CHAPTER - III

TAX ADMINISTRATION – A THEORETICAL FRAME WORK

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3.0 Introduction

In the absence of proper and effective administration the object of levying a tax cannot be achieved and that every purpose of such taxation in particular as well as the fiscal policy of the State in general is defeated. The canon of equality is also threatened because full payment of tax is made by the honest tax payers only. Unscrupulous tax payers are always in search of loopholes to take advantage of administrative weakness and limitations in the tax system so as to avoid or evade payment of taxes. In such conditions the morale of the honest tax payers is affected and that too tries to take advantage of administrative weakness and the limitations of the tax system.

An effective Tax system must fulfill the administrative requirement with speed, it should cost less than any other way of achieving the same results; it should be adoptable to changing conditions; it should conform to the organizational structure, policies and other systems in the organizations. Economy in administrative systems and procedures is achieved by making changes, additions and deletions in such a way as to increase the net differences between the benefit produced and cost incurred. It is important to keep all the possibilities in mind while seeking to improve a tax system. Wastages in the form of excessive expenditure or failure to derive the potential benefits of a tax system are typical. The former is due to unnecessary procedure and poor methods and the latter is due to ineffectiveness and inadequacy of administrative system. An effective system of taxation should be a continuous process in order to reduce waste and evolve better methods.

The main functions of a tax administration, in dealing with taxpayers, aside from actual tax collection or sanctioning non-compliance, largely involve gathering or processing information. The first information related function is identification of taxpayers followed by their registration as taxpayers and, for most major taxes, the assignment of giving taxpayers identification numbers. Other information functions include, at the preliminary stage, collection of information from third party sources including, importantly, tax withholders, accessing asset ownership information (such as cadastral records), engaging in taxpayer education and providing taxpayer services to keep their compliance burden low. Verification of the correctness of tax payments starts with return filing control followed by assessment of tax liability of the taxpayer. Some of the major types of assessment activities are valuation and tax audit, the latter activity typically being the most important function of tax administrations from the perspective of resource use. To establish tax evasion or to facilitate identification of non-filers investigation and inspection are also necessary. If prima facie non-compliance is established, then penalties and prosecution of tax offenders may be required. Actual tax collection is divided into two functions, mechanical collection of taxes from those who pay voluntarily on time and collection of delinquent taxes. In some countries a substantial part of the capacity of tax administrations is absorbed by the execution of non-tax related functions, such as the collection of user charges and fees for other government agencies. Those kinds of responsibilities should be critically reviewed to allow the tax administration to concentrate on its main function. In several countries, amnesties are declared for different reasons. Amnesties, of course, must be administered and not just enacted. The final function of tax administrations covered here, again largely information related and becoming increasingly important, is international tax cooperation with other administrations[1].

3.1 Review of literature

A substantial volume of literature at the macro levels exist on the subject of administration in Kerala. But there have been very few studies in tax administration in CTD. However, a thorough survey of available literature was conducted, with special emphasis on Kerala for constructing a theoretical frame work for this study. The survey helped to understand and appreciate the earlier studies conducted in the field of tax administration and it also provides a broad frame work for this study.

3.1.1 Administration

Administrative Reform Commission states that “the effectiveness of government control is not adequate. Ineffective control is worse than no control, because while it inhibits operational initiative by an external apparatus, it fails in its objectives of regulating matters in those areas where regulation is essential”[2]. George M. M[3] draws attention to "the state of CTD in the context of the present day world. He observes that the present performance appraisal system in the department is inadequate and hence it should be modified. The past performance of employees should be considered at least at the time of giving promotions and transfers to the employees".

Administrative leadership is not a passive status or the mere possession of some combination of traits. Ralph M. Stogdill[4] says "it appears rather to be a working relationship among members of a group in which the leader requires status through active participation and demonstration of his capacity for carrying co-operative tasks through to completion". According to Mammoria[5] the management of men is a challenging task because of the dynamic nature of the people .No two persons are similar in mental abilities traditions, sentiments and behavior. They differ widely also as groups, and are subject to many and varied influences. People are responsive, they feel, think and act; therefore, they cannot be operated like a machine or shifted and altered like a template in a room lay out. They, therefore, need a tactful handling by management personnel. According to Sivaprakasam[6], of all the resources possessed by an organisation, personnel represent the most vital resource. Likert[7] observes, all the activities of any enterprise are initiated and determined by the persons who make up that organization; plants, offices, computers, automated equipments and all else that a modern firm uses are unproductive except for human effort and direction. In the words of Jeffrey Ownes[8], the tax administrators, tax payers and their advisors have a dynamic relationship.

Although the field of administration research has developed more slowly than many of us anticipated, it still yields useful information for managers both in understanding the dynamics of the administrative role and enhancing its effectiveness within their organizations. Like motivation and leadership administration is not about absolutes or formulas and as such, is likely to continue as a significant issue in management in the foreseeable future, especially in the light of globalization, downsizing and the imperative to effectively lead and motivate a diverse workforce, constantly exposed to an increasingly turbulent external environment.

Administration of employee compensation is called compensation management or wage and salary administration. According to Bhagoliwala[9] wage and salary administration involves the direction of programmes designed to implement the payments of economic or monetary /financial rewards. Dale Yolder[10] considers wage and salary administration as selection, development and direction of programmes designed to implement compensation or incentive policy through financial rewards. Bewath and Rands[11] describe salary administration as the application of a systematic approach re-ensuring payment in a logical, equitable and fair manner. Wage/Salary administration involves formulation and implementation of policies and programmes relative to wages, salaries and other forms of employee compensation.

3.1.2 Human Resource Planning

Rao[12] in his research study observes that human resource planning is essentially the process of getting the right number of qualified people into the right job at right time. Vetter[13] viewed human resource planning as a process by which an organisation should move from its current manpower position to its desired manpower position. Through human resource planning management strives to have the right number and the right kind of people at the right places at the right time, which in the long run, bring maximum benefit to both the organization and the individual. Meggison[14] describes human resources planning as an integrated approach to performing the planning aspects of the personnel function in order to have a sufficient supply of adequately developed and motivated people to perform the duties and tasks required to meet the organizational objectives and to satisfy the individual needs and goals of organizational members. Human Resource planning then can be seen as a set of activities designed to make available the necessary number of people with the necessary qualifications in order to realize the organization's goals along with the interests of individual employees.

3.1.3 Promotion

Promotion brings about positive change in the status, responsibility and monetary benefits of an employee. Dwivedi[15] defined it as a reassignment of the individual to a job of higher rank usually involving an increase in responsibility and accompanying pay, privileges, prestige, status and authority. According to Scott.et.al[16] promotion is the transfer of an employee to a job that pays more money or that enjoys some preferred status. Pigors and Myres[17] define promotion as the advancement of an employee to a better job, better in terms of greater responsibilities, more prestige or 'status', greater skill and especially increased rate of pay or salary. According to Rudrabasavaraj[18] promotion is an upward movement or advancement of an employee in the organization to another job which commands better pay or wages, better status or prestige and higher challenges, and responsibilities and opportunities. Bhagoliwala[19] observes, promotion generally implies the vertical movement or change in assignment of a position of higher responsibility of an individual employee in the organization. Dale yorder[20] defines promotion as a movement to a position in which responsibilities and presumable prestige is increased. Thus promotion provides an employee better status, responsibility, pay and working environment.

Every organization should have a policy which provides the guide lines for promotion. A sound promotion policy encompasses such issues as, merit and competence, promotional ladder, promotion from within or hiring from outside, etc. Usually promotion is given to employees either on the basis of merit or seniority or merit-cum-seniority. As promotion is given to a qualified person in recognition of his performance or with a view to providing an incentive for him, then it should be based on his ability or merit. On the other hand, if promotion is given to recognize and reward senior employee on the basis of his length of service, then it should be on seniority basis. The system of promotion by merit enjoys certain benefits. It brings rewards for meritorious work, extra competence and achievement. Further, it encourages an employee to work hard so that he may get an opportunity for advancement in the organization. Moreover, it leads to increase in productivity, as individuals are satisfied that their merit and competence are properly appreciated and rewarded.

Despite its advantages, promotion on merit is not supported by many people particularly employees unions, owing to the element of subjectivity in judgment inherent in it. Therefore promotion by seniority is preferred by trade unions and most employees. The system is simple to understand and operate, to recognize the length of service of the employees and to introduce an element of certainty in matters of promotion. The greatest drawback of this system is that the merit is often sacrificed which leads to frustration among meritorious people. Moreover, the efficiency is likely to suffer, if unqualified person is promoted only on the basis of seniority. Since both the systems have demerits, the most widely used system for promotion is merit-cum-seniority which combines ability and seniority, and balances the advantages of the two systems of promotion and simultaneously satisfies the management and trade unions.

3.1.4 Transfer

Transfer is the movement of an employee from one job to another on the same occupational level and at about the same level of wages or salary. No appropriate increase or decrease in duties and responsibilities is involved, although there may be a change in their specific nature and working conditions. It involves little or no change in status, responsibility and pay. According to Dalton[21] a transfer is a change of assignment in which the individual moves to another job approximately at the same level of responsibility, demanding about the same level of pay. Dale Yorder[22] considers transfer as the shifting of an employee from one job to another without special reference to changing responsibilities or compensation. According to Micheal[23], transfer refers to changes in which the pay, status and job conditions of the new positions are approximately the same as of the old. Watkins *et al*[24], opinions that transfers broadly seek to fulfill various objectives such as satisfying the changing needs of the organization, providing adequate opportunities to employees for gaining a varied and broader experience of work, utilizing the capabilities of the employees properly, meeting the employee's own request for change in assignments etc.

