CHAPTER 6

AUTOMATION OF INDIRECT TAX SYSTEMS AND PROCEDURES

1. Introduction

1.1 It is clear that the success of an efficient tax administration rests upon making full use of the potential of automation and related technologies. The bottom line is that change shall, and indeed must, be automation driven. This is also the philosophy underlying the many recommendations of the Task Force in the various matters relating to the Indirect taxes. Internationally too, risk profiling and assessment is heavily dependent upon the use of computers, and Information Technology is revolutionizing the work on trade facilitation.

1.2 The major benefit of an automation programme is experienced in the area of trade facilitation. Automation leads to quicker clearances, standardization of procedures, reduced discretion, less interface and faster decision making, all of which greatly benefit the trade and industry. At the same time, compliance issues are not neglected and, in fact, there is far greater control, though unobtrusive, which is desirable. Thus, internationally, on the customs side cargoes, containers, and goods are being tracked around the globe by a variety of automatic identification devices. EDI and electronic commerce are replacing the tedious paper trail and signatures. Most countries are considering the use of smart cards, and satellite tracking system whereby containers are locked electronically and tracked via satellites. It is the view that India with its army of first-rate IT specialists can certainly take the lead in this transformation rather than take the back seat with outmoded practices. The same goes for reform of the central excise administration, which should follow the best international practices and remove most discretionary powers and rely on a transparent, simple, and objective system based on trust, aided by full use of information technology to collect revenues and punish entities who dodge compliance. The use of automation for higher level policy planning is also evident as the computers capture the required data error free.

1.3 In this regard, it is appreciated that C.B.E.C. has taken some steps towards increased use of technology in the conduct of the day to day operation in the Custom Houses. This is particularly evident in the case of customs with the spread of EDI from port to port. Interestingly, not only does EDI speed up decision making, it also ensures accountability as each transaction is time

stamped. Recent initiatives on the Central Excise side, such as on-the spot issue of Registration Certificate by use of web based applications are also promising. However, much more needs to be done and at a far quicker pace. In fact, C.B.E.C. itself appears to be lagging behind in terms of infrastructure and use of computer information. Ideally the C.B.E.C. should have available on line access to all Custom Houses and Central Excise Commissionerates. This would obviate the need of calling for information from time to time. This would also speed up decision making. Further, an arrangement for video conferencing between the C.B.E.C. and the field formations would allow the senior field officers to remain in their station and not come to Delhi often. This would be a facility to the trade and industry as the absence of the officers adversely affects the disposal of work.

2. Automation driven tax administration

2.1. The essential requirement of any successful automation process is the standardization of information and absence of frequent changes. Accordingly, it is imperative that a conscious decision must be taken for imposing self-discipline and not making frequent changes in laws, procedures and rates of duties (through exemptions). Once the procedures are standardized and stable the automation can be done and it would deliver results. However, a successful automation programme rests upon committed administrative support backed by significant financial investment.

2.2 The following recommendations, which encompass legislative, administrative and financial areas, are made for an automation driven tax administration.

(i) All Customs and Central Excise Commissionerates should fully automate their processes by 1st January 2004. This requires a Commissionerate-wise work programme to identify the requirement of each station in terms of resources required.

(ii) EDI must be expanded to cover each Customs and Central Excise Commissionerate by January 2004 for on-line processing of returns and applications (for e.g. refund), risk analysis, profiling and management, message exchange with related agencies, etc. In this direction, one major port and one airport should be made fully EDI operational by 1st April 2003.

(iii) C.B.E.C. and its Directorates should be included in the automation programme. All processes should be automated by January 2004.

(iv) Facility of video conferencing between the C.B.E.C. and the Chief Commissioners should be created.

(v) Research capabilities in TRU should be enhanced by intensive automation and development of new software tools, particularly in the context of emerging challenges once VAT is introduced and integration of Service Tax and Central Excise take place.

(vi) On-line filing of returns and documents should be encouraged. For this, Service Centers may be established with a computer link to the Customs and Central Excise Commissionerates for providing the facility. For instance, Excise-Return data is at present entered by the data-entry-operators of the Department. In order to improve the data accuracy and timely capture of data, entry of the particulars by the assessees through a web-based application at their own premise or at Service Center should be allowed.

(vii) Telephone help-line system should be made available in all Custom Houses and Central Excise Commissionerates for providing information support to trade in respect of status of pending documents/claims and other information on procedures etc. In the long run this should become a centrally operated facility.

(viii) Implementation of the automation programme in a time bound manner requires four dedicated teams to oversee the timely implementation of this work, one for Customs, other for Central Excise, the third for Service Tax, and the last for automation of C.B.E.C. and its Directorates. These should be created in the Systems Directorate, from the staff available consequent to cadre restructuring. The teams would work under the Commissioner, Systems and lay down the road map for automation including resource requirement.

(ix) Sufficient resources must be made available at one go to the C.B.E.C. for the automation project. This step will obviate the necessity of taking sanctions and seeking release of funds each time. Importantly, the resources should include an element for an 'Upgradation Fund' for the timely upgradation of the hardware and software on regular basis.

(x) To the extent possible, the automation work should be out sourced as it is not within the core competence of the department. On the other hand India is a leader in software and full use must be made of the local available expertise.

(xi) Senior officers of the Department must take an active interest in computerization by using computers and relying upon the information generated. They should also ensure its use by others. In short, there has to be better ownership at senior levels.

(xii) Systems wing of C.B.E.C. should be strengthened (in terms of both manpower and resources) to ensure immediate dissemination of information through an updated website.

(xiii) Simplification, standardization and stability of law and procedures are essential prerequisites of a successful automation programme.

(xiv) Providing lead-time for software changes when laws are changed is essential for successful automation. For example, a notification must not come into force immediately from the date of its issue but from the next day. Similarly, new procedures should be implemented after a time gap of at least 30 days.

(xv) All procedures must be devised in consultations with the systems personnel who can advise on their adaptability to computerization.

(xvi) Multiple levies create complexities in development of software and retrieval of data. Accordingly, there must be an attempt to reduce the number of

levies. Similar is the case in respect of multiple rates of duties. By and large an item should be subject to one duty rate.

(xvii) **Levies and exemptions must be aligned to tariff headings. At present levies and exemptions are, at times, announced with reference to the description of the goods. Since the descriptions are not standardized, it creates difficulty in automation.**

(xviii) **Automated processes should provide for bifurcation of total duty paid into individual heads. In other words, for each Tariff Heading read with the exemption notification, there should be one duty amount to be deposited by the importer. Once deposited, the system should do the further allocation of this amount under the respective duty heads. Presently this work is done by the tax payer.**

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