Administration of GST: Can we Continue with Present Structures?

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1. Introduction

With some progress in the design of Goods and Services Tax (GST), there is an emerging need to explore the options for administering the new tax regime. From the discussions and decisions taken so far, one of the important parameters of the new regime is the applicability of two taxes (Central GST, CGST and State GST, SGST) on each and every transaction of supply of good and/or service in the country. The central tax would accrue to the central government and the state tax would accrue to the state governments. Compared to the existing regime, the proposed tax represents a significant change in the tax administration. The central tax administration would need to deal with wholesale and retail traders in addition to the existing taxpayers (e.g., manufacturers, service providers). Similarly, the state tax departments would need to deal with service providers. The workload per employee as well as the skill set associated with tax administration would have to undergo a sharp change if the taxes are to be administered by maintaining a status quo on the forms of administration. In other words, grafting the new tax on to existing tax administrations would impose a significant cost of transition in addition to higher costs of collection. On the other hand, there would be quite a sharp change in the tax environment faced by a segment of the tax payers – all tax payers other than the manufacturers who had faced one tax and one tax department (e.g., wholesale and retail traders), under new regime potentially they will face two tax departments, and potentially an increase in the compliance cost associated with the new regime, thereby raising the opportunity cost of being in the tax system. The result could either be higher evasion or higher resistance to the new tax regime. Some segments of the tax payers are already articulating a demand for addressing the sharp increase in the compliance requirements of the new regime. In this context, it is tempting to ask whether the only way to administer the tax regime is through a business as usual model or whether there exist alternatives to the same. This note attempts to discuss the options available and the present a brief summary of international experience in the context.

The above suggests that the new regime grafted onto the existing tax administration setup would imply higher costs of administration as well as compliance. In any discussion on exploring the alternative forms, the key factors which will potentially drive or condition the choice within the options available are: first, two levels of tax administrations would be collecting taxes on the same base and if, as the discussion paper suggests (Government of India, 2009), there would be a significant degree of harmonisation in the forms and procedures across the different levels of administration and uniformity in the rates of tax, separate central and state administrations would mean significant duplication of effort. Second, any discussion on change in forms of administration however, has to contend with potential resistance or discomfort from the respective governments: since these taxes represent a singificant share of the total tax base for the central government as well as the state governments, both these levels of government may not be comfortable to delegate the collection of the tax to the other level.

Keeping these factors in perspective, this note tries to build an argument in favour of a new system of tax administration which could potentially reduce the transaction costs, could be transparent and also enable joint tax administration with an objective to safe-guard the interests of both central and state governments. Drawing experience from both developed and developing countries, this note discusses the merits and demerits of the alternatives available and provides a choice for policy makers to think about the alternative systems.

International experience on alternative forms of organisation has thrown up varied experiments – the first and most radical form is called the Autonomous or Semi-Autonomous Revenue Authority (ARA or SARA). This form moves the actual administration of the tax from directorates within the ministry of finance in any government into a separate and partly autonomous agency. The lessons we can learn from these experiments are summarised in section 2 below. Another set of experiments deal with various mechanisms to bring in cooperation between tax departments so as to improve the efficiency of tax collection. Some of the lessons from these experiments are summarised in section 3 below. This is followed by a discussion of the possible options for the India. This discussion draws on the earlier sections and attempts to identify a middle path between the two broad extremes discussed in the earlier sections.

2. Semi Autonomous Revenue Agencies

Starting from early 1980s, there is a growing tendency among developed countries under OECD and developing countries in Africa and Latin America to separate out tax administration from the Ministry of Finance through establishing Semi-Autonomous Revenue

Authorities (SARAs) (see OECD, 2009; Mann, 2004). Although there are several variations among SARAs, the basic characteristics of SARA include a personnel system outside civil service purview, self-financing mechanism and board of directors with members from ministers of finance, other ministers from key ministries and private sector representatives. **Table 1** summarises the functions undertaken by these institutions in the different countries.