Every organization should have a just and impartial policy concerning transfer of employee. Such a policy will help to avoid an adhoc and arbitrary approach to transfers. Every transfer involves some description and cost. Therefore, transfers should not be made frequently or without fair reasons. Instead of deciding each case separately, a policy should be formulated to govern all types of employee transfers. This will ensure uniformity of treatment and avoid transfers for petty reasons.

The general objective of promotions and transfers is to improve the effectiveness of the operations of the organization or company and as far as possible, to satisfy the performance of individual employees. Michael[25] observes that the primary purpose of a promotion or transfer is to increase the effectiveness of the organization in attaining its services and profit objectives. Dalton[26] pointed out that promotion and transfers may serve four purposes from the point of view of the organization namely; (1) improving organization structure (2) Maximizing the effectiveness of its employees through assignments to positions using the highest capabilities of each (3) Augmenting policies of disciplinary action and (4) Adjusting to change in operations.

Navigating through the various research findings and concepts on administration discussed so far, it is evident that there is no comprehensive theory which encompasses all the independent variables or sub-components that determine the effectiveness of the administration. James[27] is right when he says administration is one of the most observed and least understood phenomenan on earth. The research studies on administration in Government departments and public offices, especially, revenue collecting department-commercial taxes department (CTD) has not so far been attempted in India. This piece of research work attempts to fill this research gap by taking all relevant variables and sub-components from the various research findings so far discussed so as to identify and analyze the administrative potential of the employees of the Commercial Taxes Department of Government of Kerala.

3.1.5 Value Added Tax (VAT)

Thomas Joseph Thoomkuzhy[28] in his working paper 'VAT accounting solutions: A software support for VAT regime' has suggested that, in the present context of VAT system there is an urgent need to give effective and simple business solution with the help of a software package will cost more than ₹ 10,000/- which amount be afforded by a small business it is proposed to develop and market an application software as accounting package including VAT solution for a price ranging between ₹ 1,500/- to ₹ 2,000/- which can be amounted to all the business segments.

Rejesh M. N[29] in his study on "Impact of Value Added Tax on the Financial and Tax management practices of the VAT assesses of Kerala" has found that the VAT system of taxation has a significant impact on investment decisions of the different categories of the VAT assesses. These decisions have long term implication for the business because they affect the future profitability and cost structure. It influences the rate and direction of a firm's growth. Therefore the VAT assesses should be very careful and vigilant in taking investment decisions and should avoid overinvestment and under investment in fixed assets. And he suggest that the present turnover limit for

“Compulsory Audit System” prevailing under the VAT system is not rational and satisfactory. So this limit should be enhanced upto rupees two crores.

Biju[30] conducted a study on Administrative leadership potential: A study on the taxes department of Government of Kerala. He analysed various Administrative leadership potential on the basis of various leadership theories. He found that Recruitment, Training, Salary, Promotion and Transfer policies affects the leadership potential to a great extent. He suggest the importance of revision of pay scale to the employees and also suggest the need and importance of transparent transfer policies.

Richard M. Bird and Milka Casanegra de Jantscher[31] express the view that the most vexing problems with the VAT concern administration. Among the administrative problems, perhaps the worst is the slowness of the Government refunding of excess credit. Frequently the policy has been on of auditing all (and only) those tax payers who ask for a refund, no matter how small the refund is paying a small amount of tax saves most would be evaders from Govt. scrutiny.

S. Anilkumar, M.L. Paul and Jenny Thekkekara[32] have pointed out that even if tax is levied at every stage, it still avoids cascading effect as full credit of tax paid on purchases is available. Therefore, VAT is neutral regarding choice of production techniques as well as business decisions. They have also stated that it helps in better pricing of the products by the manufacturers / traders especially exporters, which makes their products more competitive in the open market.

Jose Sebastian[33] in his study titled ‘Tax performance: a case study of Sales Tax in Kerala’ has found that because of the interdependency of economic activities between states and the continuance of the phenomenon of trade diversification, inter – state tax competitions has become an emerging problem in Indian fiscal federalism. The major forms of inter – state tax competition practiced in India are reducing the tax rates of high value items within the state, giving exemption to Central Sales Tax, competitive offers of incentives to industries and discriminatory taxation of locally produced goods as against imported goods.

C.P. Manjula[34] in her study titled ‘A comparative study of Sales Tax system in Southern States of India’ has recognized that lack of uniformity in the rates, point of levy, exemption, incentives and administrative procedures have all contributed significantly in creating tax differential among the four Southern States (Andra Pradesh, Karnataka, Kerala and Tamil Nadu) such a tax differential among the four States to indulge in interstate competitions causing trade diversion, tax exportation and vertical integration besides creating large scope of tax evasion and avoidance

3.2 About Indian Tax

This country has got a well structured and simplified taxation system, wherein an authoritative segregation has been done among the Central Government, the different State Governments as well as the Local Bodies. The Department of Revenue under the Government of India's Ministry of Finance is solely responsible for the computation of tax. This department levies taxes on individuals or organisations for income, customs duties, service tax and central excise. However, the agriculture based income taxes are levied by the respective State Governments. Local bodies have got the power to compute and levy taxes on properties and other utility services like drainage, water supply and many others. The past fifteen years have witnessed tremendous reformations of the taxation system in India. Apart from the rationalization of the rates of tax, simplification of the different laws of taxation has even been done during this period. However, the process of tax rationalization is still in progress in the Republic of India.[35] Taxes in India are levied by the Central Government and the state governments. Some minor taxes are also levied by the local authorities such the Municipality or the Local Council.

The authority to levy a tax is derived from the Constitution of India which allocates the power to levy various taxes between the Centre and the State. An important restriction on this power is Article 265 of the Constitution which states that "No tax shall be levied or collected except by the authority of law." Therefore each tax levied or collected has to be backed by an accompanying law, passed either by the Parliament or the State Legislature. In 2010-11, the gross tax collection amounted to ₹7.92 trillion, with direct tax and indirect tax contributing 56% and 44% respectively.)

3.2.1 Canons of Taxation

Adam Smith's four famous canons of taxation are:

- The subjects of every State ought to contribute towards the support of the government, as nearly as possible in proportion to their respective abilities.
- The tax which each individual is bound to pay, ought to be certain, and not arbitrary. The time and, manner of payment, ought to be clear and plain to the contributor, and to every other person.
- Every tax ought to be levied at the time, or in the manner in which it is most likely to be convenient for the contributor to pay it.
- Every tax ought to be so contrived as to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state.

3.2.2 Constitutional frame work of taxation

Article 246 of the Indian Constitution, distributes legislative powers including taxation, between the Parliament of India and the State Legislature. Schedule VII enumerates these subject matters with the use of three lists;

- List - I Entailing the areas on which only the parliament is competent to make laws,
- List - II Entailing the areas on which only the state legislature can make laws, and
- List - III Listing the areas on which both the Parliament and the State Legislature can make laws concurrently.

Separate heads of taxation are not there in the Concurrent List (Union and the States have no concurrent power of taxation). The list of thirteen Union heads of taxation and the list of nineteen State heads are given below:

Table No. 3.1

List of union heads of taxation powered by the Parliament of India

Sl. No	Heads of Taxation under Union List	List and Entry No.
1.	Taxes on income other than agricultural income	List I, Entry 82
2.	Duties of customs including export duties	List I, Entry 83
3.	Duties of excise on tobacco and other goods manufactured or produced in India except (i) alcoholic liquor for human consumption, and (ii) opium, Indian hemp and other narcotic drugs and narcotics, but including medicinal and toilet preparations containing alcohol or any substance included in (ii).	List I, Entry 84
4.	Corporation Tax	List I, Entry 85
5.	Taxes on capital value of assets, exclusive of agricultural land, of individuals and companies, taxes on capital of companies	List I, Entry 86
6.	Estate duty in respect of property other than agricultural land	List I, Entry 87
7.	Duties in respect of succession to property other than agricultural land	List I, Entry 88
8	Terminal taxes on goods or passengers, carried by railway, sea or air; taxes on railway fares and freight	List I, Entry 89
9	Taxes other than stamp duties on transactions in stock exchanges and futures markets	List I, Entry 90
10	Taxes on the sale or purchase of newspapers and on advertisements published therein	List I, Entry 92
11	Taxes on sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of Inter-State trade or commerce	List I, Entry 92A
12	Taxes on the consignment of goods in the course of Inter-State trade or commerce	List I, Entry 93A
13	All residuary types of taxes not listed in any of the three lists	List I, Entry 97

Source: Compiled from Indian Constitution

Table No. 3.2

List of state heads of taxation powered by the State Legislature

Sl. No.	Heads of Taxation under State List	List & Entry No.
1	Land revenue, including the assessment and collection of revenue, the maintenance of land records, survey for revenue purposes and records of rights, and alienation of revenues	List II, Entry 45
2	Taxes on agricultural income	List II, Entry 46
3	Duties in respect of succession to agricultural income	List II, Entry 47
4	Estate duty in respect of agricultural income	List II, Entry 48
5	Taxes on lands and buildings	List II, Entry 49
6	Taxes on mineral rights	List II, Entry 50
7	Duties of excise for following goods manufactured or produced within the State (i) alcoholic liquors for human consumption, and (ii) opium, Indian hemp and other narcotic drugs and narcotics	List II, Entry 51
8	Taxes on entry of goods into a local area for consumption, use or sale therein	List II, Entry 52
9	Taxes on the consumption or sale of electricity	List II, Entry 53
10	Taxes on the sale or purchase of goods other than newspapers	List II, Entry 54
11	Taxes on advertisements other than advertisements published in newspapers and advertisements broadcast by radio or television	List II, Entry 55
12	Taxes on goods and passengers carried by roads or on inland waterways	List II, Entry 56
13	Taxes on vehicles suitable for use on roads	List II, Entry 57
14	Taxes on animals and boats	List II, Entry 58
15	Tolls	List II, Entry 59
16	Taxes on profession, trades, callings and employments	List II, Entry 60
17	Capitation taxes	List II, Entry 61
18	Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling	List II, Entry 62
19	Stamp duty	List II, Entry 63

Source: Compiled from Indian Constitution

Any tax levied by the government which is not backed by law or is beyond the powers of the legislating authority may be struck down as unconstitutional.

