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Fiscal Policy, Budgetary Reforms and Digitization of Tax Administration in India

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ABSTRACT

Fiscal consolidation has always been a major policy objective and a number of institutional reforms have been undertaken to achieve this objective. This paper analyses the recent budgetary reforms as well as steps towards digitization of tax administration that have contributed to fiscal consolidation and fiscal prudence. In continuation with the government's emphasis on providing a more transparent, efficient and tax-payer friendly tax administration and improving taxpayer convenience, several initiatives have been launched by the Income Tax Department in recent years to promote the use of digital technology for efficient and transparent administration of income tax. The paper discusses reforms in some of the major processes and compliance requirements and how shifting to online platforms has reduced the need for taxpayers to physically visit the income tax office. In addition, interaction with taxpayers is now characterized by a spirit of trust and respect, relying more on voluntary compliance.

Keywords: *Fiscal policy; Digitization; Budgetary reforms; Tax administration.*

1.0 Fiscal Policy

Fiscal policy is an important instrument of the general economic policy of a government. It is concerned with the use of a government's taxation and expenditure powers to influence economic activities in an economy at the aggregate level. It also deals with financial relations between different tiers of government in a federal polity. Through the medium of budget, fiscal policy determines the level of taxation, public expenditure, borrowings and the issue of additional currency by a government. It may be recalled that the external payments crisis of 1991 in India, which led to the initiation of economic reforms, was the result of deteriorating fiscal situation during the latter half of 1980s. This period was marked by high and persistent fiscal deficits, accompanied by large revenue deficits.

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This had led to a significant enlargement of government borrowings from financial intermediaries and increased financing of government deficit through automatic monetization which aggravated price rise. When the Indian economy faced an unprecedented macroeconomic crisis in 1991, fiscal consolidation constituted a major objective of the policy response. This consolidation was to be achieved through reduction in the size of budget deficit and public debt in relation to gross domestic product (GDP). For this purpose, it became necessary to (a) enhance tax and non-tax revenue, (b) curtail current expenditure growth, (c) restructure public sector undertaking, including disinvestment, (d) improve fiscal-monetary co-ordination, and (e) deregulate financial system.

Apart from these reforms aimed at fiscal consolidation, a number of institutional measures were also taken during the 1990s. Public sector restructuring and disinvestments were undertaken with a view to increase the efficiency of the public sector undertakings and also to provide additional resources to the government. The need for improvements in budgetary practices led to the enactment of the Fiscal Responsibility and Budget Management (FRBM) Act, 2003 which ushered the Indian economy in an era of fiscal consolidation based on fiscal policy rules.

The financing of fiscal deficit was another area, which underwent significant changes in the post-reform period. With the discontinuation of *ad hoc* 91-day Treasury Bills in April 1997, automatic monetization of deficits was eliminated. Greater reliance on borrowing at market-related interest rates since 1992 led to a substantial lowering of statutory pre-emption of institutional resources for the government. This also facilitated development of the market for Government securities, which witnessed remarkable changes from the latter half of the 1990s.

2.0 Budgetary Reforms

Finance is the life blood of a government. Arrangements for finance are more complicated in a federal set up than in a unitary form of government. A federal system creates a multiple polity based on divided functions and powers among central and state governments. Fiscal federalism, as a branch of public finance, deals with financial arrangements and their working in a federal polity.

As a financial blueprint of a government, budget is an important instrument to carry out its policies and programmes. It is through the budget that a government arranges financial resources and allocates them among competing uses. The high level of administrative, welfare and developmental activities of the central and state government s in India make for colossal amounts of both receipts and disbursements. Such large-scale public transactions through the budget affect the economy in various ways. The level and composition of taxes influence the allocation of resources among various sectors of the economy, distribution of income among different economic classes, and macro management of the economy. Similarly, the borrowing policy of the government

affects the amount of national savings available to the private sector for consumption and investment. No less important are the effects of massive public expenditure on production, distribution and economic stabilization.

Budget is not merely a statement of government accounts. It reflects the government's vision and signals the policies to come in future. Budget is also the chief source of government finance statistics to facilitate research and decisions on fiscal and economic matters.

