



Mid – Career Training Programme (MCTP)

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Phase – IV Group II

PROJECT REPORTS



***National Academy of Customs, Excise & Narcotics (NACEN),
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PROJECT REPORT BY GROUP I

EASE OF DOING BUSINESS:

REDUCTION IN DWELL TIME

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Executive Summary

1. Ease of doing Business: The World Bank has created an index for 'ease of doing business', where the countries are ranked on the basis of usually simpler regulations for businesses and stronger protection for property rights. Economies are ranked from 1 to 190 by the ease of doing business ranking. The ease of doing business index is meant to measure regulations directly affecting businesses and does not directly measure more general conditions such as a nation's proximity to large markets, quality of infrastructure, inflation, or crime. India has ranked 130th amongst 190 economies in the 2017 report. This is an improvement of 1 position from the revised ranking of 131 in 2016 report. A nation's ranking on the index is based on the average of the following 10 sub-indices: -

- i. Starting a business
- ii. Dealing with construction permits
- iii. Getting electricity
- iv. Registering property
- v. Getting credit
- vi. Protecting investors
- vii. Paying taxes
- viii. Trading across borders
- ix. Enforcing contracts
- x. Resolving insolvency

India is ranked 143rd in respect of index "Trading across Borders", an improvement of just one position as compared to the revised ranking of 144th during 2016. The CBEC has to play an important role to help realize the Prime Minister's goal of breaking into top 50 nations in coming years.

2. CBEC's Initiatives on Ease of Doing Business: The following are the major steps recently taken by the Department in the direction of easing the conduct of business:

- a. Launch of Customs SWIFT clearances (Single Window Interface for Facilitating Trade):
- b. Filing of declarations through digital signatures

- c. Deferred duty payment for select categories of importers and exporters:
- d. Reduced Documents required for Import/Export -
- e. Electronic Delivery Orders -
- f. 24X 7 customs clearance facilities
- g. WTO Trade Facilitation Agreement
- h. Customs Clearance Facilitation Committee (CCFC)
- i. Reforms in Warehousing procedure:
- j. Revamping of Special Valuation Branches:
- k. Revision in Valuation guidelines of second hand machinery:
- l. Temporary Imports for Exemption exhibitions:
- m. Reforms in Export Promotion (Drawback)

3. CAG's Report - 13 of 2015 on Performance of Import & Export Trade Facilitation through Customs Ports: Following main issues have been raised in this report: -

- Delay in allotment of berths by Port Authorities:
- Delay in rectification of errors in import general manifests (IGM),
- Delay in filing of BEs by importers,
- Delay in payment of duty by importers,
- Increase in Provisional assessment cases,
- Delay in refund of duty,
- Delay in filing of Export General Manifests (EGM) and rectification of errors,
- Filing of import and Export bills through ICEGATE – why through service center?
- Facilitation through RMS – Facilitation %age can improve further,
- 24x7 customs clearance procedure – underutilized by the trade,
- Accredited Client Programme (ACP) – why reduced from 332 to 271,
- Authorized Economic Operator (AEO) programme – why only 14 till January, 2015,
- Lack of Rail infrastructure to move containers to ICDs

- Non co-ordination between stake holders for improving the infrastructure.
- Problems in CFSs.

4. Steps proposed to be taken to improve India's ranking in "Trading across Borders"

- a. Target the indicators which form the basis for calculating 'ease' in trading across borders i.e. Documentary Compliance (cost & time), Border compliance (Cost & time) and Domestic transport.
- b. CBEC must lead and align all stakeholders' objective towards this national goal.
- c. Review all existing Public Notices and Standing Orders to ease regulations.
- d. Dedicated railway freight corridors connecting major ports with ICDs/hinterland,
- e. An extensive intermodal transportation network of rail, inland shipping, road, short sea and pipelines.
- f. An Exhibition cum symposium can be organized in the lines of "Intermodal Europe" where innovation in technology, strategies and finances can be discussed and exchanged by the transporters, freight forwarders, shippers, container manufactures, intermodal operators etc.

5. Dwell Time: is the measure of the time elapsed from the time the cargo arrives in the port to the time the goods leave the port premises after all permits and clearances have been obtained. Dwell time at major Customs locations is being regularly monitored with special emphasis towards time taken by PGA's in clearance of Cargo. CBEC has already taken many manor initiatives to reduce dwell time, which include reforms in legal provisions, introduction of Single Window, DPD, RMS, AEO program etc.

6. Proposed Steps for reducing reduce Dwell Time

- a. Advance filing of Bills of Entry:
- b. 24 X 7 operations by all stakeholders:
- c. Improvement in Port Infrastructure:
- d. Facility of advance duty payment to the importer:
- e. Fine tuning of RMS tools and increasing facilitation percentage:
- f. Increased mandate of OSPCA and reduced interface while physical clearance of goods:
- g. Installation of modern scanners at each terminal to address security Risks:

- h. Real time seamless message exchange between various stake holders through integration of their IT applications like ICEGATE, PCS, TOS etc.:
- i. Implementation of 2nd Phase of SWIFT:
- j. Creation of National Specialized and Centralised Assessment centers:
- k. Hand held devices for Customs examining officers:
- l. Review the methodology of calculation of Dwell time
- m. Review of the need for CFS:

Ease of doing Business – Reduction in Dwell Time.

In this era of globalized world, Government of India fully understands that to emerge as one of the major economies of the world and to play a pivotal role in the international trade and investments it must create an environment which facilitates and encourages trade and commerce. Both domestic as well as international businesses require an enabling environment which reduces complexities and eases conduct of business. In domestic front, the priorities have been job creation and economic growth. The flagship economic initiative - 'Make in India' campaign - aims at transforming the country into a manufacturing hub through the adoption of the right mix of business-friendly policies (ease of doing business, reform of land ownership, reform of labor laws, energy reforms, infrastructure-stimulus plans and tax reforms including introduction of GST) that can also attract foreign investments (by raising foreign equity caps) in sectors considered as priority (mainly infrastructure, railways and defense).

2. Trade Facilitation is aimed at ensuring the movement and clearance of goods across borders at the minimum cost. It is a term used to denote all steps for simplification of procedures and reduction of costs in the course of international trade. Reduction in idle time in any segment of the trading process would reduce transaction costs and would facilitate trade in general and enhance the price competitiveness of Indian goods in international market. Delays increase not only the cost of compliance but also lead to impediments to efficient trading across borders like congestion at the ports.

3. The Concept of 'Ease of Doing Business'

The World Bank has created an index for 'ease of doing business' where the countries are ranked on the basis of usually simpler regulations for businesses and stronger protection for property rights. For policy makers trying to improve their economy's regulatory environment for business, a good place to start is to find out how it compares

with the regulatory environment in other economies. Doing Business provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic small to medium-size businesses through their life cycle. Economies are ranked from 1 to 190 by the ease of doing business ranking. The ease of doing business index is meant to measure regulations directly affecting businesses and does not directly measure more general conditions such as a nation's proximity to large markets, quality of infrastructure, inflation, or crime. A nation's ranking on the index is based on the average of 10 sub-indices:

- [Starting a business](#) – Procedures, time, cost and minimum capital to open a new business
- [Dealing with construction permits](#) – Procedures, time and cost to build a warehouse
- [Getting electricity](#) – procedures, time and cost required for a business to obtain a permanent electricity connection for a newly constructed warehouse
- [Registering property](#) – Procedures, time and cost to register commercial real estate
- [Getting credit](#) – Strength of legal rights index, depth of credit information index
- [Protecting investors](#) – Indices on the extent of disclosure, extent of director liability and ease of shareholder suits
- [Paying taxes](#) – Number of taxes paid, hours per year spent preparing tax returns and total tax payable as share of gross profit
- [Trading across borders](#) – Number of documents, cost and time necessary to export and import
- [Enforcing contracts](#) – Procedures, time and cost to enforce a debt contract
- [Resolving insolvency](#) – The time, cost and recovery rate (%) under bankruptcy proceeding

India's rank in the Doing Business Report 2017 has improved to 130th from the revised ranking of 131st during 2016. Government has emphasized on the importance of ease of doing business and it is a major pillar of “Make in India” initiative.

4. India's ranking in Doing Business Report 2017

India has ranked 130th amongst 190 economies in the 2017 report. This is an improvement of 1 positions from the 2016 revised ranking. The data from Delhi and Mumbai were taken to examine the 10 sub-indices and India made noticeable progress

on two counts from the last report. Firstly, India made starting a business easier by eliminating the minimum capital requirement and the need to obtain a certificate to commence business operations. This reform applies to both Delhi and Mumbai. Secondly, the utility in Delhi made the process for getting an electricity connection simpler and faster by eliminating the internal wiring inspection by the Electrical Inspectorate. The utility in Mumbai reduced the procedures and time required to connect to electricity by improving internal work processes and coordination.

| A Long Way To Go | | |
|-----------------------------------|------------------|------------------|
| | 2017 Rank | 2016 Rank |
| Overall | 130 | 131 |
| Starting A Business | 155 | 151 |
| Dealing With Construction Permits | 185 | 184 |
| Getting Electricity | 26 | 51 |
| Registering Property | 138 | 140 |
| Getting Credit | 44 | 42 |
| Protecting Minority Investors | 13 | 10 |
| Paying Taxes | 172 | 172 |
| Trading Across Borders | 143 | 144 |
| Enforcing Contracts | 172 | 178 |
| Resolving Insolvency | 136 | 135 |

Source: World Bank Doing Business 2017 Ranking **Bloomberg** | *Quint*

5. Trading across borders

In the area of trading across borders, the reforms recorded by Doing Business in 2014/15/16 span a wide range—from building or improving hard or soft infrastructure for trade to joining customs unions, digitizing documentation and introducing risk-based inspection systems. These varied endeavors highlight the complexity of international trade. They also speak to changes introduced this year in the methodology used to measure the time and cost for trading across borders. Under the new methodology Doing Business also considers trade over land between neighboring economies, adding a new feature of reform: regional trade facilitation agreements.