3.3 Types of Tax

Tax means imposing financial charges on individual or company by central government or state government. Collected Tax amount is used for building the nation (infrastructure & other development), to increase arms and ammunition for defense of the country and for other welfare related work. That's why it is said that "Taxes are paid nation are made". The computation and imposition of the varied taxes prevalent in the country are carried on by the Ministry of Finance's Department of Revenue. During the last financial year of 2010 – 2011, the gross collection of tax amounted to around INR. 7.92 trillion, where the direct tax has got 56 % contribution and the indirect tax has got 44 % contribution[36]. There are mainly two types of taxes in India. They are Direct Tax and Indirect Tax.

3.3.1 Direct Taxes

These types of taxes are directly imposed & paid to the Government of India. There has been a steady rise in the net Direct Tax collections in India over the years, which is a healthy signal. That means, this kind of tax is named so as such a tax is directly paid to the Union Government of India. As per a survey, the Republic of India has witnessed a consistent rise in the collection of such taxes over a period of the past years. The visible growth in these tax collections as well as the rate of taxes reflects a healthy economical growth of India. Besides that, it even portrays the compliance of high tax along with better administration of taxation. To name a few of the direct taxes, which are imposed by the India Government are[37]:

(1) Income Tax

This tax is mostly known to everyone. Every individual whose total income exceeds taxable limit has to pay income tax based on prevailing rates applicable time to time. For FY 2011-12 Income tax rates are:-

Table No. 3.3

Income tax rates for financial year 2011 - 2012[38]

For Men	
Upto ₹ 1,80,000/-	Nil
₹ 1,80,000/- to ₹ 5,00,000/-	10%
₹ 5,00,000/- to ₹ 8,00,000/-	20%
Above ₹ 8,00,000/-	30%
For Women	
Upto ₹ 1,90,000/-	Nil
₹ 1,90,001/- to ₹ 5,00,000/-	10%
₹ 5,00,001/- to ₹ 8,00,000/-	20%
Above ₹ 8,00,000/-	30%
For residential individual of 60 years or above (Senior Citizens)	
Upto ₹ 2,50,000/-	Nil
₹ 2,50,001/- to ₹ 5,00,000/-	10%
₹ 5,00,001/- to ₹ 8,00,000/-	20%
Above ₹ 8,00,000/-	30%
For residential individual of 80 years or above (Very Senior Citizens)	
Upto ₹ 5,00,000/-	Nil
₹ 5,00,001/- to ₹ 8,00,000/-	20%
Above ₹ 8,00,000/-	30%

(2) Capital Gains Tax

Capital Gain tax as name suggests is a tax on gain in capital. If you sale property, shares, bonds & precious material etc. and earn profit on it within predefined time frame you are supposed to pay capital gain tax. The capital gain is the difference between the money received from selling the asset and the price paid for it.

Capital gain tax is categorized into short-term gains and long-term gains. The Long-term Capital Gains Tax is charged if the capital assets are kept for more than certain period 1 year in the case of share and 3 years in the case of property. Short-term Capital Gains Tax is applicable if these assets are held for less than the above-mentioned period. Rate at which this tax is applied varies based on investment class. Example:- If purchase share at say is ₹ 1000 (per share) and after two months this price increased to ₹ 1200 (per share) if decides to sell this stock and earn profit of ₹ 200 per share. If do so have to pay Short term CGT (capital gain tax) @ 10% +Education cess on profit as it is short term capital gain. If hold same share for 1 year or above it is considered as long term capital gain and need not pay capital gain tax. It is considered as tax free. Similarly if purchase a property and after two years, if find that the price of property in which invested has increased and decide to sell it, need pay short term capital gain tax. For property, it is considered as long term capital gain if hold property for 3 years or above.

(3) Securities Transaction Tax

A lot of people do not declare their profit and avoid paying capital gain tax, as government can only tax those profits which have been declared by people. To fight with this situation Government has introduced STT (Securities Transaction Tax) which is applicable on every transaction done at stock exchange. That means if you buy or sell equity shares, derivative instruments, equity oriented Mutual Funds this tax is applicable. This tax is added to the price of security during the transaction itself, hence you cannot avoid (save) it. As this tax amount is very low people do not notice it much. Current STT Rates are

Table No. 3.4

Rate of Security Transaction tax

Market Type	Current rate
Futures & Options	0.017%
Capital Market (Delivery)	0.125%
Capital Market (Intra – Day)	0.025%

(4) Perquisite Tax

Earlier to Perquisite Tax we had a tax called FBT (Fringe Benefit Tax) which was abolished in 2009. This tax is on benefit given by employer to employee. e.g., If your company provides you non-monetary benefits like car with driver, club membership, ESOP etc, all three benefits are taxable under perquisite Tax. In the case of ESOP the employee will have to pay tax on the difference between the Fair Market Value (FMV) of the shares on the date of exercise and the price paid by him/her.

(5) Corporate Tax

Corporate Taxes are annual taxes payable on the income of a corporate operating in India. For the purpose of taxation companies in India are broadly classified into domestic companies and foreign companies.

Table No. 3.5

Rate of Corporate tax in India

Types of Company	Total Income more than INR 10 million	Total Income less than INR 10 million
Domestic Company	30% + Surcharge + Education Cess	30% + Education Cess
Foreign Company	40% + Surcharge + Education Cess	40% + Education Cess

In addition to above other taxes are also applicable on corporates.

(6) Gift Tax

If you receive gift from someone it is clubbed with your income and you need to pay tax on it. This tax is called as gift tax. This tax is applicable if the gift amount or value is more than ₹ 50000 in a year.

(7) Wealth Tax

Wealth tax is a direct tax, which is charged on the net wealth of the assessee. Wealth tax is chargeable in respect of net wealth corresponding to the valuation. Net wealth means all assets except loans taken to acquire those assets. Wealth tax is 1% on net wealth exceeding ₹ 30 Lakhs (₹ 3,000,000). So if you have more money assets, you are liable to pay tax.

3.3.2 Indirect Taxes

As opposed to the direct taxes, the nation has generally levied on some specified services or some particular goods an indirect tax is not levied on any particular organisation or an individual. Almost all the activities, which fall within the periphery of the indirect taxation, are included in the range starting from manufacturing goods and delivery of services to those that are meant for consumption. Apart from these, the varied activities and services, which are related to import, trading etc. are even included within this range. This wide range results in the involvement as well as implementation of some or other indirect tax in all lines of business.

Usually, the indirect taxation in the Indian Republic is a complex procedure that involves laws and regulations, which are interconnected to each other. These taxation regulations even include some laws that are specific to some of the States of the country[39]. In short, Indirect taxes are those which are not levied upon you directly. However the commoner pays the taxes via consumption, expenditure and right on income or property. Sales Tax, Value Added Tax (VAT), Service Tax, Customs Duty, Excise Duty and Anti dumping Duty are some of the common Indirect Taxes that are levied. In the case of direct taxes, the rate of tax that you pay is proportional to your income levels. Indirect taxes are equal for everyone. So it doesn't matter if you are rich or poor[40].

(1) Sales Tax

Sales tax is charged on the sales of movable goods. Sale tax on Inter State sale is charged by the Union Government, while sales tax on intra-State sale (sale within State) (now termed as VAT) is charged by the State Government. Sales can be broadly classified in three categories. (a) Inter-State Sale (b) Sale during import/export (c) Intra-State (i.e. within the State) sale. State Government can impose sales tax only on sale within the State. CST is payable on Inter-State sales is @ 2%, if C form is obtained. Even if CST is charged by Union Government, the revenue goes to the State Government. The State from which movement of goods commences gets revenue. CST Act is administered by State Government.