Apart from broad political and economic conditions, factors which induced developing countries to go for SARA are summarised as follows (Mann 2004):

- level of inefficiency of revenue collections in the face of fiscal deficits and expanding public expenditure needs
- tax evasion and generalised corruption
- high compliance costs
- high level of political interference

Assessment of the experiments with SARA suggests a mixed bag of results. Studies suggest that the improvements in tax administration are not necessarily consistent (Mann, 2004). The establishment of these institutions, it is argued, can be considered a first step in the process of reforms in tax administration. Autonomy in functioning does not necessarily follow the establishment of such an organisation. Some of the arguments in favour of establishing a SARA are as follows (Mann, 2004):

- Public revenue enhancement reflected in higher tax ratios and real revenue growth
- Greater efficiency in public resource utilisation via financial and administrative independence/autonomy
- Employment of a competent, disciplined, and more qualified staff via the freedom to offer higher compensation than the civil service and the freedom to recruit and fire on own terms
- De-politicisation of tax administration
- Reduced corruption, thereby improving the credibility of taxation in particular and government in general
- Better work ethic and modification of administrative culture from reactive, bureaucratic, and hostile to proactive and professional
- Improved taxpayer services and reduced taxpayer compliance costs
- Comprehensive accounting for all tax revenues

- Integration of tax and taxpayer-related databases

Table 1: Delegated Authority that can be Exercised by the Unified Semi-Autonomous Body

COUNTRY	Make tax law rulings	Remit administrative penalties and/or interest	Establish internal design/ structure	Allocate budget	Fix levels & mix of staff	Set service performance levels	Influence staff recruitment criteria	Hire & dismiss staff	Negotiate staff pay levels
1) OECD countries									
Australia	Yes	Yes*	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Canada	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Finland	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Hungary	Yes	Yes	×	Yes	Yes	Yes	Yes	Yes	Yes
Iceland	Yes	Yes	Yes*	Yes*	Yes	Yes	Yes	Yes*	Yes*
Ireland	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	×
Japan	Yes	Yes	×	×	×	Yes	Yes	Yes	×
Korea	Yes	Yes	Yes	Yes	×	Yes	Yes	Yes	Yes
Mexico	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
New Zealand	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Norway	Yes	Yes	×	Yes	Yes	Yes	Yes	Yes	Yes
Slovak Rep.	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Spain	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Sweden	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Turkey	Yes	Yes	Yes	×	×	Yes	Yes	×	×
UK	Yes	Yes	Yes	Yes	Yes(limited)	Yes*	Yes	Yes	Yes
USA	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
2) Selected non-OECD countries									
Argentina	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Bulgaria	Yes	×	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Latvia	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	-
Romania	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	×
Singapore	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Slovenia	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
South Africa	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

Note: *-**Australia** - not for penalties imposed by a court; **Iceland** - not including the regional tax offices; **UK** - Public Service Agreement targets have to be agreed with Ministers
Source: Compiled from Table 1 and Table 2 from OECD (2009)

For the Indian context, while all of the above arguments might not be immediately on the policy makers' agenda, it would appear that the last three would be important to keep in focus. While the immediate impetus in considering this model would not be directly related to the issue of establishing autonomy of the tax departments from political interference, there are two key lessons from the experiments with SARA – one, this mode of functioning addresses both the issues raised in the discussion - the need for change in the forms of administration.

This form of organisation can potentially reduce the compliance cost for the tax payer and the costs of administration for the tax administrator. Further, given the potential reluctance in both levels of government in allowing the entire function of tax collection to rest with the other, this mode of functioning can allow the revenue agency to report to the respective finance ministries. This agency potentially could draw on the employees of all the existing tax departments. Two examples of independent public agency which undertakes the task of tax collection for a number of governments are discussed below. In both these examples, the tax administrator is an independent public sector organisation that has been assigned or has taken on the task of tax administration on behalf of more than one tax authority. In the first example, the agency provides revenue administration services to 140 town councils from province. The number of functions assigned to this agency varies across the town councils and could change over time. The second example is that of the Canadian Revenue Agency (CRA). This example too captures an evolving relationship. The CRA set up initially to administer taxes for the central government, has also been given the authority to sign agreement with the provinces to collect and remit the taxes for them. In signing such agreements, the CRA does not mandate a uniform rate of tax across the participating provinces nor does it require complete homogenisation of the exemptions.

Box: Suma experience in Alicante, Spain

Suma (meaning addition) is a public organisation that provides tax administration services to 140 town councils in the province of Alicante, Spain. The Suma performs an integrated tax management service and is responsible for the processing of local taxes from the first instance of a taxable activity or property to the receipt of tax payment by the municipal authorities. This involves payment, management, inspection and collection. Suma has implemented an efficient system which has enabled the municipalities to (1) improve ratios in tax collection; (2) increase the accessibility of information to citizens in its office or mobile offices and Internet Virtual Offices; (3) improve the quality of work for employees by providing tools for the autonomous and complete solution of tax-payers' problems. This model, manly based on technology but also with organisational components, has proved to be an excellent solution for other local authorities in Spain.