In today's globalized world, making trade between economies easier is increasingly important for business. Excessive use of paper documents, burdensome customs procedures, inefficient port operations and inadequate infrastructure all lead to extra costs and delays for exporters and importers, stifling trade potential. What do the indicators cover? Doing Business records the time and cost associated with the logistical process of exporting and importing goods. Under the new methodology introduced this

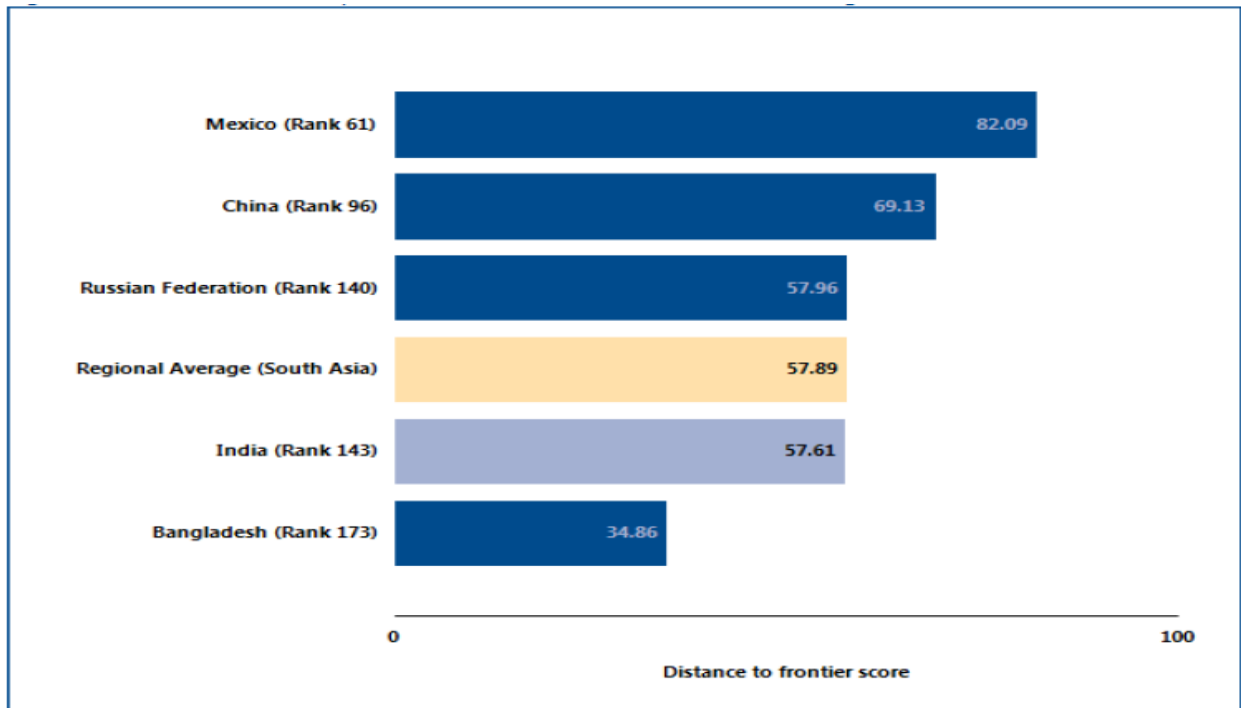
year, Doing Business measures the time and cost (excluding tariffs) associated with three sets of procedures— documentary compliance, border compliance and domestic transport—within the overall process of exporting or importing a shipment of goods. The ranking of economies on the ease of trading across borders is determined by sorting their distance to frontier scores for trading across borders. These scores are the simple average of the distance to frontier scores for the time and cost for documentary compliance and border compliance to export and import (domestic transport is not used for calculating the ranking). Globally, India stands at 143 in the ranking of 190 economies on the ease of trading across borders. In economies around the world, trading across borders as measured by Doing Business has become faster and easier over the years. Governments have introduced tools to facilitate trade—including single windows, risk-based inspections and electronic data interchange systems. These changes help improve the trading environment and boost firms’ international competitiveness.

Summary of export and import time and cost for trading across borders in India

| | Mumbai | Delhi | South Asia |
|--|--------|-------|------------|
| Time to export: Border compliance (hours) | 85 | 125 | 59 |
| Cost to export: Border compliance (USD) | 368 | 453 | 376 |
| Time to export: Documentary compliance (hours) | 58 | 21 | 78 |
| Cost to export: Documentary compliance (USD) | 94 | 90 | 183 |
| Time to import: Border compliance (hours) | 307 | 262 | 116 |
| Cost to import: Border compliance (USD) | 556 | 590 | 645 |
| Time to import: Documentary compliance (hours) | 65 | 58 | 106 |
| Cost to import: Documentary compliance (USD) | 129 | 140 | 348 |

Source: Doing Business database.

Globally, **India** stands at 143rd in the ranking of 190 economies on the ease of trading across borders. Many of the initiatives taken by the economies mentioned above have already been put in place by India and are at various stages of implementation. Below is a chart showing how India and comparator economies rank on the ease of trading across borders:



Source: Doing Business database.

6. CBEC's Initiatives on Ease of Doing Business.

The CBEC has a very crucial role to play for the success of 'Make in India' and Government of India initiatives for ease of doing business. Being the guardians of frontiers and first point of contact for the international passengers and goods, Indian Customs is the face of Indian Government and has a responsibility to present a picture of professional tax authority. As far as domestic goods and services are concerned, the Department must create an environment of IT-based simple and non-intrusive tax collection and create a balance between enforcement of the law and facilitation of trade. Historically, the CBEC has always kept trade facilitation on top priority and many of the business processes have been simplified keeping this objective in mind. The introduction of EDI system in the early 1990s was a small step leading to colossal change in the transaction of business in the Department. The following are the major steps recently taken by the Department in the direction of easing the conduct of business:

1. Launch of Customs SWIFT clearances (Single Window Interface for Facilitating Trade):

The Customs SWIFT enables importers/exporters to file a common electronic Integrated Declaration on the ICEGATE portal. The Integrated Declaration takes care of the requirements of Customs, FSSAI, Plant Quarantine, Animal Quarantine, Drug Controller, Wild Life Control Bureau and Textile Committee and it replaces nine separate forms required by the said 6 different agencies including Customs. With the roll-out of the Single Window, CBEC also introduced an Integrated Risk Management facility for Partner Govt. Agencies (PGAs), which will greatly expedite clearances from

all concerned, channelize scarce resources and will further improve ease of doing business. The Integrated Risk Management System will ensure that consignments are not selected by agencies routinely for examination and testing but based on the principle of risk management. It will also help participating agencies handle their respective risk areas (related to human and animal health, biosafety and environmental safety) more effectively. With this development today, Indian Customs is amongst a few select countries that have functional Single Window clearances, inclusive of multiple PGAs and integrated risk based selection.

2. Filing of declarations by importers, exporters, Customs brokers and manifests by shipping and airlines through digital signatures with effect from 01-01-2016.

Wherever the customs documents are digitally signed, the Customs does not require the user to physically sign the said documents. Around 97% of import and export declarations and manifests are being filed electronically with digital signatures. The balance 3% is being filed through Service Centre.

3. Deferred duty payment for select categories of importers and exporters has been introduced in the recent Budget. This provision will enable release of cargo without payment of duty, which shall enable speedier clearance and improved liquidity in hands of the businesses.

4. Documents required for Import/Export - The number of documents required for export / import have been reduced to three, namely, electronic declaration, Invoice cum packing list & Bill of Lading

5. Electronic Delivery Orders - Introduction of an electronic messaging system between Shipping lines and Custodians for electronic Delivery Order, instead of a paper based Delivery Order, has been introduced.

6. 24X 7 customs clearance facilities extended to 19 sea ports and 17 Air Cargo complexes.

7. WTO Trade Facilitation Agreement approved by Cabinet and ratification underway. Categorization of Articles under the Agreement has been notified to WTO.

8. Customs Clearance Facilitation Committee (CCFC) set up at every major Customs seaport and airport. At Central level, a 'Central Customs Clearance Facilitation Committee' under the chairmanship of Revenue Secretary has been set up to address the issue relating to Customs Clearance and infrastructure impacting clearance of goods.

9. Warehousing: Major changes have been introduced with regard to the provisions related to Warehousing in the recent Budget. The system of physical control and locking of public and private warehouses by Customs is being dispensed and replaced with record based controls. The period of warehousing to be extended till de-bonding or consumption of goods in respect of EoUs/EHTPs/STPIs/Manufacturing Units under

Customs Bond, such as ship building yards which shall reduce transaction costs and burden of documentation. Power for extending warehousing periods in respect of other classes of importers to be delegated to Principal Commissioner/Commissioner. As per amendment in Finance Act, 2016 each ware house has been allotted a unique ware house code so that importers can declare the warehouse in which goods shall be deposited, at the into-bond bill of entry stage. These unique warehouse codes are published on ICEGATE website for information of trade. (Public Notice No. 75/2016 dated 24.05.2016).

10. Special Valuation Branches: The procedure for handling related party transactions and those involving special relationships completely revamped. Extra Duty Deposits waived and the provisions for renewal of SVB orders have also been dispensed.

11. The guidelines relating to valuation of second hand machinery revised. In order to achieve nationwide standardization, formats for certification by chartered engineers (Indian & Overseas) devised.

12. Temporary Imports for Exemption exhibitions: Notification issued for enabling temporary importation of goods for display/exhibition/demonstration. The requirement of ITPO certification dispensed. The revised process is simplified, predictable and reduces transaction costs.

13. Reforms in Export Promotion (Drawback)

- i. 100% disbursement of Drawback electronically.
- ii. Provisional payment of drawback to exporters pending fixation of brand rate.
- iii. Full transferability of duty credit scrips to pay dues under all three indirect taxes.
- iv. Exemption to payment of excise duty in the case of locally procured excisable goods against advance authorization, which shall improve cash flow of exporters.
- v. Owing to the difficulties faced by the trade in sealing of bulk cargo for exports under Bond, rules amended to grant exemption from self-sealing of bulk cargo for export.
- vi. Electronic monitoring of export proceeds realization, which shall obviate need for submitting documentary evidence by exporters. As a measure of facilitation verification of export obligation discharge certificates limited to 5% cases.
- vii. Installation certificates from private chartered engineers allowed.

7. Best practices adopted by high ranking countries

The economies with the most efficient trading environments share common features. They allow traders to exchange information with customs and other control agencies

electronically. They also use risk-based assessments to limit physical inspections to only a small percentage of shipments, reducing customs clearance times. Likewise, these economies tend to trade within customs unions or engage in other forms of bilateral and multilateral trade agreements, making the time and cost for complying with border formalities negligible.

7.1 Allowing electronic submission and processing

Electronic systems for filing, transferring, processing and exchanging customs information have become an important tool for managing flows of information, now widely used in complex trading systems. The most advanced web-based systems allow traders to submit relevant documents and to pay duties online from anywhere in the world. The key to success is the ability of an economy to adapt its regulatory framework to the new information technologies.

If implemented effectively, such a system saves precious time and money. It can also limit direct interactions with officials, which reduces opportunities for corruption. However, introducing an electronic system often requires governments to enact legislations on electronic signatures and transactions; without appropriate legislations in place, the implementation of a new system can lead to redundancy and delays, requiring paper submission of signed documents after they have already been filed electronically. Furthermore, for small and low-income economies, the infrastructure and training costs of implementing such systems can be onerous, and meaningful effects for local traders may take time to materialize.

Exchange of customs data and harmonization of customs procedures are important pillars of many regional communities, and electronic data interchange systems can help facilitate the materialization of regional integration initiatives. In Central America, the International Goods in Transit (TIM) system harmonizes previously cumbersome procedures in a single document to manage the movement of goods across 9 economies. At some border locations, this system has reduced clearance times for goods in transit by up to 90% (1). However, linking 2 or more information technology systems through a common interface is not always a simple process. Integrating Kenya's Simba system with Uganda's ASYCUDA++ through the development of the Revenue Authorities Digital Data Exchange (RADDEx) system has taken several years and does not yet cover all areas of trade between the 2 countries. Expanding this system to the rest of the East African Community also remains an ongoing challenge.