(2) Value Added Tax

Sales Tax is the most important source of revenue of the state governments; every state has their respective Sales Tax Act. The tax rates are also different for respective states. Tax imposed by Central government on the sale of goods is called Sales tax. The same is called as Value added tax by state government.VAT is additional to the price of goods and passed on to us as buyer (end user). Around 220+ items are covered with VAT.VAT rates vary according to the nature of the item and state. VAT is the indirect tax on the consumption of goods, paid by their original producers upon the change in goods or upon the transfer of goods to their ultimate consumers. It is based on the value of goods, added by the transferor. It is the tax in relation to the difference of the value added by the transferor and not just a profit. All over the world, VAT is payable on the goods and services as they form a part of national GDP. It means every seller of goods and service provider charges the tax after availing the input tax credit. It is the form of collecting sales tax under which tax is collected in each stage on the value added to the goods. In practice, the dealer charges the tax on the full price of the goods sold to the consumer and at every end of the tax period reduces the tax collected and the tax charged to him. Such amount of tax is deposited in the Governement treassury.

There are two methods for collection of VAT in India. In the first method, tax is charged separately on the basis of the tax which is paid on purchase, and the tax that is payable on the sale (shown separately in the invoice). Therefore, the difference between the tax paid on purchase and the tax payable on sale as per the invoice is the VAT. In the second method, tax is collected and charged on the aggregate value of the tax payable on sale and purchase, by applying the rate of tax applicable to the goods. Therefore, the difference between the sale price and purchase price would be VAT. It means VAT is the tax which consumers ultimately face, which is collected at each stage.

(3) Service Tax

For most of the paid services you take, you have to pay service tax. This tax is called service tax. Over the past few years, service tax has been expanded to cover new services. Few of the major services which come under service tax are telephone, tour operator, architect, interior decorator, advertising, beauty parlor, health center, banking and financial service, event management, maintenance service, consultancy service. Current rate of interest on service tax is 10.3%. This tax is passed on to us by service provider.

(4) Custom duty & Octroi (On Goods)

Custom Duty is a type of indirect tax charged on goods imported to India. One has to pay this duty, on goods that are imported from a foreign country to India. This duty is often payable at the port of entry (like the airport). This duty rate varies based on the nature of items. Octroi is a tax applicable on goods entering in to municipality or any other jurisdiction for use, consumption or sale. In simple terms one can call it as Entry Tax.

(5) Excise Duty

An excise or excise duty is a type of tax charged on goods produced within the country. This is opposite to custom duty which is charged on bringing goods from outside of country. Another name of this tax is CENVAT (Central Value Added Tax). CENVAT means Tax on Value Addition on the goods manufactured according to Central Excise and Customs Act definition. Here the value addition means the additional services or activities which convert the input into out put. And the input is newly recognized as per this Act as excisable goods. CENVAT is applicable to service tax and central excise at the central government level[41].

If you are producer / manufacturer of goods or you hire labor to manufacture goods you are liable to pay excise duty.

(6) Anti Dumping Duty

Dumping is said to occur when goods are exported by a country to another country at a price lower than their normal value. This is an unfair trade practice which can have a distortive effect on international trade. In order to avoid this situation Central Govt. imposes an anti dumping duty not exceeding the margin of dumping in relation to such goods.

3.3.3 Other Taxes

(1) Professional Tax

If you are an earning professional, you need to pay professional tax. Professional tax is imposed by respective Municipal Corporations. Most of the States in India charge this tax. This tax is paid by every employee working in private organizations. The tax is deducted by the employer every month and remitted to the Municipal Corporation and it is mandatory like income tax. The rate on which this tax is applicable not same in all states.

(2) Dividend distribution Tax

Dividend distribution tax is the tax imposed by the Indian Government on companies according to the dividend paid to a company's investors. Dividend amount to investor is tax free. At present dividend distribution tax is 15%.

(3) Municipal Tax

Municipal Corporation in every city imposed tax in terms of property tax. Owner of every property has to pay this tax. This tax rate varies in every city.

(4) Entertainment Tax

Tax is also applicable on Entertainment; this tax is imposed by the State Government on every financial transaction that is related to entertainment such as movie tickets, major commercial shows, exhibition, broadcasting service, DTH service and cable service.

(5) Stamp Duty, Registration Fees, Transfer Tax

If you decide to purchase a property in addition to the cost paid to seller, you must consider additional cost to transfer that property to your name. That cost includes registration fees, stamp duty and transfer tax. This is required for preparing legal document of property. In simple sense this tax is imposed on the handing over of the title of property ownership by one person to another. It incorporates a legal transaction fee & stamp duty. This amount varies from property to property based on cost.

(6) Education Cess, Surcharge

Education cess is deducted and used for Education of poor people in India. All taxes in India are subject to an education cess, which is 3% of the total tax payable. The education cess is mainly applicable to Income tax, excise duty and service tax. Surcharge is an extra tax or fees that added to your existing tax calculation. This tax is applied to tax amount.

(7) Toll Tax

At some places you need to pay tax in order to use infrastructure (road, bridge etc.) built with your money given to government as Tax. This tax is called toll tax. This tax amount is very small amount but, to be paid for maintenance and good upkeeping.

3.4 Legislative framework for Tax

3.4.1 Statute law

There are specific statutes for other taxes. Central tax statutes are passed by the central Parliament and state tax statutes by the state assemblies. Tax rates and duties are reviewed annually when budgets are presented. Amendments to the statutes are made through the annual Finance Acts or specific Amendment Acts almost every year. Although amendments are usually prospective, retroactive amendments are permitted. Tax administrators have no authority to alter legislation but are empowered by the statutes to make rules to carry out the provisions of law.

3.4.2 Case law

Case law is a significant factor in the interpretation of the law. High Court decisions are binding to subordinate appellate authorities of the state over which the concerned High Court has jurisdiction, and they are persuasive for appellate authorities of other States. Supreme Court decisions are binding to all appellate authorities and assessing officers. Indian courts in interpreting legislation have often referred to memorandums explaining the provisions of the law and the amendments that were placed before the legislature when the law or amendments were introduced.

3.5 Recent Changes in the Indian Taxation System

Over a period of 10 years to 15 years, the tax system in the nation has undergone some significant changes. The entire system has been tremendously reformed. The slabs for the imposition of taxes have been modified. Besides that, the rates at which any particular tax is being levied have been restructured as well as the various laws that govern the levying of taxes were being simplified. All of these reforms have resulted in the following:

- Better compliance
- Better enforcement
- Easy payment of the levied taxes

The date of 1st April of the year 2005 is marked as the date of the implementation of the V. A. T. or the Value Added Tax by almost all the State Governments as a replacement of the earlier Sales Tax. Some of the states in the Indian Republic, where V. A. T. has not been implemented yet, still levy Sales Tax. Apart from these, the process of rationalization of the tax laws is still in progress[42].

Since the year 1991, the Indian tax system has undergone some significant changes. These changes were made in accordance with the country's W. T. O. commitments as well as the liberal financial policies. Some of the major changes in the structure of taxation in the nation are as follows:

- Lowering the tax on corporate income
- Reduction in the rate of excise duties as well as custom duties. Custom duty was reduced from the rate of 220 % in 1991 to 30 % in 2002.
- Toning up the administration of taxation
- Widening the base of tax[43]

3.5.1 Value Added Tax

Value Added Tax (VAT) has emerged as one of the most important fiscal innovations of the present century. As many as 90 countries have switched over to VAT during the last decade and a half bringing the total number of VAT countries to more than 141.

India has adopted a system of dual VAT: CENVAT at the federal level and state-VAT at the state level. Haryana was the first State to replace its sales tax by VAT on April 1, 2003. Majority of states (18 states) introduced VAT on April 1, 2005. Since then all other states have switched over to VAT leaving only Uttar Pradesh out of it[44].

Advantages of VAT are as under;

1. Coverage

   If the tax is considered on a retail level, it offers all the economic advantages of a tax of the entire retail price within its scope. The direct payment of tax spreads out over a large number of firms instead of being concentrated only on particular groups, such as wholesalers & retailers.

2. Revenue Security

   Under VAT only buyers at the final stage have an interest in undervaluing their purchases, as the deduction system ensures that buyers at earlier stages are refunded the taxes on their purchases. Therefore, tax losses due to undervaluation will be limited to the value added at the last stage.

   Secondly, under VAT, if the payment of tax is avoided at one stage nothing will be lost if it is picked up at later stage. Even if it is not picked up later, the government will at least have collected the VAT paid at previous stages. Where as if evasion takes place at the final/last stage the state will lose only tax on the value added at that particular point.

3. Selectivity

   VAT is selectively applied to specific goods & business entities. In addition, VAT does not burden capital goods because of the consumption-type. VAT gives full credit for tax included in purchases of capital goods.

4. Co-ordination of VAT with direct taxation

   Most taxpayers cheat on sales not to evade VAT but to evade their personal and corporate income taxes. Operation of VAT resembles that of the income tax and an effective VAT greatly helps in income tax administration and revenue collection.

Disadvantages of VAT are as follows;

1. VAT is regressive
2. VAT is difficult to operate from position of both administration and business
3. VAT is inflationary
4. VAT favours capital intensive firms

Items covered under VAT are;

- All business transactions that are carried on within a State by individuals/ partnerships/ companies etc. will be covered under VAT.
- More than 550 items are covered under the new Indian VAT regime out of which 46 natural & unprocessed local products will be exempted from VAT
- Nearly 270 items including drugs and medicines, all industrial and agricultural inputs, capital goods as well as declared goods would attract 4 % VAT in India.
- The remaining items would attract 12.5 % VAT. Precious metals such as gold and bullion will be taxed at 1%.
- Petrol and diesel are kept out of the VAT regime in India.

