMINISTRATIVE REFORMS IN INDIA, UNITED KINGDOM AND BRAZIL BY PARTHASARATHI SHOME BUSINESS STANDARD BOOKS PAGES: 230; PRICE: Rs 450

INDIA is on the cusp of a 3G change. Well, spare telecom this time. We are talking about the third generation of tax reforms, which form the crux of Parthasarathi Shome's new book *TAX SHASTRA*. The book is quite significant and well-timed.

The first generation reforms, introduced in the 1990s, brought significant rationalisation in individual and corporate taxation. It lowered statutory rates and broadened the base, and included unification of 11 excise rates into a single central value-added tax (Cenvat). The reforms also led to the introduction of service tax and its integration with the Cenvat. The second-generation reforms were introduced in 2005, with the introduction of state VAT that rationalised the state sales tax structure substantially. The scope of both these reforms was limited to tax structures, policy and legislation. The institution of tax administration remained largely insulated because of insurmountable rigidities in the system and its resistance to change.

Shome's book is all about the institution of tax administration. The author provides a lucid description of tax administration in the UK and Brazil and contrasts it with the archaic system in India. What makes the book valuable is the rigour of Shome's analysis, based on his first-hand experience as an integral part of two complex yet different administrations — India and the UK.

Shome's vision of a modern tax administration comprises of three pillars: an efficient IT system that provides data for meaningful tax

policy and administrative analysis; strong focus on taxpayers by treating them customers of a private firm and; as functional grouping of tax administration, rather than one based on geographical divisions.

India has done little in exploiting IT for a strong tax administration. Indeed, IT is essential for operational productivity, better taxpayer services and essential analysis that supports policymaking. The world has moved a long way, but the Indian tax administration still lags behind. These reforms are expected to yield the same dividends as the earlier reforms. Without them, benefits of the first two reforms are not being fully realised. Those reforms saw two eminent economists Manmohan Singh and Asim Dasgupta at the helm. It, therefore, comes as no surprise that the author has emphasised the significance of economic analysis at the top management levels. Shome also emphasises the need for professional specialisation in tax policy, rather than relying on the administrative-revenue services, which is the existing practice.

Shome brings out the need for defining objectives of tax administration that are specific and measurable with key performance indicators. Further, he points out that in advanced jurisdictions such as the UK, the administrative focus is on minimising tax gaps through 'gap analysis', instead of maximising revenue. He examines the segregation of roles of Her Majesty's Treasury and Her Majesty's Revenue and Customs (HMRC) in the UK and how it facilitates HMRC's focus on tax gaps and administration, as opposed to policy and revenue. Such segregation is sorely lacking in India, making tax administration vulnerable to political interference. Another important issue is that of regulatory impact assessment. The author shares the UK experience where every change in policy is supported by a 30-page report on all

BROWSING



Neeraj Gulati
Director,
Assotech Realty

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The Twilight Of The Nation State by **PREM SHANKAR JHA**
I recommend: *The Fortune At The Bottom Of The Pyramid* by C.K. Prahlad and *The Urban Revolution* by Henri Lefebvre
In my shelf: Primarily non-fiction, with the mix of art, architecture, spirituality, business and management
My bookshops: Connaught Place and Khan Market in Delhi. Airport stores, shopping malls, while I am travelling.



PARTHASARATHI SHOME is director of think tank Indian Council for Research on International Economic Relations. He served as chief economist for UK's Her Majesty's Revenue and Customs during 2008-11. Shome was also an adviser to India's finance minister from October 2004 to January 2008. He has authored several books on tax and finance.