The full potential of digitalization and electronic data interchange systems is not realized immediately. Implementing the systems takes time and involves change in operational practices, in training and in some cases, in the work habits of staff. On February 2014, Guatemala launched the system for electronic document submission has been available since 2006, its use was not compulsory and few traders used it in practice. With the compulsory electronic submission system, import declarations and supporting documents are submitted to customs only in electronic format, and

consequently, the overall documentary compliance and customs clearance process has become faster.

Across economies, regardless of income level, allowing electronic submission and processing of customs-related documents has been one of the most common and effective ways to reduce delays in the trading process. Today, traders can submit all trade documents electronically in more than half of OECD high-income economies with no need to provide hard copies. In Sub-Saharan Africa and Eastern Europe and Central Asia, by contrast, most economies that have electronic systems still require traders to submit hard copies of documents.

7.2 Linking agencies through an electronic single window

More and more, economies are taking a step further to virtually link not only traders and customs but all agencies involved in trade and transport through an electronic single-window system. In the best case scenario, the system allows traders to file standard information and documents through a single entry point to fulfill all import, export and transit-related regulatory requirements, then shares relevant information with all parties involved in trade, including private participants such as banks and insurance companies, as well as public agencies such as immigration and vehicle registration authorities.

An increasing number of developing economies are interested in introducing single window systems of varying complexity. For example, Colombia and Senegal have both implemented single-window systems, though achieving complete functionality is an ongoing process. El Salvador set up a single window linking customs, government ministries and tax and social security authorities.

The single-window system is also being embraced at the regional level. The 10 member nations of the Association of Southeast Asian Nations (ASEAN) have set an ambitious goal of establishing an ASEAN-wide single window. Plans call for integrating members' national single windows so that a single submission of data and information suffices for the entire ASEAN region.

Several economies have reported positive results from the implementation of single-window systems. The Korea Customs Service estimates that the introduction of its single-window system brought some \$18 million in benefits in 2010, part of the overall economic benefits that year of up to \$3.47 billion from the agency's trade facilitation efforts (2). Indeed, for Korean-based companies such as Samsung and LG--global leaders in the electronics industry--achieving rapid and predictable turnaround time is an important aspect of their competitiveness strategies.

In Singapore, the implementation of a single window led to big gains in government productivity. The government established the world's first national single window for trade (Trade Net) in 1989, bringing together more than 35 border agencies. Thanks to

this initiative, today Trade Net handles more than 30,000 declarations a day, processes 99% of permits in 10 minutes and receives all collections through interbank deductions.

7.3 Using risk-based inspections

Requiring imports and exports to undergo inspections—for tax, security, environmental, border control, and health and safety reasons—is often necessary. How these inspections are carried out, including how cargo is selected for inspection, however, varies across economies. Done with a heavy hand, inspections can be a serious obstacle to efficient and predictable trade. Over the years, customs administrations around the world, working in tandem with other border control agencies, have developed systems for establishing risk profiles that allow them to apply physical inspections corresponding to the potential risk of consignments. Investing in equipment is another way to help expedite the processing of cargo. Many economies have adopted the use of scanners to limit the need to physically open containers. In some economies, however, inefficient use of scanners has led to additional burden on traders, as customs agents scan all containers, creating delays and incurring mandatory scanning fees on traders. Efficient use of scanners in conjunction with risk-based profiling can strike the right balance in inspection, contributing to the efficiency of the trading process.

Risk-based inspections are the norm in OECD high-income economies, and they are becoming increasingly common elsewhere as well. Traders in Uruguay are among those who are benefiting from the improvements in the inspection process through the adoption of a risk-based system. As part of the Uruguayan Customs Modernization Plan launched by the Government in 2007, the National Customs Directorate rolled out a new risk-based system that became fully operational by 2014. Inspections have therefore become faster, as has the time required to complete the process of export and import customs clearance.

7.4 Overcoming geographic barriers through regional cooperation

Many economies face special challenges in competing globally because of the greater inland distances and multiple border crossings involved in their trade. These economies can accelerate trade through efforts to increase border cooperation agreements and reduce the number of checkpoints so that cargo can move freely—without being stopped for customs or other inspections—until it reaches its destination.

One example of regional cooperation is the creation of customs unions. Forty-seven years ago, while the rest of the international community was negotiating the levels of tariffs and quotas, the European Union embarked on a grand experiment—the launch of a customs union. There would be no customs duties at internal borders between the EU member states; there would be common customs duties on imports from outside the

European Union as well as common rules of origin for products from outside; and there would be a common definition of customs value.

While the EU customs union remains one of the best examples of trade facilitation between disparate nations, it is far from alone. More than half the 189 economies covered by *Doing Business* are in a customs union today. Moreover, 33 economies are in a customs union with their case study export partner, and 39 are in a customs union with their case study import partner. For these economies the time for documentary and border compliance is substantially lower on average than for others. However, not all customs unions are equal. Customs unions among OECD high-income economies (essentially the EU customs union) perform substantially better than others, followed by customs unions in Europe and Central Asia and then by those in Sub-Saharan Africa.

7.5 Sparking competition by making private participation easier

Beyond the customs formalities, private providers of trade services—such as customs brokers, transport companies and port service providers—all have important effects on the time and cost of trading across borders. Greater competition among trade service providers can lead to lower fees and higher quality of service, as can better infrastructure. In 2012, measures were taken at the Port of Cotonou to ease the transit and movement of trucks. Parking arrangements and roads were upgraded, and a monitoring system for transiting trucks was put in place.

Not all trade facilitation reforms require heavy spending. Initiatives such as providing training, clarifying and publicizing the rules and holding regular meetings with exporters on the clearance process can make a difference. For example, through a series of efforts to improve customs administration—such as training staff, reducing inspections, simplifying procedures and enhancing communication with users—Grenada reduced the customs clearance time by 3 days for exports and 2 days for imports between 2008 and 2010.

7.6 Promoting efficiency in product-specific inspections

In economies whose top export is an agricultural product, border compliance takes 70% more time (35 more hours) on average than in other economies, while documentary compliance takes twice as much time. The main reason for these differences is that 81% of economies whose top export is an agricultural product require product specific inspections and procedures (such as fumigation or phytosanitary inspections) to export that product.

Yet even among economies whose top export is an agricultural product, documentary and border compliance times vary widely. Border compliance times for agricultural

products subject to product specific inspections range from 11 hours to 210. This variation suggests that it is possible to protect consumers and businesses while still facilitating (or at least not impeding) trade.

Economies exporting agricultural products span all regions and income groups, from Norway among OECD high-income economies to Guinea-Bissau in Sub-Saharan Africa. Both Grenada and Australia, for example, require sanitary inspections and certificates for their top export product. Yet completing border compliance procedures takes 101 hours and \$1,034 for an exporter of nutmeg in Grenada, while it takes only 36 hours and \$749 for an exporter of meat in Australia. And completing documentary compliance takes 10 times as many hours for the exporter in Grenada (77) as it does for the exporter in Australia (7). The exporter in Grenada must contact the Ministry of Agriculture several days in advance and wait to obtain a hard-copy document to clear customs. In Australia, by contrast, quarantine authorities work closely with both producers and customs authorities throughout the process. What matters is not whether enhanced inspections and procedures are required—but whether they are carried out efficiently.

8. WTO Trade Facilitation Agreement

Government of India has ratified the Trade Facilitation Agreement (TFA) of the WTO on 22nd of April, 2016. The pact aims to expedite the movement, release and clearance of goods, including goods in transit. It will also set up a trade facilitation panel for implementing the WTO pact which aims at easing customs norms for faster clearance of goods to boost the exports. This would supplement the ongoing reforms to bring in simplification and enhanced transparency in cross border trade in goods. These objectives are in consonance with India's 'Ease of Doing Business' initiative," India has initiated the process to set-up a National Committee on Trade Facilitation (NCTF) to domestically coordinate and implement the TFA,". The NCTF would institutionalize the co-ordination mechanism in such a manner that the 35 plus departments, private players and state governments that have international borders are on the same page as far as the trade facilitation is concerned. The TFA envisages faster clearances and reduction of red-tapism at the borders and would help in the ease of doing business. Industry and its various associations would be associated in the consultation process while implementing the different provisions of the TFA, through trade facilitation, WTO member countries would seek to simplify trade procedures and help promote cross border trade, bring greater predictability to traders and help improve the overall climate for trade and investment. TFA contains provisions for expediting the movement, release and clearance of goods, including goods in transit. It also sets-out measures for effective cooperation between customs and other appropriate authorities on trade facilitation and customs compliance issues. The trade facilitation pact is divided into three parts - section 1 contains provisions on simplification of border clearance procedures and adoption of new transparency measures and consists of 12 articles. These articles extend to several agencies such as customs, border control,

shipping, plant and animal quarantine. All of this requires inter-ministerial cooperation and coordination.

9. CAG Report (13 of 2015) on Performance of Import and Export Trade Facilitation through Customs Ports

The CAG in its report (13 of 2015) on Performance of Import and Export Trade Facilitation through Customs Ports has examined the trade facilitation measures adopted by the Customs field formation and other related agencies and highlighted the need for strengthening of processes and procedure for ease of doing business. Trade Facilitation is aimed at ensuring the movement and clearance of goods across borders at the minimum cost. It is a term used to denote all steps for simplification of procedures and reduction of costs in the course of international trade. Reduction in idle time in any segment of the trading process would reduce transaction costs and would facilitate trade in general and enhance the price competitiveness of Indian goods in international market. Delays increase not only the cost of compliance but also lead to impediments to efficient trading across borders like congestion at the ports. CAG had conducted audit from June through September 2014 involving analysis of data for the period 2010-11 to 2012-14 from various stakeholders located throughout the country. The following observations were made by the CAG:

- The CAG has acknowledged the fact that the Department has initiated various trade facilitation measures like simplification of rules and procedures, IT initiatives, e-governance, Accredited Client Programme (ACP), 24x7 clearance facilities, Authorised Economic Operator (AEO) Programme etc. Transaction cost of Trade Facilitation
- There is a good scope to improve efficiency by streamlining procedures. India's performance needs improvement in the indicators of trade- infrastructure efficiency.
- In overall logistic performance index, although India's score has improved over time, it has room for improvement. Strategic Plan of Department of Commerce estimated the impact on the transaction cost to the tune of Rs. 42,000crores (US\$ 6-7 billion) due to poor facilitation.
- A task force on 'Transaction Costs in Exports' was constituted in 2009 by MoC to look into various issues affecting the competitiveness of Indian exports and initiate a set of "executable" remedial measures towards reducing the costs associated with trading across borders. The committee had made 44 recommendations pertaining to seven ministries, out of which 32 recommendations were agreed upon. Out of the 32 recommendations, 21 recommendations were reported to have been implemented in the task force report published in 2011.