3.5.1.1 Value Added Taxes (VAT) in India

Value Added Tax (VAT) is nothing but a general consumption tax that is assessed on the value added to goods & services. It is the indirect tax on the consumption of the goods, paid by their original producers upon the change in goods or upon the transfer of the goods to their ultimate consumers. It is based on the value of the goods, added by the transferor. It is the tax in relation to the difference of the value added by the transferor and not just a profit.

All over the world, VAT is payable on the goods and services as they form a part of national GDP. More than130 countries in the world have introduced VAT over the past 3 decades; India is amongst the last few to introduce it.

It means every seller of goods and service provides charges the tax after availing the input tax credit. It is the form of collecting sales tax under which tax is collected in each stage on the value added to the goods. In practice, the dealer charges the tax on the full price of the goods sold to the consumer and at every end of the tax period reduces the tax collected on sale and tax charged to him by the dealers from whom he purchased the goods and deposits such amount of tax in government treasury.

VAT is a multi-stage tax levied only on value that is added at each stage in the cycle of production of goods and services with the provision of a set-up for the tax paid at earlier stages in the cycle/chain. The aim is to avoid 'cascading', which can have a snow falling effect on the prices. It is assumed that, because of cross-checking in a multi-staged tax, tax evasion would be checked, hence resulting in higher revenues to the government.

3.5.1.2 Importance of VAT in India

India, particularly being a trading community, has always believed in accepting and adopting loopholes in any system administered by the State or the Centre. If a well-administered system comes in, it will not only close options for traders and businessmen to evade paying their taxes, but also make sure that they will be compelled to keep proper records of sales and purchases.

Under the VAT system, no exemptions are given and a tax will be levied at every stage of manufacture of a product. At every stage of value-addition, the tax that is levied on the inputs can be claimed back from tax authorities. At a macro level, two issues make the introduction of VAT critical for India Industry watchers believe that the VAT system, if enforced properly, will form part of the fiscal consolidation strategy for the country. It could, in fact, help address issues like fiscal deficit problem. Also the revenues estimated to be collected can actually mean lowering of fiscal deficit burden for the government.

International Monetary Fund (IMF), in the semi-annual World economic outlook expressed its concern for India's large fiscal deficit - at 10 per cent of GDP.

Moreover, any globally accepted tax administrative system would only help India integrate better in the World Trade Organization regime.

3.5.2 Goods and Service Tax (GST)

Goods and Service Tax is a tax on goods and services, which is levyable at each point of sale or provision of service, in which at the time of sale of goods or providing the services the seller or service provider can claim the input credit of tax which he has paid while purchasing the goods or procuring the service. On most of the goods and services the rate of tax remains the same but as per the necessity of the nation some goods or services can be declared as “exempted” or “Zero rated”. The whole system is developed in such a way that it avoids the cascading effect and the final consumer bears the burden of all the tax. Generally, in such a system exports are zero rated and all the taxes paid while purchasing and manufacturing the goods including the taxes paid on raw material and services are returned to the exporter to make the exports competitive. The sellers or service providers collect the tax from their customer, who may or may not be the ultimate customer, and before depositing the same to the exchequer, they deduct the tax they have already paid. This is simply very similar to VAT which is at present applicable in most of the states and can be termed as National level VAT on Goods and Services with only one difference that in this system not only goods but also services are involved and the rate of tax on goods and services are generally the same. The introduction of GST will certainly change the federal system of Governance in our country in which states also have the right to collect taxes on goods[45].

3.6 Tax Administration

Historically, tax administrations have exchanged information with customers using millions of paper forms and documents each year. They now face the challenge of transforming their services in order to keep up with changes in technology, business and management practices, to improve their capability to exchange information in support of national and international taxation agreements, and to assist in compliance with activities[46]. According to Richard M. Bird[47] “A less than ideal tax structure designed for a poor administration may work better – its effects may be more in line with those desired – than a ‘good’ tax badly administered.”

Tax administration is a set of interrelated processes with the purpose of ensuring a complete, timely and fair collection of revenue from taxes and duties pursuant to the tax laws comprising recording of taxpayers, accounting for tax revenue, claiming of outstanding tax payments and provision of advice to taxpayers.

3.6.1 Importance of Tax Administration

After the heat and dust has settled, the Kelkar Report will hopefully remain vital in the long haul on improving the tax administration system. If India is to leap into the league of countries with an efficient tax system, this is the area where action is necessary.

While the Kelkar Report has outlined a roadmap for a revamped tax administration service, there is an erroneous impression that the whole exercise is a one-shot leap and there is little or no sequencing of measures. In fact, improvement in the tax administration system is a never ending process. As the Kelkar Report rightly points out that the fundamental role of tax administration is to render quality taxpayer service, to encourage voluntary compliance of tax laws and to detect and penalise non-compliance. According to the Kelkar Report, tax evaders are those who fail to comply because of information asymmetry (lack of information)[48].

3.6.2 India Improves Tax Administration

Further reforms in tax administration for India are being pushed forward following the announcement of the 2010-11 budget. According to a government statement[49], the citizen-centric initiative “Sevottam” which was launched as a pilot project at Pune, Kochi and Chandigarh, will be extended to four more cities this year. The centralized processing centre at Bengaluru is reported to be fully functional and processing around 20,000 tax returns daily.

This initiative aimed at reducing the physical interfuse between the taxpayers and the tax administration and to speed up procedures and processes, will be taken forward by setting up two more centers during the year. The Income Tax department is now ready to notify ITR form for individual salaried taxpayers for the coming assessment year, reported the Ministry of Finance. The ministry said the proposals related to indirect taxes were focused to achieve a further degree of fiscal consolidation without impairing the recovery process and moving forward on the road to Goods and Services Tax (GST). 'Project ACES' -Automation of Central Excise and Service Tax - has also been rolled out in India.

The Budget included proposals to expand the scope of Settlement Commission in respect of Central Excise and Customs so that a certain category of cases that hitherto fell outside its jurisdiction may be admitted.

Another ministry statement also announces the setting up of a Technology Advisory Group for Unique Projects like the Tax Information Network, the New Pension Scheme, the National Treasury Management Agency, the Expenditure Information Network, and the GST, which are in different stages of roll out.

The Finance Minister said that the proposed Technology Advisory Group will oversee the creation of these reliable, secure and efficient IT projects needed for effective tax administration and financial governance.

The statement also announced that the impact of flagship programmes would be evaluated by the 'Independent Evaluation Office' to be set up as an independent entity under a Governing Board chaired by the Deputy Chairman of Planning Commission. The findings will be published to bring in more transparency and accountability in the implementation of these schemes[50].

3.6.3 Tax administration Procedures

The preparation of a Strategic Plan for the operation and further development of a tax administration is an important document to clarify the tasks and objectives of the organization. The strategic plan should also provide information on the vision and mission of the administration. Clear and transparent formal procedures are important to implement the plan. They are also crucial for equitable administration and an important way of restricting corruption. Streamlining and simplification of procedures are part of tax administration reform in many developing and developed countries to reduce compliance costs of taxpayers and administration costs. Overcomplicated procedures may induce the emergence of informal procedures, which are agreed upon by the taxpayer and tax inspector without a legal basis. A strong internal audit system is necessary to avoid such practices. A Code of conduct can be a useful tool to set out the behavior and standards expected of employees. Apart from administrative procedures defining the work processes of the tax administration, special attention should be given to taxpayer grievance and appeal procedures clarifying taxpayers' rights in the taxation process. Another area of specific importance is information system related procedures[51].

3.6.4 Effective Tax Administration techniques

The proper administration of the sales tax requires a well designed defect- free tax system along with trained staff and sound information system. Owing to the weakness of the existing tax administrative system and due to the ineffective information system, the administration of sales tax in the State is far below the optimum and tax delinquency is of a substantial magnitude. This is evident from the fact that the Department gets more than 75% of tax revenue from admitted tax and only a very small fraction from the enhanced demand arising from assessment done by the department.

Though sales tax plays a predominant role in State Exchequer, administratively it faces many problems. Therefore it is high time the existing system of sales / Value Added Tax evaluated and examined by analysing the following strategic areas;

3.6.4.1 Levy and collection of tax

According to the provisions of Kerala Value Added Tax Act, 2003 deals with the levy of tax on sale and purchase of goods. As per this provision every dealer whose total turnover exceeds ₹10 lakhs during a year shall pay tax according to the provisions of this Act. However the following categories of dealers are liable to tax irrespective of their total turnover:

(a) Importers of goods from outside the state or country;

(b) Casual traders;

(c) Agents of non - resident dealers;

(d) Dealers in jewellary of gold, silver and platinum group metals or silver articles;

(e) Contractors;

(f) Any State Government, Central Government or Government of any Union Territory or any department thereof; and

(g) Local authorities or autonomous bodies.

Dealers who are not liable to tax under the Act on account of his turnover not exceeding ten lakh rupees shall, in the year it exceeds such limit, pay tax on the turnover in excess of rupees ten lakh. However, in the subsequent years such dealers shall pay tax irrespective of the total turnover.

While calculating turnover for the purpose, the turnover of bar attached hotels and dealers in petroleum products from goods listed in Fourth Schedule of the Act shall also be considered, in addition to their turnover under VAT.

Under this section, different schemes of taxation are provided for goods falling in different schedules.