In India, the Central Government budget is designed mainly to ensure Parliamentary control and accounting scrutiny. Each year the Government has to obtain the authority of the Parliament to raise revenues to meet its expenditure. Budget of the government is perhaps the most important annual item on the agenda of the Parliament. Budget papers of the Government of India provide glimpses of the events, challenges and perceptions of the leaders. They highlight contemporary problems of the Indian economy and policy measures taken by the government to solve them, making for a fascinating study of India's march towards development.

2.1 Gender budgeting in India

Gender responsive budgeting or gender analysis of budgets is a very useful tool being used in India to promote gender mainstreaming. Gender budgeting refers to presentation of budgetary data in a manner such that the gender sensitivities of budgetary allocations are clearly highlighted. Gender budgeting includes carrying out an impact analysis of government programmes and its budgetary allocations on the overall socio-economic status of women in the country. A special reference by the Union Finance Minister in his budget speech to Parliament on February 29, 2000 pertaining to the access of women to national resources, marked the dawn of gender-sensitive budgeting in India.

It is noteworthy that the National Policy for Empowerment of Women, 2001 had envisaged introduction of a gender perspective in the budgeting process as an operational strategy. A task force was set up at the national level in 2001 to examine this issue. On its recommendation, a sub-group was set up to suggest a framework for introduction of gender budgeting in the Government. The sub-group recommended that Gender Budgeting Units be set up in identified Departments, as well as an Inter-departmental Steering Committee to identify issues for gender budgeting that cut across departments.

In 2004-05, Ministry of Women and Child Development (MWCD) adopted the mission statement of Budgeting for Gender Equity. Since then, several initiatives have been taken by MWCD to operationalize gender budgeting. A strategic framework of activities to implement Budgeting for Gender Equity was disseminated to all relevant agencies. It identified the following areas for gender mainstreaming:

- Quantification of allocation of resources for women in Union/State/Local Budgets.
- Gender audit of policies of governments.
- Impact assessment of various schemes.

- Analyzing programmes and strategies.
- Institutionalizing generation and collection of gender disaggregated data.
- Consultations and capacity building.

Further, guidelines for gender-sensitive review of public expenditure and policy were framed in the form of checklists both for beneficiary-oriented sectors (such as health, rural development, human resource development, labour, drinking water, textiles, agriculture etc) and for mainstream sectors that may appear *gender neutral* like defence, power, telecom, transport etc.

MWCD has conducted several workshops and training programmes to disseminate the tools of gender budgeting and has advocated that a review may be undertaken with respect to the following:

- Gender-based profile of public expenditure.
- Beneficiary needs assessment.
- Impact analysis.
- Participative budgeting.
- Spatial mapping.

MWCD has also requested various Ministries of the Government of India to set up Gender Budgeting Cells for the following purposes:

- To undertake review of the public expenditure and policy.
- To collect gender disaggregated data.
- To conduct gender-based impact analysis, beneficiary needs assessment and beneficiary incidence analysis.

As a result of these efforts 43 Ministries/Departments have set up Gender Budget Cells as a nodal agency for all gender responsive budgeting initiatives.

Through a consensus approach the Department has also advocated broad framework within the ambit of which the gender budgeting initiatives could be undertaken by all stake-holders including Government Departments (Centre and States), voluntary organizations, researchers and international bodies like United Nations Development Programme (UNDP). The intention is to synergise the activities taking place in realm of gender budgeting and help collage the information base on the subject. 4

2.2 Gender budgeting in union budgets

The Finance Minister in his budget speech to Parliament on February 29, 2004 highlighted the perceived need for budgetary data to be presented in a manner that highlight the gender sensitiveness of the budgetary allocations. He observed, “Women’s groups have met me and urged me to consider gender budgeting. This means that the budget data should be presented in a manner that the gender sensitivities of the budgetary allocations are clearly highlighted. An expert group on Classification System of Government Transactions has

submitted its report on July 6, 2004. It has recommended appropriate systems for data collection and representation in the budget. The group has also recommended introduction of periodic benefit-incidence analysis. Government will examine the recommendations, and I hope it will be possible for me to implement some of them in the Budget for 2005-06".[1]