- The Second Task force on 'Reduction in Transaction Costs in Exports' was constituted in 2013 to examine and identify such difficulties that the exporters face and make actionable recommendation to reduce or eliminate them. The committee made 46 recommendations pertaining to nine ministries and 7 separate recommendations relating to Land Border crossing and other miscellaneous issues.
- Governance, risk and compliance Specific cases of lapses in implementation of trade facilitation measures were observed in the process of imports, exports, interpretation of extant provisions, internal control and infrastructure etc. both in EDI and manual environment.
- Additionally impact assessment of the trade policies and transaction analysis of simplified procedure needs to be initiated.
- Dwell time is the measure of the time elapsed from the time the cargo arrives in the port to the time the goods leave the port premises after all permits and clearances have been obtained and is an important indicator of the extent to which trade facilitation measures are beneficial for the trade. A time release study was conducted to identify inordinate delays in the various stages of import clearances for the BEs given out of charge (OOC) during the period 2010-11 to 2013-14. The study revealed that there was downtrend in dwell time and the decrease was from 13.94 days during 2010- Report No. 13 of 2015 (Performance Audit) vi 11 to 10.95 days during 2013-14. This could be further improved by implementing the trade facilitation measures initiated by CBEC more effectively.
- The study further revealed that almost 65 per cent of the total time taken in imports is attributed to the filing of the BEs and payment of duty while in exports filing of the EGM constituted nearly 90 per cent of the total time taken. Delays were observed in allotment of berths by Port Authorities, in clearing the goods by the importers at Ports, in rectification of errors in Import General Manifests (IGM), in filing of BEs by the Importers, non mandatory filing of BEs through ICEGATE, manual registration of licenses with the custom houses and in furnishing reply to the queries raised by the department, examination by other Agencies, payment of duty/refund and or drawback, in filing of Export General Manifests (EGM) and rectification of errors etc.
- The department initiated few measures like ICEGATE facility for filing of BEs/SBs, facilitation through Risk Management System (RMS), facility of examination of Export goods at the factory premises, creation of Permanent Trade Facilitation Committee, 24x7 customs clearance procedure, ACP, AEO programme, OSPCA and Advance Ruling Mechanism. Lack of infrastructure facilities like examination of Import goods by Customs, Port to Road Connectivity, Rail infrastructure to move containers to ICDs, Issues dogging check posts, lack of feeder network facility at International Container

| | | | | | | | |
|-----------------------|----------------------------|---------------------|---------------------|---------------------------|--------------------|----------------------------|-------|
| JNCH | 4 days 20 hours 23 minutes | 20 hours 49 minutes | 21 hours 50 minutes | 2 days 3 hours 56 minutes | 6 hours 23 minutes | 9 days 1 hour 21 minutes | 12.5% |
| Chennai Customs House | 4 days 23 hours 33 minutes | 18 hours 52 minutes | 15 hours 14 minutes | 2 days 2 hours 11 minutes | 5 hours 56 minutes | 8 days 17 hours 45 minutes | 11.8% |

* rounded to the nearest hour

11.2 Data of dwell time at select Airports for the month of September, 2016

| Customs station | Time taken from arrival of cargo to filing of declaration by importer | Time taken by Customs for assessment after filing of declaration | Time taken by importer for payment of customs duty | Time taken from payment of duty to registration of documents | Time taken from registration of documents to "out of customs charge" | Total time | Percentage of time taken by customs |
|--------------------|---|--|--|--|--|----------------------------|-------------------------------------|
| Sahar, Mumbai | 2 days 21 hours 3 minutes | 9 hours 9 minutes | 8 hours 41 minutes | 1 day 2 hours 22 minutes | 2 hours 21 minutes | 4 days 19 hours 37 minutes | 10.0% |
| IGI, Delhi | 2 days 12 hours 49 minutes | 5 hours 23 minutes | 7 hours 48 minutes | 22 hours 39 minutes | 2 hours 7 minutes | 4 days 2 hours 47 minutes | 7.6% |
| Air Cargo, Chennai | 2 days 7 hours 12 minutes | 6 hours 21 minutes | 9 hours 20 minutes | 1 day 49 minutes | 3 hours 43 minutes | 4 days 3 hours 25 minutes | 10.1% |

| | | | | | | | |
|----------------------|---------------------------|--------------------|--------------------|-------------------------|-------------------|---------------------------|------|
| Air Cargo, Bangalore | 3 days 9 hours 25 minutes | 5 hours 15 minutes | 8 hours 42 minutes | 1 day 4 hours 3 minutes | 1 hour 55 minutes | 5 days 5 hours 21 minutes | 5.7% |
|----------------------|---------------------------|--------------------|--------------------|-------------------------|-------------------|---------------------------|------|

*time is rounded to the nearest hour

11.3 Data of dwell time at select ICDs for the month of September, 2016

| Customs station | Time taken from arrival of cargo to filing of declaration by importer | Time taken by Customs for assessment after filing of declaration | Time taken by importer for payment of customs duty | Time taken from payment of duty to registration of documents | Time taken from registration of documents to "out of customs charge" | Total time | Percentage of time taken by customs |
|-----------------|---|--|--|--|--|----------------------------|-------------------------------------|
| ICD, Delhi | 11 days 17 hours 16 minutes | 21 hours 53 minutes | 17 hours 11 minutes | 2 days 8 hours 20 minutes | 13 hours 20 minutes | 16 days 6 hours | 9.0% |
| ICD Bangalore | 6 days 7 hours 35 minutes | 16 hours 42 minutes | 22 hours 4 minutes | 1 day 20 hours 25 minutes | 5 hours 3 minutes | 9 days 23 hours 48 minutes | 9.1% |

* time is rounded to the nearest hour

^ includes the time taken for the container to be transported from Port to ICD.

(Source : http://www.cbec.gov.in/htdocs-cbec/dwell_time)

11.4 Dwell time in Customs by Participating Government Agencies (PGA)”

A comparative analysis of the dwell time taken by different regulatory agencies for testing of samples and granting of NOCs is submitted below:-

| Sr. No. | Name of the PGA | Average time taken to furnish report/NOC as on 05.05.2015 | Average time taken to furnish report/NOC as on 11.06.2015 | Average time taken to furnish report/NOC as on 16.12.2015 |
|---------|--|--|--|--|
| 1 | FSSAI/PHO | 12 days | 9 days | 5-6 days |
| 2 | Animal Quarantine | 5 days | 3 days | 3 days |
| 3 | Plant Quarantine | 4 days | 2 days | 1-2 days |
| 4 | Textile Committee | 6.07 days | 5.8 days | 3 days |
| 5 | Drug Controller of India | 8.9 days | 8.5 days | 5 days |
| 6 | Wild life Authorities | 3 days | 2 days | 2 days |
| 7 | Ministry of Environment, Forest and Climate Change | NA | NA | NA |

11.5 The dwell time analysis, as given below, shows that the time taken by Customs from filing of Bill of Entry to Assessment and registration to Out of Charge has improved as compared to the precious year. The overall average time taken for grant of Out of Charge from the date of Entry inwards has also come down over the months.

Time taken in days

| | Sep 2014 | Sep 2015 | Oct 2014 | Oct 2015 | Nov 2014 | Nov 2015 |
|--|----------|----------|----------|----------|----------|----------|
| Filing to Assessment of B/E (Time taken by Customs) | 3.38 | 1.56 | 1.96 | 1.61 | 1.77 | 1.59 |
| Registration to Out of Charge of B/E (Time taken by Customs) | 0.73 | 0.70 | 0.79 | 0.78 | 0.83 | 0.81 |
| Overall time taken for | 10.43 | 9.68 | 11.43 | 10.07 | 11.06 | 9.99 |

| | | | | | | |
|--|--|--|--|--|--|--|
| grant of Out of Charge from date of Entry inwards (Total time taken) | | | | | | |
|--|--|--|--|--|--|--|

12. Steps already taken to reduce Dwell Time:

- **Single Window Project-** Central Board of Excise and Customs (CBEC) has operationalised the 'Indian Customs Single Window Project' to facilitate trade from 01.04.2016 at all EDI locations throughout India. As a result the importers and exporters electronically lodge their Customs clearance documents at a single point only with the Customs. The required permission, if any from partner Government Agencies (PGAs) such as Animal Quarantine, Plant Quarantine, Drug Controller, Food Safety and Standards Authority of India, Textile Committee etc. is obtained online without the importer/exporter having to separately approach these agencies. The Single Window Interface for Trade (SWIFT) thus provide the importers/exporters as single point interface the clearance of import and export goods thereby reducing dwell time and cost of doing business.
- To simplify the procedure for clearance of goods pertain to ADC/NOC under ease of doing business, it has been decided that those items which are being routed for ADC's clearance by virtue of the Customs Tariff heads under which they are declared and the ADC's office routinely declares them as 'out of scope'. In this regard, a list of such items have been prepared and published on the ICEGATE website as part of PGA exemption category (PEC). Importers of such goods identify their items on this PEC list and include them as part of the integrated declaration in order to avoid unnecessary references to the ADC. Even in respect of dual use items or excipients, in the integrated declaration, the item will normally not be referred to the ADC clearance if importer declare that item is not pharmaceutical grade and the intended end use of import that is declared as part of item details is not for human or veterinary medicinal purposes.
- It is also proposed to Implement Risk based selectively criteria for clearance of consignments related to PGAs, whereby consignments will be referred to PGAs for NOC based on risk. Thus, for low risk consignments, the required NOC by PGAs will be waived. (Board's Circular No. 03/2016-Customs dated 03.02.2016 & Circular No. 10/2016 dated 15.03.2016)
- **DPD facility for Authorized Economic Operator (AEO)-** A measure of trade facilitation and 'ease of doing business' the DPD facility has been extended to AEO. AEO certificate holder may request for DPD permission and the

competent authority will communicate to the applicant within 3 working days. (PN No. 121/2016 dated 08.09.2016).

- As a measure of facilitation of AEO Programme, an Authorized Economic Operator Cell has been created that will act as voice of the AEO within the Customs in relation to legitimate concerns and issues of AEO would assist in getting procedural and operational issues resolved by coordinating with different sections within Customs as well as other stakeholders (Public Notice No. 113/2016 dated 24.08.2016).
- In order to make further efforts to provide ease of doing business, reduce dwell time and thereby reducing costs involved, following directions are issued to Port Terminals, CFSs, Shipping lines and Transporter in terms of Clause (n) of Regulation 5(1) and Sub Regulation (2) of Regulation 7 of Handling Cargo in customs are regulations, 2009 :-
 - (a) Dwell time can be reduced considerably by early evacuation of imported containers from Port area. For efficient operator, all import containers should be picked up on 'best pick up basis' inside the port. In order to implement this Port terminals have been asked to issue suitable instructions to all CFSs, ICDs, Shipping lines, Importers (availing DPD facilities) and transports.
 - (b) Port Terminals are also required to issue directions to all CFSs, ICDs, Shipping Lines, Importers (availing DPD facilities) and transporter that all imported containers should be removed from port premises within 24 hrs of Entry Inward. In order to effectively implement aforesaid directions, advance intimation of arrival of vessel and cargo has to be given by Shipping Lines and Port Terminals to all stake holders within 24 Hours of departure of vessel from the last port of call.
 - (c) Port terminals are required to inform the details of any CFS and importer (to whom DPD facility has been extended) does not clear the goods within the time limit prescribed to Customs for suitable action under Handling of Cargo in Customs Areas Regulation, 2009.
 - (d) Further, CFSs, ICDs, Shipping Lines, Importers (availing DPD facilities) and transporters have been directed under Handling of Cargo in customs Area Regulation, 2009 to comply with direction for removing containers from the port premises within 24 hrs of Entry Inward.(Public Notice No. 121/2016 dated 08.09.2016).