In this context the role of a supra-municipal authority is crucial, as not all councils have resources enough to do the job: updating of censuses for local tax purposes (property tax, the economic activities tax, the motor vehicle tax, capital gains on land, the tax on constructions installations and works, as well as other local taxes specific to each municipal authority (rubbish collection, drains, private entrances etc.). The existence of a supra-municipal authority dealing with these issues is perhaps the best and most cost-effective way for the councils as it uses "economies of scale + dimension" management principle. For the small towns it is the probably the only solution, as they cannot usually afford to have or maintain tax-dedicated information systems, nor tax specialists nor do the billing and collection efficiently. It is also simpler for the customers as they only have to go to one place to fulfil their local tax obligations.

The governing body (the Board) of Suma consists of a President, who is the President of the Provincial Council and seven Provincial Representatives and the Director of Suma himself. The Director is appointed by the

President. The Board has also a legal advisor, the Secretary of Suma, and an economic auditor, the Head of Finance. Their duties are regulated by Suma statutes. There is, in addition, a consultative body, called the Council of Mayors, which guarantees the participation of the delegating Town Councils in the strategies adopted by Suma.

To fully understand the complexity of this activity we must keep in mind that the powers are not uniformly delegated to this authority by the local governments – not all local governments collect all the potential taxes. In other words, variation in the demands to be raised across local bodies is incorporated into the system. Further, given the large number of levies administered by them, they must establish close relationships with a number of organisations: State Tax Agency, Central Vehicle Registry, Central Cadastre, notaries, among others. It should also be mentioned that relation established between SUMA and the local authorities is not fixed and given. Local Authorities can propose new services at the annual meeting between Suma and the technical and political representatives of each of the 140 town councils associated to Suma. The Suma officers gather suggestions and requests from the Council that will later form part of the development plans for the coming year. Services provided therefore can evolve over time.

Source: http://www.epractice.eu/en/cases/sumaalicanteawards posted on February 2, 2010
Suma website: http://www.suma.es/

The Canadian CRA Experience

In Canada, there are three types of tax regimes on goods and services that are operational across provinces.

- Provinces with a central goods and services tax (GST) and a provincial retail sales tax (PST) are levied and collected. The former would be collected by the CRA and the latter by provincial tax administration. Examples are Prince Edward Island, Manitoba, and Saskathchewan
- Provinces which choose to collect no taxes from their residents. Here only the central GST applies and is collected by the CRA. Examples are Alberta, Northwest Territories and Yukon Territory.
- Provinces where these two levies are replaced by a harmonised sales tax (HST). This levy has a central component equivalent to the GST above and a state component in the form of a VAT. This tax is administered by the CRA and the revenue accruing to the states are passed on the states. Examples of this regime are found in Newfoundland, Nova Scotia, New Brunswick. A variant of this regime is that of Quebec, where the though the tax is an HST, it is collected by the provincial government and the central share is remitted to it.[1]

[1] The *Comprehensive Integrated Tax Coordination Agreement (CITCA)* could be signed between the Federal Government of Canada and participating provincial government. Under this agreement, the CITCA provinces agree to pay the Harmonised Sales Tax (HST) in respect of supplies acquired by their governments, agents and entities. The HST replaces the federal Goods and Service Tax (GST) and the Provincial General Sales Tax (PST) that would otherwise be charged (TBCS, undated). The objectives of this agreement are – to reduce tax

A few interesting features of the last regime are useful to note. First, this regime is evolving in terms of participation by states – Ontario and British Columbia are joining the regime from July 1, 2010. Second, while the HST regime began with a uniform rate across provinces, that is not a requirement any longer. The rate for the above provinces is 13 percent. Ontario proposes to stick to this rate while British Columbia chooses a lower rate of 12 percent. One of the earlier partners – Nova Scotia on the other hand seeks to raise its rate to 15 percent. Third, the Canadian provinces have different list of exemptions and different thresholds for taxing business entities, even with a change over to HST - some of these exemptions and thresholds would be retained. Fourth, with the introduction of the new regime for Ontario and British Columbia, the CRA has signed a Human Resource Agreement whereby a number of provincial employees currently administering sales taxes in these states would transition to CRA. Through this step, the transition to a HST regime by the provincial government is supported, since the provincial government, while retaining the right to formulate policy need not worry about relocating employees that were formerly in tax administration.