This was followed by a more emphatic commitment in the budget speech of the Finance Minister to Parliament on February 28, 2005, wherein the budgetary allocations under 10 demands for grants estimated at ` 14,379 crore were highlighted in a separate statement as a part of the Gender Budgeting exercise. The budget speech on February 28, 2006 revealed an estimated allocation of ` 28,737 crore for the benefit of women under 24 demands for grants in 18 Ministries and Departments.[2]

Gender outcome assessment and evaluation is of utmost importance for ensuring the success of gender budgeting. For this it is necessary that the gender funds flowing into schemes are properly and correctly assessed. The Finance Ministry has made it mandatory that gender outcomes form a part of the Outcome Budget prepared by every Ministry/Department as part of the Budget Documents.

2.3 Recent budgetary reforms

The Budget for 2017-18 contained three major reforms. First, the presentation of the Budget was advanced to February 1, to enable the Parliament to avoid a Vote on Account and pass a single Appropriation Bill for 2017-18, before the close of the current financial year. This would enable the Ministries and Departments to operationalize all schemes and projects, including the new schemes, right from the commencement of the next financial year. They would be able to fully utilise the available working season before the onset of the monsoon.

Second, the merger of the Railways Budget with the General Budget was a historic step. The colonial practice of presenting Railways Budget separately, prevalent since 1924, was discontinued. This decision brought the Railways to the centre stage of Government's fiscal policy and facilitated multi-modal transport planning between railways, highways and inland waterways. The functional autonomy of Railways will, however, continue.

Third, the classification of government expenditure into plan and non-plan was done away with. This will help take a holistic view of allocations for sectors and ministries. This would also facilitate optimal allocation of resources.

2.4 Digitisation of the budget

Beginning 2021-22, the Union Budget went paperless in the wake of ongoing coronavirus pandemic. For the first time since Independence in 1947, the budget papers presented on February 1, 2021 were not printed. The government had received permission for the same from both Houses of Parliament. Previously, around a staff of 100 people was required to stay at the printing press for about a fortnight. They were needed to stay on till the

budget documents were printed, sealed and delivered on the day of the budget presentation (February 1). Now, soft copies of the budget are made available to all members of the Parliament and the general public.

The *Economic Survey*, presented to the Parliament 2-3 days ahead of the budget, also went digital with the budget documents. To enhance the e-readability, the aligning of the text in the Survey was changed from double column to single column. However, the tradition of presenting the Survey in two volumes continues. Volume I provides evidence-based economic analyses of the challenges of policy-making and tools to make it more effective. Volume II reviews recent developments in the major sectors of the economy. A statistical appendix is also part of the Survey.

3.0 Digitization of Tax Administration in India

Taxes are as old as civilizations.

What is a tax? A tax is a compulsory payment made to general government without any direct *quid pro quo*. General government includes central, state, and local governments. Tax payments are compulsory and the benefits provided by government to taxpayers are neither direct nor proportional to such payments.

Why are taxes imposed? Taxes are imposed so that a government may perform its traditional functions (defence, and maintenance of law and order), undertake welfare and developmental activities, and make provision for public goods to satisfy collective needs of the people. It has also to pay for its own administration. It needs financial resources for these purposes and taxation is one method of transferring money from private to public hands. Taxation is necessary because what the government gives it must first take away.

How should taxes be imposed? The following two quotes from ancient India wisdom would drive home the point.

"The gardener plucks fruits and flowers, but does not harm the trees; the bee sucks the honey but does not damage the flowers. In the same way the king should collect his taxes but should not cause any suffering to his subjects. One who kills the goat at best gets one meal; one who feeds it well can get milk for several years."—Chanakya in *Arthashastra*

"Just as the sun extracts water from the reservoirs and gives it back in the form of showers, so does the ruler extract tax from his subjects and gives it back to them in the form of prosperity." —Mahakavi Kalidasa in *Raghuvansham*

3.1 Income Tax

For the purpose of taxation of incomes, the enactment is the Indian Income Tax Act, 1961 which is amended from time to time by the annual Finance Act and other legislations pertaining to direct taxes.