- Introduction of an electronic messaging system for electronic delivery order, instead of a paper based delivery order introduced. (Board Circular No. 24/2015-Customs dated 14.10.2015)
- To ensure the goal of expeditious clearance of imported cargo, the manual endorsement of SMTP has been discontinued, presently SMTP is generated electronically
- As a measure of Trade facilitation and 'Ease of doing business' a dedicated single window DPD cell was constituted at JNCH.
- **CRCL Module-** It is a lab module under which bills of entry are sent for testing at DYCC or any government authorized lab. Test Memos generated by Groups online and sent to DYCC through docks for online NOC. As a result without waiting for hard copy group generate test memo challan and docks officer at docks can send sample to DYCC for testing of samples. It's faster method to get test report from DYCC and cost effective for trade.
- Importers can generate Online EDD challan and short duty payment challans for their payment. It's hassle free and cost effective.
- **SEZ Module-** All transshipment imported cargo are cleared online. There is no need of physical movement of documents. On CFS gate, PO gives online clearance of goods. Through message exchange all data of ICD or SEZ are integrated with ICES. It has increased efficiency in clearance of transshipment cargo.
- **Helpdesk-** EDI also works as help desk for trade as well as for customs officers. Any technical issue is sorted out immediately at local level or with the help of icegate / si.helpdesk. EDI section plays pivotal role in ease of doing business.
- **Message Exchange Programme-** ICES connected with RBI, DGFT, Port, SEZ etc. through message exchange. It's also helping in ease of doing business.

13. JNCH TRADE FACILITATION-CURRENT KEY INITIATIVES

13.1. Dispensing with SDF form. [F. N. No. 45/2015, 01.06.2015]

Earlier an exporter was required to submit the SDF form (Statutory Declaration Form under FEMA) along with Shipping Bills for export of goods. This was discontinued resulting into reduction of number of documents. ([Boards Circular No. 15/2015](#)-Customs dated 18.05.2015)

13.2. Introduction of "e-Helpline" through JNCH website to provide direct interactive tool to solve trade-related queries. [F. N. No 46/2015, 05.06.2015]

Any applicant can submit any query online at www.jawaharcustoms.gov and reply is assured within 48 hrs.

13.3. E-invoicing and E-payment for CFS charges. [F. N. No 50/2015, 29.06.2015]

All importers and exporters are required to pay charges relating to handling and storage of consignments at Container Fright Stations (CFSs). In order to have transparency in billing and also reduction in time, it was made mandatory for all CFSs to implement e-invoicing and e-payment.

13.4. Open House Meetings on fixed days of the week for redressal of trade grievances. [F. N. No 55/2015, 27.07.2015]

In order to provide increased access and expedite clearance of cargo, Importers, Customs Brokers and the members of the Trade were provided an option to participate in appropriate Open House (by ADC/JC & DC/AC) in case of any difficulties on account of queries raised at the time of assessment or examination or on any other matter.

13.5. Special Drive for Removal of Export General Manifest (EGM) Errors [F. N. No 64/2015, 10.09.2015]

A special drive was launched from 10.09.2015 to 30.09.2015. An Exporter cannot get drawback in case there is EGM Error. This facilitated settlement of pending drawback claims.

13.6. Special Drive for liquidation of Queries related to pending DRAWBACK Shipping Bills. [F. N. No 70/2015, 15.09.2015].

In order to liquidate the pendency of Drawback claims, special drive was launched.

13.7. Introduction of CRCL Test Module in ICES 1.5. [F. N. No 71/2015, 15.09.2015]

A module has been developed for the automation of the procedure of forwarding samples for testing from the customs formation to the Central Revenue Laboratory located at JNCH. This module is intended to bring efficiency and transparency, and reduce cost of compliance for the trade by extending automation to processes ancillary to customs clearance.

13.8. Redressal of Grievance of Trade regarding SAD Refund Claims [F. N. No 83/2015, 26.10.2015]

All the Additional/Joint Commissioners of Customs in charge of Refund Sections shall hold an 'Open House Meeting' on every Monday between 11.00 hrs. to 12.00 hrs. in their respective chambers for redressal of the grievances of the trade in respect of SAD refund claims

13.9. Setting up of Taxpayer Service Centre. [F. N. No 88/2015, 16.11.2015]

Tax Payer Service Centre is a single window system for accepting/handling all taxpayer's queries, complaints, grievances etc. and a unique acknowledgement number is generated on the spot for future reference of the taxpayer and the disposal of the query/complaint/grievance etc. filed at the Tax Payer Service Centre is monitored at the level of Commissioner of Customs so as to ensure prompt and effective disposal.

13.10. Use of digital signature for submission of documents. [F. N. No 93/2015, 10.12.2015]

In order to increase coverage of digitally signed documents and subsequent phasing out of physical/manual submission of documents, Board decided that all importers, exporters using services of Customs Brokers for formalities under Customs Act, 1962, shipping lines and air lines shall file customs documents under digital signature certificates mandatorily with effect from 01.01.2016. [[Board Circular No. 10/2015](#)-Customs, dated 31.03.2015]

13.11. No Objection Certificate' with respect to Shipping Bills from the Port Offices of CDSCO for the export consignment to USA, Canada, Japan, Australia and European Union not to be insisted with effect from 1st January, 2016 for export of Drug, Medical Devices and Cosmetics. [F. N. No 04/2016, 12.01.2016]

Reduced documentation and expeditious clearances.

13.12. Discontinuation of manual debit of Advance Authorization [F. N. No 21/2016, 11.02.2016]

As a measure of Trade Facilitation, it was decided that to avoid duplication of work, the Advance Authorization will be debited only in the EDI system & the practice of manual debit of Advance Authorization was discontinued

13.13 Non requirement of hard copy of E-form 13 at Port Gates for clearance of export containers. [F. N. No 13/2016, 28.01.2016]

Earlier, at the time of any export container entering the port, hard copy of E-Form-13 (essentially a document required by shipping line) was being asked by Customs to verify the particulars. As a measure of Green Customs, it was decided not to insist for physical copy of E-form 13 and details are being verified from system only.

13.14. Extension of Documents/Goods registration timings for Customs Examination work at JNCH. [F. N. No 15/2016, 28.01.2016 & 23/2016, 12.02.2016]

Registration of cargo timing extended by 2.5 Hrs. to ensure that imported goods / goods meant for export are cleared at the earliest.

13.15. Additional facility for generation of Export Promotion Copy of Shipping Bill at JNCH [F. N. No 24/2016, 12.02.2016]

Additional facility provided considering the demand of Trade and as a further measure of trade facilitation.

13.16. Extending the Indian Customs Single Window to other locations and other Participating Government Agencies. [F. N. No 16/2016, 16.02.2016]

Depending on the nature of goods, in order to ensure security of state, prevent environment pollution and ensure that goods imported meet the requirements of domestic law, goods require NOC from various authorities like FSSAI, Drug Controller, Textile Committee, Plant / Animal Quarantine, Wild Life Crime Control Bureau. Earlier, separate declaration was required for each such clearance. Under Single Window, the required permission, if any, from such regulatory agencies can be obtained online without the importer/exporter having to separately approach these agencies. [Board's Circular No.03/2016 dated 3.2.2016]

13.17. Discontinuation of manual debit of Advance Authorization. [F. N. No 21/2016, 11.02.2016]

As a measure of Trade Facilitation and to speed up the clearance process, the debit of Advance Authorization is now done only in the EDI system and the practice of manual debit of Advance Authorization has since been discontinued. (An Advance Authorisation is issued by DGFT for import of goods without payment of duty subject to obligation to fulfilment of export obligation.

13.18. Digital engagement with stakeholders-creation of Facebook and Twitter account. [F. N. No22/2016, 12.02.2016]

Facebook Link: <https://www.facebook.com/Jawaharlal-Nehru-Custom-House-Nhava-Sheva-929678803789867/>

Search for: *Jawaharlal Nehru Custom House Nhava Sheva* in Facebook search.

Twitter Link: https://twitter.com/JNCH_NhavaSheva

13.19. Posting of dedicated staff for making entries of test reports received from CRCL. [F. N. No 27/2016, 12.02.2016]

Requests were received from exporters, trade associations, etc. for creation central facility for making entries in respect of test reports received from CRCL in respect of export consignments.

13.20. Procedure for Back to Town (BTT) of Factory Stuffed Containers - modification thereof. [F. N. No 28/2016, 12.02.2016]

In case goods cannot be exported and are required to be returned from port, earlier NOC was required to be submitted from concerned Central Excise / Customs Authorities. It was dispensed with so as to expedite clearances.

13.21. Ease of Doing Business: Creation of Dedicated Drawback Facilitation Counter for resolution of Queries at JNCH. [F. N. No 41/2016, 03.03.2016]

This counter specifically caters to the queries raised for Shipping Bills and awaiting compliance from the exporters. If any exporter is still not satisfied with the reply of the Drawback Facilitation Counter, he may approach Additional Commissioner of Customs, drawback on any working day without any prior appointment.

13.22. Direction to officers to use email copy of test Reports for assessment purpose. [F. N. No 42/2016, 02.03.2016]

Not to insist for physical copy of the test report.

13.23. Creation of “dedicated Single window DPD Cell”. [F. N. No40/2016, 03.03.2016]

- i. Processes DPD applications as per Facility Notice No. 63/2008 dated 01.09.2008.*
- ii. Handles all correspondence pertaining to the DPD facility.*
- iii. Co-ordinates on all customs clearance related matters such as advance filing of IGM, IGM amendments, if any, payment of duty, scanning etc.*
- iv. Maintain data base of all DPD clearances.*

13.24. Simplified procedure for amendments in the Import General Manifest (A document filed by Shipping Line every time, a vessel enters): [F. N. No 47/2016, 15.03.2016]

Legally there ought to be no variation in details in the BE filed by Importer and IGM filed by the Shipping line. The process of amendment of IGM was leading to delay in clearances. Therefore, the amendment process was simplified and timelines have been prescribed to expedite the process.

13.25. Facility to STEAMER AGENTS to submit one-time continuity bond. [F. N. No 48/2016, 07.03.2016]

Earlier they were required to furnish a bond at the time, when the vessel enters the port. The port clearance requires submission of numerous documents, collected by Customs on behalf of other agencies e.g. Lighthouse Dues Certificate, NOC for Immigration, Port Health Certificate, etc. Before issue of aforesaid Facility Notice, the port clearance was given on execution of a bond/guarantee by the steamer agents each time a vessel enters. Now, instead, an option has been given to steamer agent to execute one-time continuity bond, which resulted in expediting the clearance process.