The Canadian experience of integrated tax administration underlines the fact that the uniform rates and exemptions/thresholds are not essential for introducing and implementing a regime such as HST which is administered by an independent revenue agency. The box below provides the details about CRA.

Box: Canadian Revenue Agency

Canadian Revenue Agency (formerly known as Canada Customs and Revenue Agency) was established by an Act in the Parliament, viz., *Canada Customs and Revenue Agency Act, 1999*. The CRA is responsible for the administration of tax programs, as well as the delivery of economic and social benefits. It also administers certain provincial and territorial tax programs. In addition, the CRA has the authority to enter into new partnerships with the provinces, territories, and other government bodies to administer non-harmonized taxes and other services, at their request and on a cost-recovery basis. The CRA promotes compliance with Canada's tax legislation and regulations.

The Canadian Minister of National Revenue (hereafter minister) is accountable to the Parliament for all the CRA's activities, including the administration and enforcement of the *Income Tax Act* and the *Excise Tax Act*. The Minister ensures that the CRA operates within the overall government framework and consistently treats its clients with fairness and integrity. The CRA has a Board of Management which consists of 15 members appointed by the Governor in Council. Eleven of these members have been nominated by the provinces and territories. The Board is responsible for overseeing the organization and management of the CRA, including the development of the Corporate Business Plan, and the management of policies related to resources, services,

administration burden by entrusting a single agency to administer both federal GST and provincial sales taxes; to build upon the existing sales tax harmonisation framework; to simplify compliance and promote federal-provincial fiscal co-operation and harmonisation.

property and personnel. The CRA's Board of Management is not involved in all the CRA's business activities. It does not have the authority to administer and enforce legislation or to access confidential client information.

As the CRA's chief executive officer, the Commissioner is responsible for the day-to-day administration and enforcement of program legislation that falls under the Minister's delegated authority. The Commissioner is accountable to the Board of Management for the daily management of the CRA, supervision of employees, and implementation of policies and budgets.

The CRA Annual Report to Parliament is tabled by the Minister of National Revenue, pursuant to the statutory requirements of the *Canada Revenue Agency Act*. The document is a comprehensive report on the performance of the CRA for the previous fiscal year, and a rating of the CRA's achievements against the key targets and indicators set out in CRA's Corporate Business Plan. The Annual Report and the Performance Report also contain an assessment of the fairness and reliability of the information contained in the report, and an audit of the agency and administered financial statements, by the Auditor General of Canada.

Source: http://www.cra-arc.gc.ca/menu-eng.html - accessed on May 03, 2010.

In considering a similar regime for India, it is possible to imagine a unified tax administration for GST, where the revenue accruing to different governments can be transferred to it. The agency could be made answerable to the Ministry of Finance, Government of India and the empowered Committee of State Finance Ministers, or its equivalent. Its autonomy would be critical for its success. The Canadian experiment suggests that such a model can even be adopted partially, i.e., for some states, but would likely complicate the administration, at least initially. Further, attempting such a major change in the form of administration would not seem acceptable to the various tax departments and possibly delay the implementation of the new regime. Considering these factors, it is important to explore some of the other alternatives.

3. Coordinated tax administration

Turning to the other extreme position, we look at experiments on how tax administrations have worked out mechanisms for coordinated effort. It is common knowledge that a variety of agencies seek to share information with each other in order to optimise on their functions. This is true more so in the case of tax agencies. Denison and Facer II (2005) argue that as regional economies have become more interconnected, the administration of tax revenue systems has become increasingly complex, motivating states to consider tax coordination efforts through a variety of arrangements to improve tax administration and enforcement. A tax coordination agreement permits the participating states to engage in specified collection or enforcement activities associated with a tax on behalf of another jurisdiction.

A very prominent experiment in this field is the design and administration of value added tax and corporate taxes in Europe. The sixth Directive of the European Union spells out a number of parameters on which the tax systems of different countries have to agree. The treatment of any transaction which involves agents from more than one country, member or otherwise is debated and once some decisions are arrived at, they are specified by the Union and adopted by the member states. Further, evolving over time, there are agreed upon formats for sharing information between the member states. Given that the member states in the Union are keen to maintain their autonomy and yet seek to find mechanisms to protect their tax base from erosion through evasion and avoidance, some standardised formats have been worked out to share information among the member states.