In continuation with the government's emphasis on providing a more transparent, efficient and tax-payer friendly tax administration and improving taxpayer convenience, several initiatives have been launched by the Income Tax Department in recent years to promote the use of digital technology for efficient and transparent administration of income tax.

Most of the processes and compliance requirements have been shifted to online platforms and the need for the taxpayers to physically visit the income tax office has been eliminated or minimized. Interaction with taxpayers is characterized by a spirit of trust and respect, relying more on voluntary compliance.

The Income Tax Department is also engaged in the task of educating and assisting taxpayers in filing tax returns, assessing tax liability, demanding pending taxes, penalising dishonest taxpayers and disposing of tax disputes. The role of this Department in tax system of India is rapidly increasing as the share of direct taxes in the revenue of the country has registered a steady increase over the years.

3.1.1 E-filing of returns

E-filing of income tax return is the process of electronically filing returns through internet which can be filed at any time at any place. While E-filing of income tax return is mandatory for a company and a firm liable to audit under section 44AB, it is optional for other assessees. Similarly, Government has introduced E-filing of returns of tax deducted at source. It is mandatory for corporate deductors to furnish their TDS return in electronic form with effect from June 1, 2003. Further, it has been made mandatory for Government deductors and firms liable to audit under section 44 AB with effect from assessment year 2004-05. Deductors have to file e-TDS returns quarterly since assessment year 2005-06.

National Securities Depository Ltd. (NSDL) has been appointed as the e-TDS intermediary by the Income Tax Department. NSDL receives e-TDS returns from deductors on behalf of Income Tax Department. Deductors can submit e-TDS returns through TIN-Facilitation Centres established by NSDL or directly upload through NSDL web-site.

3.1.2 Online Tax Accounting System (OLTAS)

Income Tax Department operationalised OLTAS in July 2004. The new single copy challans have been introduced with effect from July 2005. The collecting bank branch will put a rubber stamp on the challan and its counter foil indicating a unique Challan Identification Number (CIN), BSR code and challan serial number. The collecting bank has to capture the entire data of the challan and transmit it electronically to the Income Tax Department. The information received from banks is used by the Department to give credit for the tax paid based on CIN. This is a very significant step for creating tax information network.

3.1.3 E-payment of Income Tax

This facility is provided to the taxpayers for making income tax payment through internet banking facility or through internet by using credit/debit cards.

E-payment of tax is mandatory in certain cases. Thus, all companies and assesses required to get their accounts audited under section 44AB of the Income Tax Act, 1961 are mandatorily required to make e-payment of tax. Other assesses may also make payment of tax electronically.

E-payment of tax can be made only through a bank which provides e-payment facility. Some of the banks are providing facility of opening a separate *e-payment of taxes account* in addition to the normal bank account.

An assessee can make payment from his own account or from the account of any other person in an authorized bank. However, the *challan* must clearly indicate the permanent account number (PAN) of the assessee on whose behalf the payment if made.

Similarly, there is facility of e-filing of returns. E-filing of income tax return is the process of electronically filing returns through internet which can be filed at any time at any place. Likewise, digital signature facility is also available. A person desiring to furnish his return of income electronically, may sign it digitally or manually. For signing the return digitally, he is required to obtain a digital signature. A digital signature is the electronic signature issued by the certifying authority that shows the authenticity of the person signing the same.

3.1.4 E-assessment

Finance Minister Shri Arun Jaitley in his budget speech to the Parliament on February 1, 2018 announced, “We had introduced e-assessment in 2016 on a pilot basis and in 2017, extended it to 102 cities with the objective of reducing the interface between the department and the taxpayers. With the experience gained so far, we are now ready to roll out the e-assessment across the country, which will transform the age-old assessment procedure of the income tax department and the manner in which they interact with taxpayers and other stakeholders. Accordingly, I propose to amend the Income-tax Act to notify a new scheme for assessment where the assessment will be done in electronic mode which will almost eliminate person to person contact leading to greater efficiency and transparency.”[3]

3.1.5 Digital signature

A person desiring to furnish his return of income electronically, may sign it digitally or manually. For signing the return digitally, he is required to obtain a digital signature. A digital signature is the electronic signature issued by the certifying authority that shows the authenticity of the person signing the same.