13.26. Verification of Genuineness of Importer under Advance Authorisation / EPCG Scheme. [F. N. No 54/2016, 22.03.2016]

Instead of pre-verification, now it is post registration verification.

14. Proposed Steps for reducing reduce Dwell Time

1. Advance filing of Bills of Entry :

Trade should be encouraged and incentivized for filing of Advance Bill of Entry. Further, as a Trade Facilitation measure, the amendment in IGM has been simplified, vide Facility Notice No.47/2016 dated 15.03.2016, wherein it was decided that minor amendments will be approved promptly, and in no case beyond 24 hours of the submission of complete application, along with all the required documents. All major amendments will be approved within 48 hours of the submission of the complete application

2. 24 X 7 operations by all stakeholders:

With effect from 31.12.2014, facility of 24x7 Customs clearance for specified imports, namely, goods covered under 'facilitated' Bills of Entry and specified exports, namely, factory stuffed containers and goods exported under free Shipping Bills has been made available in 18 sea ports. Similarly, facility of 24x7 Customs clearance for specified imports, namely, goods covered by facilitated Bills of Entry and all exports viz. goods covered by all Shipping Bills has been extended at 17 air cargo complexes. This will help in faster clearance of such imported and export goods, reduce dwell time and lower the transaction cost [[Circular No.19/2014-Customs](#), dated 31.12.2014 refers].

Similarly, Customs should take lead role and get all the stake holders on Board to participate in 24 X 7 operations for expeditious Customs clearance. To make 24 X 7 working effective, governmental agencies - like Customs, Plant Quarantine, PHO etc. - and other stakeholders - like shipping lines, importers, exporters etc.- must engage in 24 X 365 working through the deployment of a mechanism to install a skeletal system which can perform all the activities, round-the-clock, on all days. For example, Customs have identified 13 major locations for 24 X 7 Customs clearance, which needs to be extended to 24 X 365 on a routine basis including the facility for examination, duty assessment and payment, Out of Charge etc.

3. Improvement in Port Infrastructure: The Port authorities and terminal operators should create world class infrastructure for fast and smooth clearance of containers, which requires repair and upgradation of Roads, container handling equipment etc.

4. Facility of advance duty payment to the importer: Presently, the importer can pay Customs duty, only after the event of printing of duty challan from ICES, which is done only after the event of assessment. In the case of advance filing of Bills of entry, DPD etc., the importers should also have opportunity of advance payment of Customs duties.

5. **Fine tuning of RMS tools and increasing facilitation percentage:** The RMS tools should be fine-tuned and focused with the use of enforcement data-base, feedback from field formations, advanced statistical tools, with an aim to concentrate on Risky transactions / operators, which shall result in increased facilitation for compliant trade.
6. **Increased mandate of OSPCA and reduced interface while physical clearance of goods:** Following the best practices in developed countries, the point of physical checks by Customs to address Revenue Risks (viz: Undervaluation, Misuse of Notification, Misclassification etc.) should be shifted from the physical point of examination (i.e. Ports, CFS etc.) to the manufacturing unit or warehouse. The compliance of Revenue Risks may be done during On-site Post Clearance Audit, which shall ensure un-hindered clearance of goods from the point of import and reduce the congestion at Port / CFS.
7. **Installation of modern scanners at each terminal to address security Risks:** In order to address the security Risks and other non-negotiable Risks related to environment, health and culture of the country, every terminal should be equipped with high speed modern scanners, which should be capable of round the clock scanning of all import and export consignments.
8. **Real time seamless message exchange between various stake holders through integration of their IT applications like ICEGATE, PCS,TOS etc:** All the stakeholders are presently using different IT applications catering to their business requirements. Their IT applications should be integrated to compatible platforms to resolve hardware and software issues, so that there is real time seamless message exchange between Customs, Port Operators, steamer agents, CFS operators etc.
9. **Implementation of 2nd Phase of SWIFT:** Physical Single Window implementation, Introduction of RMS in PGA etc. After stabilization of 1st phase of Single Window project, further reforms are required for 2nd phase, which includes physical shifting of all PGA's near Customs House and introduction of Risk Management in PGA, so that only the selected few Risky bills out of all eligible bills should be referred to relevant PGA's.
10. **Creation of National Specialised and Centralised Assessment centers:** In order to have uniform assessment practice throughout the country, some national specialized and centralized assessment centers should be formed and the traditional assessment in Customs Houses should be disbanded. The whole Customs tariff should be divided into 4-5 uniform groups, which should also be backed by scientific and technical experts from the relevant fields.
11. **Hand held devises for Customs examining officers:** Providing hand held devises to the examining officers of Customs at Docks / CFS / Port to facilitate immediate feeding of examination reports into the system after the physical examination of

goods. These devices should also be equipped to provide all the required technical, scientific and legal information required for the examination and should be connected to the ICES,

12. **Review the methodology of calculation of Dwell time** – The calculation of dwell time in case of advance filed Bills of entry needs to be changed, as in the present calculations, advance bills take more dwell time than normal bills. There is also need for analysis of Dwell time container – wise to arrive at the correct picture of physical clearance of containers from the Port.
13. **Review of the need for CFS:** After successful implementation of DPD facility, the requirement of the existence of CFS has to be reviewed. Presently, CFS, which were created to de-congest the Ports are adding more cost and time to the clearance process, due to vested nexus between Shipping lines and CFS.

PROJECT REPORT BY GROUP II

AREAS TO EXPAND FOR CBEC **&** **NEW INITIATIVES TO BE TAKEN**

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1. Executive Summary

CBEC is at the cusp of a historic shift in its role, responsibility and stakeholder expectations. This provides it a unique opportunity to re-align, re-structure itself and re-define its relevance by venturing into areas hitherto either uncharted by it or relatively neglected.

This will entail some organisational re-engineering and a highly desirable and recommended transformation from being a Central Service to an All India Service. Further, it will involve larger role and responsibilities in terms of domestic inter agency and inter-organisational exchange of personnel and information through a dedicated apex institutional mechanism created at CBEC level. In terms of the mandate to man international borders and be guardians of economic frontiers, CBEC will have to institutionalise Coordinated Border Management practices at the highest level - i.e. at CBEC level.

Furthermore, its various institutions will have to adopt and take on larger roles. In this regard, it is proposed and recommended that the DH Systems under CBEC should transform into a data analytics division, handling enormous data that will be available post roll out of GSTN and provide technical and intelligence inputs to various field and enforcement wings of CBEC by using Big Data analytical tools.

With change in global trade and in view of foreign relations of India, the growing threat of terrorism and the practical reality of dumping of hazardous waste by developed countries in developing and under-developed countries, there is an urgent need to deploy mechanised examination systems, including robots, in the field for examination of such cargo and for mundane tasks like automated response systems post GST.

Last but not the least, the DG HRD under CBEC must rise to the occasion and provide a career path vision for all cadres under CBEC. With GST roll out, the CBEC Human resource management should include regular interaction within and with-out the country for sharing experiences and learning from practices of other regimens. for this DG HRD should plan and implement training and skill upgradation throughout the career path of CBEC HR - including Group A, B, C and D levels.

It is universally true that an Organisation is nothing but a sum of its individual human resource elements and their motivation decides the path or curve that it is destined to take.

So if CBEC takes care of its human resource, they will in turn make sure that the organisation achieves greatest heights.

2. Present Status

2.1. Overview

2.1.1. The Central Board of Excise and Customs (CBEC), in the Ministry of Finance, is the apex body for administering the levy and collection of indirect taxes of the Union of India viz. Central Excise duty, Customs duty and Service Tax, and for facilitating cross border movement of goods & services. In order to improve the delivery of its services,

2.1.2. CBEC is administrative authority for Customs formations, Central Excise, and Service Tax etc.

2.1.3. Administratively, it functions in the Department of Revenue which deals with the tasks of formulation of policy concerning levy and collection of Customs & Central Excise duties and Service Tax, prevention of smuggling and administration of matters relating to Customs, Central Excise, Service Tax and Narcotics to the extent under CBEC's purview.

2.1.4. CBEC is the administrative authority for its subordinate organizations, including Custom Houses, Central Excise and Service Tax Commissionerates and the Central Revenues Control Laboratory.

2.2. Vision and Mission

2.2.1. Vision of CBEC is to provide an efficient and transparent mechanism for collection of indirect taxes and enforcement of cross border controls with a view to encourage voluntary compliance.

2.2.2. Our Mission is to achieve excellence in the formulation and implementation of Customs, Central Excise and Service Tax laws and procedures aimed at:

2.2.2.1. realizing the revenues in a fair, equitable, transparent and efficient manner

2.2.2.2. administering the Government's economic, taxation and trade policies in a pragmatic manner

2.2.2.3. facilitating trade and industry by streamlining and simplifying Customs, Central Excise and Service Tax processes and helping Indian business to enhance its competitiveness

2.2.2.4. ensuring control on cross border movement of goods, services and intellectual property

2.2.2.5. creating a climate for voluntary compliance by providing information and guidance

2.2.2.6. combating revenue evasion, commercial frauds and social menace

2.2.2.7. supplementing the efforts to ensure national security.

2.3. Key Functions and Services

2.3.1. Regulatory Functions

2.3.1.1. Levy and collection of Customs and Central Excise duties and Service Tax

2.3.1.2. Registration and monitoring of units manufacturing excisable goods and service providers

2.3.1.3. Receipt and scrutiny of declarations and returns filed with the department

2.3.1.4. Prevention of smuggling and combating evasion of duties and service tax

2.3.1.5. Enforcement of border control on goods and conveyances

2.3.1.6. Assessment, examination and clearance of imported goods and export goods

2.3.1.7. Implementation of export promotion measures

2.3.1.8. Clearance of international passengers and their baggage

2.3.1.9. Resolution of disputes through administrative and legal measures

2.3.1.10. Sanction of refund, rebate and drawback

2.3.1.11. Realization of arrears of revenue

2.3.1.12. Audit of assessments for ensuring tax compliance.

2.3.2. Service Functions

2.3.2.1. Dissemination of information on law and procedures through electronic and print media

2.3.2.2. Enabling filing of declarations, returns and claims through online services.

2.3.2.3. Providing information on the status of processing of declarations, returns and claims

2.3.2.4. Assisting the right holders in protecting their intellectual property rights

2.3.2.5. Responding to public enquiries relating to Customs, Central Excise and Service Tax matters

2.3.2.6. Providing Customs services such as examination of goods and factory stuffing of export goods at clients' sites, as per policy.

2.4. Our Expectations -

2.4.1. We expect citizens to uphold and respect the laws of the land and voluntarily discharge all tax liabilities. It is also expected that they will fulfill their duties and legal obligations in time by honestly furnishing information. They are also expected to be co-operative and forthright in inquiries and verifications which would ultimately avoid unnecessary litigation.