Table No. 3.6

Schedule and Rates of tax under VAT

Schedule	Rate of tax
First Schedule	Exempted
Second Schedule	1% at all point of sale
Third Schedule	4% at all point of sale
Fourth Schedule	At the rates specified in KGST

Other goods, which are not listed in the above schedules, will attract tax at the rate of 12.5% at all points of sale. A list of goods taxable at the rate of 12.5% has been notified by the Government, vide SRO No.82/2006, and published elsewhere in this book. However, this list need not be an exclusive one and hence goods not covered by the list and in any of the schedules shall also be taxable at the rate of 12.5%[52].

The Fourth Schedule lists the goods outside the purview of VAT. The rates of tax applicable of these goods shall be the rates specified for these goods in the KGST Act.

3.6.4.2 Audit and Inspection

One major simplification proposed under VAT regime is that unlike the Sales Tax system there will be no compulsory scrutiny of returns. If no specific notice is issued by the VAT department proposing departmental audit of the books of accounts of the dealer within the time limit specified in the Act, the dealer will be deemed to have been self – assessed on the basis of return submitted by him. Correctness of self assessment should be checked through a system of departmental audit. A certain percentage of dealers will be taken up for audit every year on a scientific basis. If how ever evasion is detected in audit, the concern dealer may be taken up for audit for previous periods. The audit team will conduct its work in a time – bound manner and audit must be completed within six months. The audit report will be transparently sent to the dealer also[53].

The State Legislature providing for VAT Audit by Chartered Accountants have reaffirmed the faith and confidence reposed by the society in Chartered Accountants. Even the Hon'ble Supreme Court in *TD Venkatarao Vs. Union of India (1999) 237 ITR 315 (SC)* has recognized the supremacy and competence of the Chartered Accountants in the matter of audits under tax laws in following words "Chartered Accountants, by reason of their training have special aptitude in the matter of audit. It is reasonable that they, who form a class by themselves, should be required to audit the accounts of business, whose income exceeds…"

The audit approach of the tax auditor under the Value Added Tax System will be more or less similar to the approach which is adopted by the auditor while conducting the tax audit under the provisions of Section 44AB of the Income Tax Act 1961. However the reporting requirements vary to a considerable extent. While the auditor has to apply the basic principles of audit in all the audits, yet the requirements of VAT Audit are different and accordingly the tax auditor under the VAT Law is expected to design his audit programme[54].

Every dealer whose total turnover in a year exceeds rupees fourty lakhs shall get his accounts audited annually by a Chartered Accountant or Cost Accountant and shall submit a copy of the audited statement of accounts and certificate, in the manner prescribed[55].

3.6.4.3 Training and development

Training is a short-term process utilizing a systematic and organized procedure by which non-managerial personnel learn technical knowledge and skills for a definite purpose. It is the process of improving knowledge, skill and attitude of employees to achieve organizational objectives. It is only through a systematic programme of training that necessary professional knowledge is imparted, skills developed and attitudes attuned to work situation[56]. According to Latiff[57] training is a remedial programme designed to meet the deficiencies of faulty recruitment as well as to make the employees more effective, productive and constructive not only in their present jobs but also in their still higher positions in future. It has to play an important role in job efficiency and job satisfaction as well.

Effective training enables employees to do their jobs better and perform more proficiently. With increasingly advanced technology, continuous training of personnel has becomes essential to the success of the organization. Organizations increasingly need to provide opportunities for the continuous development of employees not only in their present job, but also to develop their capabilities for jobs with which they may be entrusted in the future. Training is a systematic process of enhancing the job related skills, attitudes and knowledge of personnel for the purpose of improving individual and organizational performance. It is fundamentally important for the continued growth and development of both the individual employee and the organization. From the point of view of the individual, learning and absorption go on throughout life. Training provides the direction and guidance for this perpetual learning process. Security and confidence are additional attributes that a well-trained employee acquires. Trained employees perform better by using better method of work. It helps to reduce the time and cost involved in learning. Well – trained employees tend to be self- confident of the employees. Trained employees can perform better and thereby earn more. Training is an important tool for employee’s development. According to Venkata Rantna & Srivasatava[58] the purpose of training is to effect change in the behavior of employees so as to enable them to meet the current and future requirements of their tasks and roles. From the organizational view point, training shortens the time required for employees to reach peak efficiency levels. Training contributes significantly to increase the quality and quantity of work processed and to reduce idle time. It is now widely acknowledged that the collective influence of a group of well – trained employees can largely determine the success of the organization.

Development according to Bernard & James[59], implies the nature and direction of change that should be induced among employees through processes of education and training. In general, the term employee training is now used to describe the process by which organizations or companies build the skills and capabilities of non-managerial or operative employees. These training processes are, to a great extent, job or task oriented or central rather than career focused. In contrast to this, the term management or executive development is used to describe the process through which managers and executives not only acquire basic skills and competence necessary for handling their present assignments but also gain knowledge, understanding and competence necessary for handling future managerial responsibilities commensurate possibly with their changing assignments consistent with the pressures of constant and often rapid changes in the organizational growth patterns governed by various factors internal as well as external. Thus training is narrow in scope and largely related to the acquisition of skills while development embraces a broader scope as it enhances general knowledge related to job as well as the ability to adapt to change. Obviously the basic problem in development is to integrate the individual's achievements motivation and self-interest with the goals of the organization.

3.6.4.4 Check post management

Hassle – free movement of goods across fiscally autonomous Indian states is indeed, a definite pointer to effective quasi–federal administration envisaged in the Constitution of India. In the ground, the administration is diversified at the entry and exit points of the state borders. This diversification is on account of scrutiny of documents and physical inspection of goods at multiple levels by various regulatory departments like commercial taxes, motor vehicle, forest, animal husbandry etc at the entry and exit points of respective state borders. This tedious process results in the detention of consignments for agonizingly long periods, thereby causing hindrance to the free movement of goods. In order to improve the administration of check post in the era of e-governance, a total redesign is warranted by integrating the functions of the multiple regulatory departments functioning at the border check post.

The transporters submit declaration of goods transported in a prescribed format along with the copy of the consignment documents. The Interstate consignments undergo inspection at the Commercial Taxes border check posts. Dealers having inter-state trade have to furnish returns separately under CST Act. The transporters submit declaration of goods transported in a prescribed format along with the copy of the consignment documents. The documents are sorted out and transferred to the assessing officer periodically for accounting. Advance Tax is collected at check posts for certain listed consignments prone to evasion. The number of interstate consignment vehicles comes to 1,800,000 per annum with an average of 4 enclosures per transaction. The Interstate Consignment transactions could be verified when transaction documents from check posts are available

In the leap to modernization of commercial Tax Administration, the concept of 'one country, one Government and one civil services' to render the best citizen service is a dream come true with the introduction of Integrated Check Post (ICP).

3.6.4.5 Tax reforms and amendments

In recent years, a reliable information system has been a major objectives of tax reforms. Efficient collection, collation and analysis of data is crucial to proper tax administration and policy formulation. Tax simplification, and as a part of it, streamlining and restructuring of various forms which constitute a vital source of information, assume great significance. In the case of taxing statutes, frequent changes in tax legislation make compliance difficult which becomes an impediment to tax simplification. Moreover in order to keep pace with the changing circumstances, it should also be viewed as an ongoing process.

Considering the problems and limitation inherent in the existing provisions of the taxation statistics. It is high time to make periodical amendments with a view to restructure and simplify the procedural aspects of taxation. At present, one serious limitation that is found is the procedural aspects of taxation is the inadequate structuring and updating of statutory forms in tune with the periodic amendments in the Act and Rule. This affects the tax administration adversely. An effective model of tax administration must take into account not only administrative aspects but also compliance aspects. To achieve this objective, we need to restructure and update the existing forms so as to facilitate effective tax administration and better tax compliance. The restructured forms should provide adequate data base to the department increases its efficiency, ensure better tax compliance and be comptiable with computerisation.

3.7 Tax administration inputs

The tax administration budget is a potentially important tool to promote tax administration efficiency and effectiveness has been argued in theory and also found in practice, though the evidence is not conclusive. Besides budget determination rules, there is also the important issue of the appropriate size of the tax administration, a question on which theoretical prescriptions are also available. Rules and procedures for determining and pricing the nature and quantity of physical infrastructure for tax administrations have, as yet, received limited attention except in the area of procurement of capital equipment and, to some extent, outsourcing of functions. Issues covered in the entry on Human Resource Management are recruitment procedures, functional distribution of staff, job descriptions, performance evaluations and promotions. An important question is to what extent tax and customs administrations should be exempted from general civil service rules. This leads to the issue of autonomy and revenue boards. Special attention is given to the design of training for tax and customs officials; there is a variety of options here, including setting up of a special tax and customs training center, use of general public or private training institutions, and training on the job. The entry on wages and incentives deals with the important question of using compensation and other incentives to motivate tax administrators to act in accordance with the interests of the government. The area of Information Technology has emerged as the most important aspect of tax and customs administration modernizations in the past two decades and a variety of resources are available under this entry, from readings, to details of Bank projects, to information on off-the-shelf automation products and consultancy available from different sources.