Administrative Cooperation in VAT Administration across EU Member States

The EU requires the member states to collect from VAT registered suppliers of goods, a European Community Sales List (ESL), also known as recapitulative statement, concerning all their supplies to VAT registered acquirers /consignees of other EU member states.[2] The submission of ESL is mandatory under 6th VAT Directive (77/388/EEC) and it is submitted on calendar quarterly basis or monthly basis as specified.[3] The ESL captures identification information on the intra-Community suppliers/ acquirers and consignees of goods and services (VAT registration number, address details and country code of the suppliers and their acquirers/ consignees) and their total value of transactions (total value of goods and services supplied to each VAT registered acquirers).[4]

After compiling the data from the ESL, the member state concerned, say state B, communicates the following information to all other member states on an automatic basis (EC Regulation No. 1798/2003 of October 07, 2003):[5]

[2] From January 01, 2010, ESL reporting becomes mandatory for intra-Community service providers also

[3] In an effort to curb evasion, the periodicity for these lists is being consistently reduced to one month. (EU Directive 2006/112/EC of December 16, 2008; Amendment of Regulation 1798/2003 of December 16, 2008)

[4] It may be mentioned that while the EU regulations require this minimum information to be collected, any individual member state may ask for additional information through ESL (77/388/EEC)

[5] The competent authority of a member state is obliged to grant access to information and it shall do so as soon as possible and within one month at the latest of the end of the calendar quarter to which the information relates. Member states store information in electronic databases and exchange such information

a) VAT identification numbers of the acquirers / consignee of state A who are receiving the goods and services from state B[6]
b) Total value of all goods and services that a person (identified by VAT registration number) receives from all suppliers of state B in the reporting period.[7]

In addition to the above information, the importing state, could also (if it considers necessary) obtain direct and immediate access to the following information:

c) VAT identification numbers of the suppliers who effected supplies referred to point (b) above; and
d) Total value of such supplies from each person to each person holding a VAT identification number referred to in point (a) above

At present, information collected through ESL are processed and maintained in an electronic database (for at least five years from the end of calendar year for which the information is collected) by each member state, instead of at the EC level. Each member state exchanges information with other member states on automatic as well as on request basis.

The institutional agreements within the EU allow for requests on specific cases as well, in order to help in arriving at a correct assessment of VAT on intra-Community transactions. On request, the requested authority is expected to conduct required administrative enquiries necessary to obtain such information and communicate any pertinent information available in its records or obtained through enquiries. There are prescribed time limits for responding to such queries to support timely action.

The EU model, thus, works on the basis of a minimum prescribed format for information collection and sharing, to address the issues of potential revenue evasion. All member states

by electronic means (EC Regulation No. 1798/2003 of October 07, 2003; Council Regulation (EC) No. 37/2009 of December 16, 2008 amending Regulation (EC) No. 1798/2003).

6 In order to ensure that the exporters can obtain confirmation of the tax status of the buyer/ consignee, all tax administrations in the member states provide for a computerised system for checking validity of the same. This information is maintained by the individual member states and made accessible to all concerned.

7 The value is expressed in the currency of the member state providing the information and it is related to calendar quarter.

agree on the minimum prescribed formats. In addition pairs of member states could also enter into agreements for close cooperation (e.g., Belgium and the Netherlands,[8] France and Germany[9]).

With specific to Sweden's exchange of tax information for VAT purposes with 14 EU member states, Ligthart (2007) argues that the size of the country (as measured by population size and net trade with Sweden) significantly influences the bilateral exchange of information on request. The countries which are net exporters of goods to Sweden are also net importer of information from Sweden, which help to curtail their export-related VAT fraud. Unless tax information are shared on spontaneous basis, it becomes difficult for small countries (in terms of population size and trade) to get information from their comparatively large trade partners.