2.4.2. This will enable us to provide our services in an effective and efficient manner

2.5. CBEC is entrusted with the mandate to enforce multiple Union Tax Laws including:

2.5.1. The Central Excise Act, 1944

2.5.2. The Central Excise Tariff Act, 1985

2.5.3. Customs Act, 1962

2.5.4. Customs Tariff Act, 1975

2.5.5. The Drugs and Cosmetics Act, 1940

2.5.6. Narcotic Drugs and Psychotropic Substances Act, 1985

2.5.7. Finance Act, 1994 (Service Tax Act) etc.

3. Recent Developments

3.1. Change in Law

3.1.1. The Constitution (One Hundred And First Amendment) Act, 2016 (hereinafter referred to as the Constitution Amendment Act) amended the Constitution of India and it shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint, and different dates may be appointed for different provisions of this Act

3.1.2. The Constitution Amendment Act ushers in fundamental systemic reforms in the indirect taxes dispensation prevailing in the country by integrating and harmonizing the tax structure across the country in the form of Goods and Services Tax (GST). The amendments in the Constitution are targeted to achieve the objective of conferring simultaneous power on Parliament and State legislatures to make laws for levying GST simultaneously on every transaction of supply and goods & services. In addition, it also allows subsuming of a number of indirect taxes presently being levied by Central & State Governments into GST and thus aims to remove cascading of taxes and provide a common national market for goods and services.

3.1.3. This Constitution Amendment Act inserted Article 246A,

"246A. (1) Notwithstanding anything contained in articles 246 and 254, Parliament, and, subject to clause (2), the Legislature of every State, have power to make laws with respect to goods and services tax imposed by the Union or by such State.

(2) Parliament has exclusive power to make laws with respect to goods and services tax where the supply of goods, or of services, or both takes place in the course of inter-State trade or commerce."

3.1.4. Further after Article 269 of the Constitution, it has inserted the following article:

"269A. (1) Goods and services tax on supplies in the course of inter-State trade or commerce shall be levied and collected by the Government of India and such tax shall be apportioned between the Union and the States in the manner as may be provided by Parliament by law on the recommendations of the Goods and Services Tax Council. Explanation.—For the purposes of this clause, supply of goods, or of services, or both in the course of import into the territory of India shall be deemed to be supply of goods, or of services, or both in the course of inter-State trade or commerce.

(2) The amount apportioned to a State under clause (1) shall not form part of the Consolidated Fund of India.

(3) Where an amount collected as tax levied under clause (1) has been used for payment of the tax levied by a State under article 246A, such amount shall not form part of the Consolidated Fund of India.

(4) Where an amount collected as tax levied by a State under article 246A has been used for payment of the tax levied under clause (1), such amount shall not form part of the Consolidated Fund of the State.

(5) Parliament may, by law, formulate the principles for determining the place of supply, and when a supply of goods, or of services, or both takes place in the course of inter-State trade or commerce."

3.1.5. In Article 270 regarding " *Taxes levied and collected by the Union and distributed between the Union and the States*", necessary amendments to cater to the requirements of the levy and consequent distribution of Goods and Service Tax, inter alia, following amendments have been incorporated:

"(1A) The tax collected by the Union under clause (1) of article 246A shall also be distributed between the Union and the States in the manner provided in clause (2).

(1B) The tax levied and collected by the Union under clause (2) of article 246A and article 269A, which has been used for payment of the tax levied by the Union under clause (1) of article 246A, and the amount apportioned to the Union under clause (1) of article 269A, shall also be distributed between the Union and the States in the manner provided in clause (2)."

3.1.6. To ensure proper administrative machinery for implementation of GST, it also inserted Article 279A, as follows:

"279A. (1) The President shall, within sixty days from the date of commencement of the Constitution (One Hundred and First Amendment) Act, 2016, by order, constitute a Council to be called the Goods and Services Tax Council.

(2) The Goods and Services Tax Council shall consist of the following members, namely:—

(a) the Union Finance Minister..... Chairperson;

(b) the Union Minister of State in charge of Revenue or Finance..... Member;

(c) the Minister in charge of Finance or Taxation or any other Minister nominated by each State Government.....Members.

(3) The Members of the Goods and Services Tax Council referred to in sub-clause (c) of clause (2) shall, as soon as may be, choose one amongst themselves to be the Vice-Chairperson of the Council for such period as they may decide.

(4) The Goods and Services Tax Council shall make recommendations to the Union and the States on—

(a) the taxes, cesses and surcharges levied by the Union, the States and the local bodies which may be subsumed in the goods and services tax;

(b) the goods and services that may be subjected to, or exempted from the goods and services tax;

(c) model Goods and Services Tax Laws, principles of levy, apportionment of Goods and Services Tax levied on supplies in the course of inter-State trade or commerce under article 269A and the principles that govern the place of supply;

(d) the threshold limit of turnover below which goods and services may be exempted from goods and services tax;

(e) the rates including floor rates with bands of goods and services tax;

(f) any special rate or rates for a specified period, to raise additional resources during any natural calamity or disaster;

(g) special provision with respect to the States of Arunachal Pradesh, Assam, Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Himachal Pradesh and Uttarakhand; and

(h) any other matter relating to the goods and services tax, as the Council may decide.

(5) The Goods and Services Tax Council shall recommend the date on which the goods and services tax be levied on petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas and aviation turbine fuel.

(6) While discharging the functions conferred by this article, the Goods and Services Tax Council shall be guided by the need for a harmonised structure of goods and services tax and for the development of a harmonised national market for goods and services.

(7) One-half of the total number of Members of the Goods and Services Tax Council shall constitute the quorum at its meetings.

(8) The Goods and Services Tax Council shall determine the procedure in the performance of its functions.

(9) Every decision of the Goods and Services Tax Council shall be taken at a meeting, by a majority of not less than three-fourths of the weighted votes of the members present and voting, in accordance with the following principles, namely:—

(a) the vote of the Central Government shall have a weightage of one-third of the total votes cast, and

(b) the votes of all the State Governments taken together shall have a weightage of two-thirds of the total votes cast, in that meeting.

(10) No act or proceedings of the Goods and Services Tax Council shall be invalid merely by reason of—

(a) any vacancy in, or any defect in, the constitution of the Council; or

(b) any defect in the appointment of a person as a Member of the Council; or

(c) any procedural irregularity of the Council not affecting the merits of the case.

(11) The Goods and Services Tax Council shall establish a mechanism to adjudicate any dispute —

(a) between the Government of India and one or more States; or

(b) between the Government of India and any State or States on one side and one or more other States on the other side; or

(c) between two or more States, arising out of the recommendations of the Council or implementation thereof."

3.1.7. Further, In the Seventh Schedule to the Constitution,—

3.1.7.1. List I—Union List,— Entries 92 (i.e. - "*Taxes on the sale or purchase of newspapers and on advertisements published therein*") and 92C ("*Taxes on services*") have been omitted and for entry 84, the following entry has been substituted, namely:—

"84. Duties of excise on the following goods manufactured or produced in India, namely:— (a) petroleum crude;

(b) high speed diesel;

(c) motor spirit (commonly known as petrol);

(d) natural gas;

(e) aviation turbine fuel; and

(f) tobacco and tobacco products.";

3.1.7.2. In List II—State List, Entry 52 (*which read as " Taxes on the entry of goods into a local area for consumption, use or sale therein"*) has been omitted. Further, for Entry 54, the following Entry has been substituted:

"54. Taxes on the sale of petroleum crude, high speed diesel, motor spirit (commonly known as petrol), natural gas, aviation turbine fuel and alcoholic liquor for human consumption, but not including sale in the course of inter-State trade or commerce or sale in the course of international trade or commerce of such goods.";

3.1.7.3. In State List, Entry 55 (i.e. "*Regulation of labour and safety in mines and oilfields*") has been omitted; and for Entry 62 (i.e. "*Taxes on luxuries, including taxes on entertainments, amusements, betting and gambling*"), the following entry has been substituted:

"62. Taxes on entertainments and amusements to the extent levied and collected by a Panchayat or a Municipality or a Regional Council or a District Council."

3.1.8. Further, as it was expected that upon roll out of GST, State Governments may lose revenue, it has also been provided under the Constitution Amendment Act that

"Parliament shall, by law, on the recommendation of the Goods and Services Tax Council, provide for compensation to the States for loss of revenue arising on account of implementation of the goods and services tax for a period of five years."

4. Goods and Services Tax - GST

4.1. Introduction

4.1.1. GST is recognized internationally as a destination based consumption tax which is least distortionary. The broad objectives of introducing the Goods and Services Tax (GST) in India are to expand the tax base through wider coverage of economic activities and reduction in exemptions; mitigate cascading and double taxation and enable better compliance through the lowering of overall tax burden on goods and services. By removing hidden or embedded taxes, it would improve the competitiveness of domestic industry vis-à-vis imports and in international markets. By harmonizing the tax structure across States, this reform would also lead to the development of a common national market for goods and services.

4.2. Journey of Indirect Taxes in India - In brief

4.2.1. The indirect tax system in the country have gone through a series of reforms over the last two decades. At the Central level, a Value Added Tax called, CENVAT, providing credit of tax paid on inputs and capital goods was introduced upto the manufacturing stage. Subsequently, in 1994, a tax on services (commonly known as Service Tax) was introduced by the Centre. The Service Tax grew consistently in scope to cover more services with commensurate growth in revenue from this tax. In 2004, the input tax credit scheme for CENVAT and Service Tax was merged to permit cross flow of credit across these taxes. As for the States, they have switched over from a multiple point Sales tax to a Value Added Tax (VAT) covering all transactions of sale of goods within the State up to the retail stage in a phased manner starting from 2005-06.

4.2.2. Despite these measures, goods and services continued to be burdened with multiple indirect taxes at different stages of the value chain with significant tax cascading under the present indirect tax regime.

4.2.3. Introduction of GST was thus a logical culmination of the tax reform process involving the switch over to CENVAT; levy of service tax and the transition from sales tax to State VAT. By replacing a large number of taxes levied both by the Centre and the States, GST is expected to integrate the tax base and allow seamless flow of input tax credit across the value chain of goods and services. This would eliminate multiplicity of taxes, cascading of taxes and overall simplification of indirect taxation regime. Seamless input tax credit chain will lead to reduced cost of goods and services. As the credit chain will function only if all the transactions are recorded, GST environment would lead to improved disclosure of economic transactions which may have a positive impact on direct tax collections also.

4.2.4. Under the GST regime, both the Centre and the State will have the powers to tax the supply of goods and services right from their primary stage to final

consumption. Such a regime with IGST on inter-state supplies will result in establishing a seamless Input Tax Credit (ITC) chain from the primary to the tertiary stage. Such seamless credit chain and the removal of differential in tax rates on inter-state and intra-state transactions are likely to lower costs for the consumers and will result in better tax compliance.

4.2.5. In addition since all the dealers will be given PAN based registration number under GST regime and will be required to file returns on a common portal, more robust information sharing and analysis between the Centre and the States as also amongst States would be feasible. This will definitely help in checking evasion and boost revenues of the Centre as well as States since currently, there is no systematic sharing of information between Central and State tax administrations allowing sufficient scope for wrong reporting by dealers and thus the tax evasion. Under the existing system, Centre and States have been granting relief from payment of tax to promote investments. This leads to a lot of inefficiency in the taxation system. It is expected that in Centre as well as States will not grant such tax relief in the GST regime to make taxation system more efficient.