3.8 Tax Administration in Kerala

The Commercial Taxes department is established by the Government of Kerala for the effective administration of tax revenue collection for the State. The Commercial Taxes Department has been concerned about developing new ways of improving institutional performance by increasing the effectiveness of Tax administration and providing taxpayer services that may allow the dealers to better comply with their tax obligations. The Department issues registration to traders thereby authorizing (Licensing) them to collect taxes from the consumers (people) and remit to the Government. The department monitors the registered dealers for compliance with the speculations of the Government Acts and Rules in force. Therefore collection of taxes is not directly undertaken by the Government, but it is outsourced to a small section of the traders who are licensed by the Government. The Government regulates the tax collection by these traders. To Augment tax compliance, the department is planning to promote voluntary compliance and boost up collection by improving the rate of annual return scrutiny and audit visit to dealer premises increase dealer base by simplifying and promoting voluntary registration and by restructuring the effectiveness of the internal audit process.

In an overall strategy for an effective system of Tax administration, the primary task is to identify the deficiencies and shortcomings of the tax system and formulate specific measures to remove such deficiencies. The developing countries can very well adapt and apply management concepts, tools and techniques evolved in the developed countries to achieve the desired improvements. Although the primary responsibility of the administrators is the economical utilisation of available resources expert advice can be helpful in identifying the problematic areas suggesting economy measures and solving administrative problems in any tax system.

During the past two decades revenue from Commercial Taxes Department has increased manifold and has come to occupy a pivotal places in tax harmony of state Tax administration. The percentage share of Sales Tax in the total tax revenues of Kerala has been high in comparison to that in neighboring States. Besides mobilizing sizeable resources for the Government, the Sales/Value Added Tax in Kerala performs an important function of strengthening the federal structures by affording a large degree of financial autonomy to the State.

However, from the qualitative point of view, the performance is impressive. The recent trends in taxation and the modern management techniques are yet to be adopted by the Commercial Taxes Department due to, traditional tax management system and structural constraints. The Commercial Taxes Department can enhance its competitive strength, viability and functional performance only by improving the administrative efficiency as well as by evolving an effective Tax administration system.

Commercial Taxes Department of Kerala, which administers the Sales Tax Laws of the State, is under the control and general supervision of the Commissioner, Commercial Taxes Department. He is assisted in his functions by the Joint Commissioners, Deputy Commissioners. Inspecting Assistant Commissioners and Sales Tax Officers. There are 35 Deputy Commissioners at the district level and 126 Inspecting Assistant Commissioners at the sub divisional level. Each district is divided into several circles. A Circle is the smallest administrative unit in the Department. There are Departmental Tribunals and Appellate Authorities. The Department also controls 44 permanent check posts.

Altogether there are 4613 employees working in the 296 offices of the department in the State. The major work of the department constitutes registration of dealers, assessment and collection of sales tax and agricultural income tax, recovery of arrears of tax, prevention and detection of tax evasion and disposal of appeals and revision petitions.

The Department of Commercial Taxes is the major source of revenue of the Government of Kerala, accounting for 1/2nd of its revenues. Commercial Taxes Department mobilizes major share of revenue to the State of Kerala by focusing tax Laws compliance in the business community. The department caters to more than 1.83 Lakh of dealers (Tax Payers) registered under different central and state Acts of taxation.

The organization of the Commercial Taxes Department comprises of five important wings and the Commissioner is the administrative head of the department[60].

3.9 e- tax administration in Kerala

The performance of Kerala state in the spheres of social and economic development has been substantially better than that of the other states. The Department of Commercial Taxes is the major source of revenue to the Government of Kerala, accounting for 1/2nd of its revenues. The Department caters to 1,83,000 traders (tax payers) through 296 offices across the state. Traditionally, tax collection had the image of being corrupt with cumbersome procedures.

The e-Tax administration programme removes the interfuse between the traders and officials minimizing corruption. It also adds to the convenience of the trader as all the requirements of filing returns, effecting payment, getting statutory forms etc are done online. Besides, development of risk assessment tools helps to determine which tax payers' matters must be examined very closely not merely at audit level, but at all stages, from registration to collection. The critical functions of the department such as filing of returns, payment of tax, issue of statutory forms, declaration of consignments etc. are now fully automated.

KVATIS is the application software developed and deployed by the department to facilitate tax administration, which can be accessed through the gateway www.keralataxes.gov.in. KVATIS is segregated into both Intranet and Internet versions. The intranet application is accessible only to the employees of the Commercial Taxes Department. The internet application is accessible for the registered VAT dealers and the transporters who consign the goods through check posts. It is generally felt that 100% coverage in a computerization programme is practically not possible and that there would always be a section of the population which would be left out. The biggest achievement of Kerala is that it demonstrated that 100% coverage is possible inspite of all the short comings and thus broke the psychological barrier. Ofcourse, Kerala is lucky to have a well developed network of Akshaya centers. Since Kerala has already established a working model, it has become easier for the other states to follow the example of Kerala. There is a general consensus across the country that the entire user interfuse can be computerized leading to tax payer convenience, higher tax compliance and lesser corruption. States that have not developed their own programmes can successfully adapt the architecture of the Kerala system to their own requirements. Several states like Orissa, Tamil Nadu, Goa, Bihar, Gujarat etc have visited and studied the existing model and are developing their own similar lines.

3.9.1 Stakeholder services and benefits achieved through e- administration

The programme has achieved the following benefits from a trader/ user perspective: Simple and transparent process. Anytime anywhere service, reduces paper work. Traders do not need to visit the commercial tax offices Instant acknowledgement, instant e-challan and no service charges usually charged by banks for issuing Demand Drafts, Cheque clearance etc. Easy clearance at check post due to advance e-Declaration of goods in shipment. This system generated annual return based on the monthly returns filed. It reduces the need for direct interaction with the tax officials which leads to corruption. The benefits are as follows from the perspective of the department

- Paperless office.
- Scrutiny of Returns made easy.
- The entire revenue due to the State is instantly credited, thereby gaining on interest earned.
- Relief from cumbersome manual procedures. Rich data bank of dealer transactions enables easy cross verification. Time taken to issue refunds is reduced considerably.
- Avoids treasury reconciliation. Ensures greater level of compliance and tax buoyancy.

3.9.2 Services covered under e - platform

The entire interface between the traders and the department has moved to the e -Platform, except for a last set of changes involving the interfuse at the check posts, which are being implemented now on a trial basis. In terms of percentage, about 95% of the services can be said to be covered in the initiative as explained below:

The KVATIS application was developed and deployed during 2007. The project became operational on 11.11.2007. The programme is already implemented across the state, and used by all the 1, 83,000 traders. Hence, it is already scaled up to its full potential. However, the programme is robust and can take more users as and when required without any general limitation.

The important milestones achieved by the Department are as follows:

1. e-Filing of returns - 01.01.2009
2. e-Uploading of invoices - 01.01.2009
3. e-Payment of tax - 01.09.2009
4. e-Renewal of registration - 01.04.2010
5. e-Downloading of Statutory Forms - 01.01.2010
6. e-Consignment declaration - 01.01.2010
7. e-Uploading of Stock Inventory - 01.04.2010

1. e-Returns: As per the law, traders have to file monthly returns before the assessing authority conceding the sales turnover and tax due for the month. The return shall be accompanied with the Challan/Cheque as proof of tax payment. Along with the return, the dealer has to file purchase and sales statements also. In the self assessment scenario, it is a herculean task to scrutinize all the returns with limited manpower. In order to overcome this situation, the department introduced online filing of returns. e-Returns along with uploaded invoice details are filed by traders and are scrutinized online by the officials. It is an honour to say that Kerala is the first state in India to facilitate electronic filing of returns to all the registered dealers. Those dealers, having the facility of Internet connection, can file their periodical returns from any place, at any time, through the internet. In order to cover small traders without internet connectivity and traders who are not familiar with online services, the Government has provided a facility to the trading community to e-File their returns through Akshaya e-Centers (www.akshaya.kerala.gov.in) free of cost. About 1178 Akshaya e-Centers across the state were selected and trained by the department in this regard. Trade organizations and tax practitioners were also authorized to commence e-Filing centers. Thereby, e-Filing of returns became successful. Auto generation of Annual return is another significance of the system. This relieves the trader from the task of preparing annual return at the end of the financial year.

2. e-Uploading of Invoices: Along with the return, traders have to upload the details of purchase invoice & dealer to dealer sales invoice. This data uploaded enables the department to cross verify the transactions and also augments tax compliance.

3. e-Payment: Having successfully achieved e-Filing of returns, Government took the next logical step of introducing e-Payment to its dealers. Just as the State stood first in the country while embarking upon e-Filing, Kerala once again became the first State to introduce e-Payment facility to all its registered dealers. Earlier, the traders had to submit challans or cheques along with their returns to their respective offices. To enable the payment of tax online, the web application of the department was integrated with those of the banks (State Bank of India and State Bank of Travancore). For those traders who do not have access to the internet, Akshaya Centres have been authorized to file returns and effect e-Payments. As a result, Kerala has been able to achieve 100% coverage in e-Returns as well as e-Payments. The user has a hassle free experience and the government has the advantage of realizing the revenue instantaneously, rather than waiting for the cheques / DD's to get encashed. Sanction has been received from the Reserve Bank of India to associate 7 more banks for e-Payment. They are:

- Corporation Bank.
- Indian Overseas Bank.
- Bank of India.
- IDBI.
- UCO Bank.
- Punjab National Bank.
- Bank of Baroda.