Other examples of Coordinated Tax Administrations

In the United States of America, for instance, to increase tax revenues and taxpayer compliance, and to reduce duplicate resource expenditures, an *Agreement on Coordination of Tax Administration (ACTA)* is in place for exchange of Federal Tax Information with State Tax Agencies, U.S. Territories, and Municipalities with populations in excess of 2.50 lakh that impose taxes on income or wages. The Internal Revenue Service has written agreements with 126 State agencies representing 50 States, the District of Columbia, American Samoa, Guam, Puerto Rico, the Virgin Islands, New York City, Louisville, St. Louis, Cincinnati, Cleveland, Toledo, Philadelphia, Pittsburgh, Kansas City, and Columbus. The State Tax Agencies are required to maintain a system of standardized records of requests for inspection or disclosure (CFDA, undated).

Agreements on Exchange of Tax Information

8 On 11 March 2008, Belgium and the Netherlands signed an agreement regarding the presence of tax officials of one country in the territory of the other country to collect information that may be relevant for the correct levy of taxes on income and capital, as well as of VAT and excise duties (IBFD Online database on Tax Treaties– accessed on May 10, 2010).

9 The competent authorities of France and Germany signed an exchange of information agreement on 18 October 2001.The agreement provides for the spontaneous and automatic exchange of information between the tax administrations of the states with regard to VAT refunds under the EC 8th VAT Directive (Directive 79/1072/EEC of 6 December 1979) (IBFD Online database on Tax Treaties – accessed on May 10, 2010).

Luxembourg Parliament passes bill on *Cooperation among Authorities and Measures to Combat Tax Fraud and Tax Evasion* (a bill no. 5757, enacted into law on December 17, 2008). The main purpose of the new act is to (PriceWaterhouseCoopers, 2008):

- Combat tax fraud and tax evasion,
- Clarify and strengthen the legal framework governing cooperation and exchange of information among tax authorities and other government bodies, and
- Lighten the administrative burden for taxpayers

The law clarifies and strengthens the legal framework governing cooperation and exchange of information among the tax authorities, as well as between tax authorities and other government bodies (e.g., social secrity authorities) or judicial authoritites.

Another example of such efforts is the *Joint Tax Shelter Information Centre (JITSIC)* - a joint effort between tax bodies of Australia, Canada, China (included recently), the United Kingdom, and the United States to combat abusive tax avoidance transactions and broaden activities against cross border transactions involving tax compliance risk in light of the financial crisis. The JITSIC participants commit to share best practices, identify emerging trends and patterns, identify and curb tax avoidance and shelters and those who promote and invest in them and enhance compliance through "coordinated and 'real time' exchange of tax information". JITSIC's stated purposes are to (Ernst & Young, undated):

(a) identify and understand abusive tax schemes;
(b) share expertise, best practices, and experience in combating these schemes;
(c) exchange information on abusive tax schemes, promoters, and investors; and
(d) enable participants to better address these schemes "without regard to national borders".

The *Seven Country Working Group on Tax Havens* (Australia, Canada, France, Germany, Japan, the United Kingdom, and the United States) is another example of multiple jurisdictions working together to improve each country's capacity to deal with the risks that tax havens pose to their tax systems and to share information on perceived tax abuses - specifically, those arising from the use of tax havens (Ernst & Young, undated).

The members bilaterally exchange information at a case and promoter level, share research and information on transactions encounter and strategies adopted, and conduct joint training sessions. One of the group's major initiatives is the issuance of international alerts to its member tax administrations on tax-motivated transactions involving domestic and tax havens.

OECD's Forum on Harmful Tax Practices aims to eliminate harmful tax practices from both OECD member countries and non-member countries (such as tax havens). Members of the forum have agreed to work together, particularly to explore new tools to help detect international non-compliance. Since 2002, the OECD has sponsored the Forum on Tax Administration (FTA), a group consisting of the tax administrators from its 30 member nations plus several other non-member countries. The FTA has promoted dialogue between the tax authorities to identify good tax administration practices and to promote tax enforcement. The FTA's areas of focus include the following (Sullivan & Cromwell LLP, 2009):

- Developing a directory of aggressive tax planning schemes in order to identify trends and countermeasures;
- Examining the roles of tax intermediaries, such as lawyers and accountants, in enabling tax evasion;
- Expanding the 2004 Corporate Governance Guidelines to encourage companies to issue a set of tax principles to guide their tax activities; and
- Improving the training of tax officials, especially on international tax matters.

Recently, developing countries like India, China and South Korea have also participated for the first time in a formal, multilateral tax information exchange discussion forum, viz., *Leeds Caste Group*. Under this new arrangement, the commissioners of the revenue bodies of Australia, Canada, China, France, Germany, India, Japan, South Korea, the United Kingdom and the United States agreed to meet regularly to consider and discuss issues of global and national tax administration in their respective countries, particularly mutual compliance challenges (Ernst & Young, undated).

