

TARC's advice is something Jaitley needs badly

Though it is too late now, the latest Tax Administrative Reforms Commission (TARC) report will be of great help to finance minister Arun Jaitley in the years to come. Given how, over the last few years, the taxman has consistently got estimates woefully wrong, it is obvious the taxman needs a new estimation model, and that is what the TARC's 4th report is all about. While taxes fell short of estimates by R77,000 crore in FY14, this year's shortfall has been estimated at around R1 lakh crore in the mid-year review put out some months ago. What is worse, at even the beginning of the year, both in FY14 and FY15, it was evident certain tax targets were simply unattainable. For instance, excise duties were projected to rise 15.4% in FY15, a year in which industrial growth has largely been stagnant. Not surprisingly, in the April-December period, excise duties have risen just 0.17%. Similarly, in the case of service taxes, revenues were projected to grow 30.95% as compared to the mere 8.53% in the April-December period.

What TARC does is to prescribe various methods of revenue forecasting and introducing key metrics to analyse not just the taxman's performance but even that of the overall tax policy. Impact and gap analysis, naturally enough, are integral parts of this exercise. For instance, are income taxes falling short of targets because the rich are not paying enough, or is it that the middle-income groups have low compliance rates, and does this have to do with the fact that the highest income tax rate kicks in too quickly? If capital gains taxes on share transactions are not yielding much, is a very small securities and transaction tax—so small that it is not worth anyone's while to even try to evade it—a better idea? Ditto for a small presumptive tax on small traders instead of asking them to keep elaborate books of accounts.

Equally important, especially in the context of the new Direct Taxes Code, is the need to do impact analysis. Do tax holidays, for instance, increase investment? If they don't, why have them? If there is an analysis of what each tax can bring, and how much of the 'gap' it can bridge between actual and projected tax compliance, this is a good tool to measure the performance of tax officials as well as of overall tax policy whose ultimate aim has to be to reduce the 'gap'. It is such analysis that, TARC points out, is integral to formulating a smart tax policy. If compliance levels are tracked, and they are falling over a period of time, it is obvious both the taxman and tax policy are on the wrong track. Also, a point that TARC has made before, why levy taxes if they are not being collected or are being struck aside in various courts? The efficacy of tax management is a critical aspect of any modern tax management. Since all tax projections, as well as analysis of new areas to tax along with the ideal tax rates, depend upon tax modelling,

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TARC recommends regular—once every 6 months?—correlating of the model's estimates with the reality; this way, the model is regularly tweaked so as to not throw up the kind of embarrassing results of the last few years.