In order to facilitate e-Payment, more than 7500 commodities were grouped into 314 commodity groups. Necessary amendments in the Kerala Treasury Code, VAT Rules, CST Kerala Rules and KGST Rules were also incorporated. VAT, CST and KGST returns were integrated to facilitate e-payment service to all categories of dealers. Certain evasion prone commodities attract advance tax payment at boarder check post, when the consignment enters the State Boarder. Hence, the e-payment facility was extended to the payment of advance tax also. With the introduction of online registration renewal, the facility for online payment could be utilized for remitting the fee for registration renewal also. Inorder to ensure data security, the KVATIS Web Application has been subject to audit by STQC. The e-Payment gateway is secured through VeriSign SSL Certification.

4. Online Downloading of Statutory Forms: Earlier, the traders had to collect statutory forms such as C, E-I, E-II, F & H for inter-state movement of goods manually from the respective Commercial Taxes Department. Now, the department has taken the necessary steps to issue online downloading of statutory forms under the CST Act, through KVATIS. Hence, all the forms can be downloaded directly through the internet. The bills to which forms are to be issued can be selected only from the invoices uploaded against a particular TIN. The system is designed in such a way that it enables to select the invoices for which the forms are to be issued, from the list of purchase/sales uploaded by the dealer while e-Filing the return. An option to capture statutory forms utilization data is also provided and instantaneously updated in TINXSYS (Tax Information Exchange System).

5. Online Registration Renewal & e-Payment of Renewal fee: In order to enable the traders to renew their registration online rather than visiting the Commercial Taxes Department, the department introduced online renewal of registration. The fee for renewal of registration can be remitted online, through e-Payment.

6. e-Consignment Declaration: This facility is available to all consignors/consignees/ transporters to declare the details of consignments in a vehicle online, well in advance, before it reaches Kerala State Boundaries. When goods are being transported for sale in the state, their details can be declared in advance online. In addition, e-Payment can be affected for certain commodities, which attract payment of advance tax. It is a simple and transparent process that enables easy clearance at check posts and reduces transaction time.

7. e-Uploading of Closing Stock Inventory: Along with the annual return, the dealers have to submit the statement of closing stock. The system was enhanced to enable the traders to upload the details of closing stock online, from 01.04.2010 onwards.

3.9.3 Efficiency improvement achieved through e-Administration

(1) Improvements in delivering the services.

Prior to automation, the manual process of tax collection was cumbersome and involved in the collective efforts of various wings of the department. The movement of data, collection of tax, tracking of records etc. is time-consuming which at times led to the loss of critical information thereby resulting in loss of revenue. The priority of the department was to effectively integrate and automate all these wings to enable speedy & transparent tax collection and this was achieved through computerization. Computerisation has yielded a robust and holistic database which can be queried to verify the information submitted by the traders instantly. It is therefore possible now for the officers to do an effective scrutiny in a fraction of the time taken earlier. For example, Cross verification of returns was a cumbersome process earlier. When a trader’s purchase or sales figures were to be verified with the records of the respective seller buyer, the assessing officer would have to write to the particular officer of the relevant jurisdiction to send the relevant file, which was cumbersome and time consuming. Now it is possible for the officers to instantly reconcile the claims with the returns of traders with whom forward and backward transactions have taken place.

(2) Greater compliance of tax

As the traders are aware that all their return data are archived and any mismatch or falsification of data will be picked up by the system at the time of scrutiny, it has led to higher levels of compliance. Greater compliance has led to an increase in revenue collection. During the year 2009-10 while the economy was in the throes of recession, Kerala Commercial Taxes have been able to post a growth of 16% in its revenue collection. This has been possible to a large extent due to the computerization initiative. Since the e payment is instantly credited to the government’s account, there is a significant gain in interest earned as there is no clearing time involved.

(3) Time saving for availing the services (reduction in cycle time):

Earlier, the traders had to go to the commercial taxes office to file their returns, which had to be within office hours and there were usually long queues. Now, the trader can file a return at any time from any place, saving him the hassle of going to the office. Similarly, in the case of payment, the trader had to go to the treasury and remit the money and take the receipt to submit it in the commercial tax office.

Since, the introduction of e-Payment, the trader can effect the payment from the comfort of his home/ office at a time convenient to him. Also, in the case of statutory forms like C forms, F forms etc the trader had to go to the respective Commercial Taxes Department to collect them. Now, the trader can download the statutory forms on the basis of his return details without having to go to the commercial tax office. Thus, the system has saved enormous time for the traders as well as the department while at the same time improving efficiency significantly.

(4) Cost saving for availing these services

Since the traders no longer have to go to the Commercial Taxes Department, the possibility of corruption is minimized significantly. All tax payment is made by the traders as e-Payment, through the portals of State Bank of India or State Bank of Travancore. These banks allow for a zero balance account. By moving to e-Payment, the traders do not have to incur the cost of service charges for taking Demand Drafts, Cheque clearing etc In addition, the traders save the cost involved in making multiple trips to the offices, treasury etc.

3.9.4 Project management & Monitoring of KVATIS

A technical committee consisting of experts headed by the Commissioner over sees the implementation of the programme and advises on the future course of action. The IT Management Cell in the Commissionerate is responsible for the management of the programme. The Cell is headed by an Assistant Commissioner who co ordinates the activities of the different vendors/ service providers like software development, data centre management etc to ensure smooth running of the programme. The Cell is also responsible for hand holding the users. Instant redressal of queries raised by the dealers & tax practitioners is necessary for the smooth administration of VAT.

A dedicated team with expertise in the functionalities of KVATIS is in place for addressing the grievances and technical queries raised by the traders, to disburse the right information at the right time to the needy and also to ensure transparency. The department provides 24 x 7 x 365 toll free helpline service to all its dealers. The VAT helpline assists the dealers through e-mail as well as over phone, to clear the doubts relating to VAT Act and Rules. The IT Management Cell (ITMC) provides technical assistance on issues relating to e- Filing & e-Payment through e-mail as well as over telephone. e-SMS facility, which is an exclusive SMS Gateway, enables the department to communicate messages instantly to traders and officials.

In order to resolve the technical issues faced by the dealers, the Department has deployed experienced software professionals at the Headquarters. The team is responsible for handling:

- Bug fixing and change requests of the existing software.
- Database and application tuning for the existing and new modules.
- Version control of the existing and new modules.
- Proper testing of the change requests that are implemented.

The team stationed at the Commercial Taxes Headquarters for maintaining the KVATIS application has the necessary skills and experience in the development and maintenance of 3-tier architecture and above (Database layer, Application Server layer, Browser layer) & J2EE enterprise applications.

3.9.5 Achievements of training of internal & external members on the new system

When the programme was initiated, most of the staff especially the seniors did not have the requisite computer skills. They had to be motivated and trained continuously to improve their skill levels and confidence. The department has set up four computer labs, for providing in-house training to its employees at –

- Thiruvananthapuram,
- Ernakulam,
- Palakkad and
- Kozhikode.

Employees are trained here at regular intervals to ensure that the skill levels are continuously updated. The department recently conducted an elaborate in-house training to its employees across the state in batches. Fifty employees with expertise and in deep knowledge of the system were identified and trained to be trainers. These trainers in turn trained the employees in the hands on training. Real issues from a live database are posed to the employees and they are to finalize assessment on a computer connected to the database under the supervision and guidance of the trainers. Today, the staff see the efficiencies and convenience that computerization brings and are very keen on being trained. A detailed operational manual covering the entire functions of KVATIS (both intranet & internet) was published and supplied to all the staff by the Information Technology Management Cell (ITMC) of the department. In order to cover small traders having no Internet connectivity and traders who are not computer literates, the Government has provided a facility to the trading community to e-File their returns through Akshaya e-Centers (www.akshaya.kerala.gov.in) free of cost. About 1178 Akshaya e-Centers across the state were selected and the Akshaya personnel were trained by the department. Trade organizations and tax practitioners were also trained and authorized to commence e-Filing centers.

3.9.6 Change management strategy defined and implemented

When the programme was envisaged, it involved a significant amount of change for the traders, the employees and other stake holders like tax practitioners etc who were all reticent to participate in the programme. Traders thought that they would not be able to handle the complexity of filing returns and effecting payment on an e platform. Similarly, employees thought that they could not handle such an IT based system and that their power visa-avis traders would be diminished. Other stake holders like tax practitioners were also concerned about the system challenging their relevance. A change management strategy was worked out and continuous interactions were held with the stake holders, employee unions, trade bodies etc to impress upon them the benefits of the system. Even though, they were tentative initially, all of them today have realized the importance of having such a system and offer it their unconditional support. Proof of which is the fact that every single dealer in Kerala conducts his transactions with the department online. With the introduction of various e-Services, the department possesses a data bank of about 1.83 lakh registered dealers. The entire data are critical and also increasing every day. The current system has the ability to easily expand and contract its resource pool to accommodate heavier or lighter loads. The modules in the system can be modified, added, or removed, to accommodate the changing load with ease.

The existing system is flexible to the change requests and can be enhanced by adding new modules/functions with minimum effort whenever required. The Version control of the existing and new modules is handled by the software team stationed at the headquarters of Commercial Taxes. Each change that is implemented is tested thoroughly by the development team as well as the employees within the department and certified before release.

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