3.1.6 Permanent Account Number (PAN)

PAN issued by Income Tax Department is the critical element in capturing incomes and expenditures of a person. The Department identifies the assesses/persons with PAN which is a unique 10 digit alpha-numeric number. Obtaining PAN is compulsory not only for income tax purposes but also for certain other purposes/transactions. PAN is to be obtained only once for ever. An assessee need not obtain a new PAN, even if he is transferred to any other place.

3.2 Goods and Services Tax (GST)

Goods and Services Tax (GST) in India was rolled out on July 1, 2017. Undoubtedly, GST represents the biggest tax reform in the fiscal history of India.

GST is an all-India unified, uniform and harmonized indirect tax system. The old system was mainly manual and opaque while the new system is technology-based and hence transparent.

3.2.1 Payment of GST

GST became operative on July 1, 2017. GST is a tax on goods and services with comprehensive and continuous chain of set-off benefits up to the retailer level. It is essentially a tax only on value addition at each stage, and a supplier at each stage is permitted to set-off, through a tax credit mechanism, the GST paid on the purchase of goods and services. Ultimately, the burden of GST is borne by the end-user (i.e. final consumer) of the commodity/service.

Every registered person is required to compute his tax liability on a monthly basis by setting off the input tax credit against the outward tax liability. If there is any balance tax liability, the same is required to be paid to the government.

There are 3 ledgers prescribed by the government which are required to be maintained by every taxpayer.

- *Electronic Tax Liability Register:* It shows the total tax liability of a registered person at any point of time.
- *Electronic Cash Ledger:* It displays the total amount deposited by the taxpayer towards discharge of his tax liability.
- *Electronic Credit Ledger:* It records all the taxes paid on the inputs.

3.2.2 RBI's e-Kuber System

It functions as an 'aggregator' for GST collections and is integrated with Central Board of Indirect Taxes and Customs (CBIC), various State Governments and Union Territories, agency banks and GST Network (GSTN). Apart from other payment options, GST payers can also remit taxes directly to the Government account/s maintained with the Reserve Bank of India, through NEFT and RTGS. Under NEFT/RTGS mode, credit of tax to the Government account takes place on the same day, whereas in other modes of GST payments,

the Government account is credited on T+1 basis after reporting by agency banks. An online resolution mechanism for facilitating reconciliation of GST transactions, called Memorandum of Errors (MoE), has been put in place in coordination with CBIC.

3.3 Custom duties

In the federal polity of India, foreign trade is a Central subject. The Constitution of India grants exclusive powers to the Central Government to impose duties of customs. By virtue of entry 83 of List I (Union List) in the Seventh Schedule of the Constitution of India, the Central Government is empowered to impose 'duties of customs including export duties'.

Presently, customs revenue is mainly composed of import duties levied on a wide range of commodities. Import duties accounted for nearly 98 percent of total customs revenue. The share of export duties in customs revenue is very low (around 2 percent) in view of the export promotion policy of the government.

In the Indian Customs Electronic Commerce/Electronic Data Interchange Gateway (ICEGATE) system operated under the aegis of the Office of the Principal Chief Controller of Accounts (CCA), the e-payment module enables users to pay their custom duties online using electronic payment options. Process is underway to integrate ICEGATE system with RBI's e-Kuber to enable direct payment of the duties into Government account with RBI using NEFT/RTGS payment option, like the facility available for GST payments.

Endnotes

1. Government of India, Ministry of Finance, Budget Papers 2004-05, *Speech of the Finance Minister*, pp. 17-18.
2. Government of India, Ministry of Finance, Budget Papers 2006-07, *Speech of the Finance Minister*, p. 6.
3. Government of India, Ministry of Finance, Budget Papers (2018-19), *Speech of the Finance Minister*, para 157.