These coordinated efforts have already resulted in early successes in identifying certain cross-border tax transactions deemed to be interest by the participating governments. However, exchange of information is not automatic and it is provided upon request (i.e., when the information requested relates to a particular examination, inquiry or investigation). Therefore, it becomes difficult for developing countries to get benefit from information exchange and avoid tax evasion and double taxation. Recently, UN Committee of Experts on International

Cooperation in Tax Matter has proposed a treaty, viz., Treaty process for developing countries, to ensure automatic or spontaneous exchange of information through multilateral tax treaty (Thuronyi, 2009). The information could be provided automatically by financial institutions (on the basis of European Savings Tax Directive)[10] The proposal suggests that the treaty should "provide a framework for developing countries receiving assistance from developed countries by facilitating exchange of information and by enforcing tax claims". The proposed multilateral treaty would address the following issues:

- exchange of information;
- administrative cooperation in tax collection;
- non-discrimination;
- residence tie-breaker rule (exclude dual residence for tax purpose); and
- a mutual agreement procedure.

The above highlight the importance and merit of automatic sharing of information and close coordination between the different inter-linked jurisdictions. In the Indian context of GST, this needs to be emphasized since the base for the taxes is the same.

4. Conservative options for India

The Discussion Paper on GST put out by the Empowered Committee of State Finance Ministers (Government of India, 2009) as well as the response of the Department of Revenue (Government of India, undated) to the same present a case for some integration of tax administration across Central Government and State Governments. These documents emphasize the need for a unified dispute settlement system. One of them even proposes a single advance ruling system. While these are important functions of the total regime, it would appear that there are some other critical functions that need to be looked at as well. It is useful to begin the discussion from the information system.

The information system for the central tax administration, by the way the propsoed tax system would be structure, would capture information on all the taxable transactions in the economy. This would suggest that since the state tax departments too would be collecting taxes from the same set of transactions, the same information system should be adequate to capture and reflect this information, unless the central and state departments choose to ask for

[10] The European Union's Savings Directive (STD), which has since 2005 put in place a working system for multilateral, automatic information exchange (Meinzer, 2009).

and capture different levels of detail for the same given set of tax payers. In this case, it would be suitable to ask for a comprehensive set of information to be provided to one agency instead of requiring two different levels of information capture. This is an important decision in the setting up of the new regime since a large amount of resources would potentially be expended on setting up 29 different information systems, which when taken together would represent 2 completely duplicated systems. At the very least, therefore, it would appear prudent to have one information system, that all the tax administratios will have access to.

If it can be accepted that one information system is adequate, then it also follows that the same information system – depending on which agency is organising and maintaining it – should also take up the function of registration and returns filing in addition to data capture for the information system. In other words, these three functions seem closely related to the function of managing and maintaining the information system and it would appear logical to keep them together at one agency. This would make the generation and maintenance of the information system reliable and timely.

Turning to the functions that the discussion paper and the ministry of revenue mention, a third level of integration would involve a uniform system of dispute settlement and advance ruling, possibly along with a unified tax payer services unit. The information system as mentioned above along with the services discussed here effectively represent the public face of the tax administrations. If unified across the various tax administrations involved in GST administration, these would considerable reduce the compliance cost for the tax payer and reduce the duplication of effort for the tax administrators.

If conservation of the efforts of the tax administrators for more useful functions such as audit, survey, inspection, addressing issues of litigation with tax payers is considered a worthwhile goal, it would be useful to explore the possibility of achieving some integration of the functions as discussed above.

It should be mentioned here that integration of the information system, appears a minimum first step in designing the administrative setup for the new regime. However, even this might be a difficult goal to aim for immediately for two reasons - there appears to exist a basic urge to maintain status quo, given some perceived uncertainty with any regime, and second, the smaller jurisdictions sometimes perceive that the local administration is better poised to capture information on some transactions which are significant locally but might not be signficant at the national level. In such cases, the next best alternative to an integrated information system would be for the establishment of two parallel information systems one for the centre and the other for states, with mandatory cross verification on a regular and automated basis. Here the key operational words are regular and automated. The Tax Information Exchange System (TINXSYS) by almost becoming a voluntary system failed in its effort to provide timely and regular information for tracking inter-state transactions across states.

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