4.2.6. The benefits of GST can thus be summarized as under :

4.2.6.1. For business and industry

4.2.6.1.1. Easy compliance

4.2.6.1.2. Removal of cascading

4.2.6.1.3. Improved competitiveness

4.2.6.2. For Central and State Governments

4.2.6.2.1. Simple and easy to administer

4.2.6.2.2. Better controls on leakage

4.2.6.2.3. Consolidation of tax base

4.2.6.2.4. Higher revenue efficiency

4.2.6.3. For the consumer

4.2.6.3.1. Single and Transparent tax proportionate to the value of goods and services

4.2.6.3.2. Reduction of prices

4.2.7. GST, by its very design, encourages the system to be transparent. There is an inbuilt system of Input Tax Credit i.e. the tax paid at earlier stage of the production distribution chain will be set off at the final stage of sale of goods and services. Also

the rate arbitrage between the inter-state and intra-state supplies will also get eliminated.

4.3. Various Central and State taxes subsumed into GST

4.3.1. At the Central level, the following taxes are subsumed:

- 4.3.1.1. Central Excise Duty,
- 4.3.1.2. Additional Excise Duty,
- 4.3.1.3. Service Tax,
- 4.3.1.4. Additional Customs Duty commonly known as Countervailing Duty, and
- 4.3.1.5. Special Additional Duty of Customs.

4.3.2. At the State level, the following taxes are subsumed:

- 4.3.2.1. Subsuming of State Value Added Tax/Sales Tax,
- 4.3.2.2. Entertainment Tax (other than the tax levied by the local bodies),
- 4.3.2.3. Central Sales Tax (levied by the Centre and collected by the States),
- 4.3.2.4. Octroi and Entry tax,
- 4.3.2.5. Purchase Tax,
- 4.3.2.6. Luxury tax, and
- 4.3.2.7. Taxes on lottery, betting and gambling.

4.4. Post-script

4.4.1. Thus, GST is one indirect tax for the whole nation, which makes India one unified common market. It is a single tax on the supply of goods and services, right from the manufacturer to the consumer. Credits of input taxes paid at each stage will be available in the subsequent stage of value addition, which makes GST essentially a tax only on value addition at each stage. The final consumer will thus bear only the GST charged by the last dealer in the supply chain, with set-off benefits at all the previous stages. This thus, transforms India into "One Nation, One Tax, One Market", thereby easing the business atmosphere in the Country.

5. CBEC - A Historical Cusp Awaits With GST

Get rid of worries and tension of multiple taxation

With GST, life is simpler and business is easier!

NATION TAX MARKET

Benefits to Economy

- To create a unified common national market.
- To give a boost to foreign investment and 'Make in India' initiative.
- Increased economic activity to generate more employment.

Advantage for Trade & Industry

- Multiple records not required to be maintained for a variety of taxes.
- Easy and reduced cost of compliance for tax payers.
- Seamless transfer of input tax credit.

Simplified Tax Regime

- Single tax to replace multiple levies of Centre and States.
- Uniformity of tax laws & procedures across Centre and States.
- Robust IT system for registration, returns, refunds & tax payments.

A nation is made, when taxes are paid

Directorate General of Taxpayer Services
CENTRAL BOARD OF EXCISE & CUSTOMS
www.cbec.gov.in

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5.1. The Shift

5.1.1. Till date CBEC has the sole jurisdiction over the realm of the Central Indirect Taxes while States had their completely separate indirect taxation areas. these two systems were functioning independently of each other, though whether in the best possible manner or not, is debatable, and is more often than not shouted down by the general trade as being anti-ease of doing business/economic activities.

5.1.2. Being the Central Service, the entire responsibility to make GST a success has suddenly fallen on the shoulders of the Indian Revenue Service and is very curiously being driven from non-revenue quarters from outside the Department, or rather being "pushed" from outside. This in itself is a major stumbling block and may indicate to the turmoil that the entire service may have to face in the very near future - losing its identity, its standing, its voice and may be becoming the punching-bag for non-technical masters, who would be calling the shots without any technical responsibilities towards tax-collection/realisation.

5.1.3. CBEC mainly functions through its field force, wherein the lowest executive cadre of Inspectors/Preventive Officers/Examining Officers formed the functional base. The Superintendents/Appraisers, and thereafter the Group "A" functionaries starting from Assistant Commissioner upwards formed the various managerial positions. This chain trained people in tax administration, adjudication, checking evasion, identifying leakages through auditing / inspection etc. the organic linkage between various levels and gradual enhancement in tax-administration related responsibilities ensured proper supervision, monitoring as well as hand-holding and guidance at all levels.

5.2. Handling the Shift - overview

5.2.1. However, with GST the entire executive cadre - i.e. Inspector/Preventive Officers/Superintendents etc. will be required to take up bigger and different responsibilities. In essence, they will have to handle some major areas like:

5.2.1.1. **Re-Learning law** - As the law changes, it becomes imperative that the various executive functionaries will need to adapt to the different system of taxation. For this, they will need to be well versed with the GST law and also the erstwhile VAT law because that knowledge is important for day to day procedures.

5.2.1.2. **Championing the transition** - In the initial stages, it is the transition provision which will need a lot of effort from the CBEC field and HQ staff. This will include advising on the changes, handholding the clients (i.e. the assesseees) in re-casting their accounts and filing of returns before and after the change, date of applicability especially for the purposes of tax collection, and most importantly - the usage of existing tax credits. Scores of differences in interpretation and consequent litigations may be expected initially, though with passage of time, these should reduce.

5.2.1.3. **Bigger Role Smart team**- GST being a combination of the present Excise, Service Tax and VAT, GST roll out will affect not only the CBEC field officers but also VAT inspectors. It is necessary for these two teams to work with each other much more than it was earlier. In that regard, CBEC staff needs to be better communicators as well as law enforcer. For thus, Tax Human Resource (THR) re-alignment - both organisational as well as attitudinal and technical, is an area that is crying for urgent attention of CBEC.

5.2.1.4. **IT Backup**: GST era will witness an explosion in assessee data. This will provide a potential for large scale automation including usage of Artificial Intelligence and Big Data analytics. Predictive analytics algorithms will assist in identifying the probable revenue leakage points.

5.2.1.5. **Robotic Assistance** : In the digital and electronic age, more and more functions involving **potentially explosive situations** are being pushed into the functional domain of robots. With advances in the field of Robotics and their deployment for assistance in examination of goods, including dangerous goods, at ports will improve the efficiency as well as efficacy of Indian Customs apart from taking of a major load off the present workforce.

5.2.1.6. **Robots to the assistance - Inland role** - Robots / similar systems can also be utilised to assist assesseees in GST areas wherein they can be used to answer simple queries in different languages to assist the assesseees. this is all the more important in view of the fact that the assessee-base is likely to increase tremendously - that too in the assesseees with low turnover.

6. Building CBEC Team - Institutional Overhaul

6.1. Introduction

6.1.1. The ambitious tax reform initiative of GST is scheduled to be implemented from April 2017 onwards. Introduction of GST will open a new Chapter in Tax Reform and is going to be an ambitious and path breaking tax reform, set to dramatically alter A to Z of Tax Collection. The integration of Central and State taxes involves transforming Tax Administration itself, which is very essential, as in the present scheme of things, there is considerable tax-evasion, huge tax-amounts locked up in litigation for decades, and taxes not getting remitted to the Public Exchequer, resulting in huge tax-arrears. Despite these shortcomings the economy of India is eleventh largest economy in the world by nominal GDP and the fourth largest by Purchasing Power Parity (PPP). Economists predict that by 2020, India will be among the leading economies of the world, a worldwide survey by the German Bertelsmann Stiftung says that three-fourth of Indians see themselves as a super power in 2020. This can become a reality only if the current tax system and Tax Administration are subjected to substantial refinement.

6.1.2. However, as the things have been rolling out till now, hardly any emphasis has been placed to tweak the tax administrative regime to suit the taxation shift. TARC had made a detailed study of the ills of the current Tax Administration and suggested several recommendations. Before GST is implemented, the tax regime must be overhauled lest it shall have an adverse impact on GST implementation as an inefficient Tax Administration can jeopardize the entire GST Scheme. So the Tax Administration needs to be revamped and reformed and designed to implement the landmark reform of GST.

6.2. Present Tax Administration:

6.2.1. The current practices under CBEC - of blind fixation of revenue targets, of consequent unbridled pursuit of revenue targets, of almost hysterical issue of Show Cause Notices, of highly biased Adjudication orders - smacking of an instinct of "save own skin" rather than "doing justice" and consequent huge pile-up of cases at all levels, has given the Indian Tax Administration such a bad reputation that World Bank Report on doing Business in India, 2015, India ranks at a dismal 156 out of 189 countries in terms of ease of paying taxes. This is responsible for Investors being wary of entering into tax disputes that can take decades to resolve. Periodic reforms are needed from time to time to flush out the undesirable elements of the tax system and restore efficiency, fairness and equity.

6.3. GST Road Map

6.3.1. It is widely known that India is adept at complicating anything simple. Now even in simplifying the tax regime, this edict has been re-proved wherein we

have retained multi-layered, multi-rate, exemption-friendly GST - the very pillars that were always shouted down as the impediments in "ease of doing business" have been re-erected. If our country cannot do without these grey areas, then what was wrong with the existing system with multitude of taxes and with multitude of rates and with multitude of administrative structures to "deal" with.

6.3.2. In fact, the Simple-yet-Complex, multi-layered GST structure (Central, State, local) not just makes it a difficult place to do business but makes it a high-cost place as well. GST is rightly seeking to get rid of this 'one country, several markets' syndrome. It will not only affect all industries, irrespective of the sector, but will also impact the entire value chain of operations, namely procurement, manufacturing, distribution, warehousing, sales and pricing. It will also trigger the need to relook at internal organization and IT Systems.

6.4. Administration process under GST regime-

6.4.1. Under GST, government plans to **change entire structure of tax administration** with setting up of GST Commissionerates within CBEC that will administer the new regime.

6.4.2. For more assessee focused administration, the nation is proposed to be divided into **24 zones and 107 GST Commissionerates**. Each commissionerate is expected to have about **15000-20000 tax payers** under it with combined revenue of approx INR 5000 Cr.

6.4.3. Each Commissionerate is proposed to be further divided into **5 divisions and 50 range**. Further, each Commissionerate would have **1 audit and 1 appeal Commissioner**.

6.4.4. GST regime intends to subsume most indirect taxes under a single taxation regime. So, current CBEC Officers in charge of Central Excise and Service Tax, will see a re-allocation of business.

6.4.4.1. At the State level, those dealing with VAT, Octroi, luxury tax etc, will also see change in roles, allocation of responsibilities and may look after mainly SGST.

6.4.4.2. Whereas those at Central level will deal with CGST and IGST instead of current Central Excise duty etc.

6.4.4.3. That will require huge investment of time and effort in training of CBEC staff.

6.4.4.4. Almost 60,000 officers are being planned for training.

6.4.5. Further, to combat the Centre-State issues, Government will set up **A Directorate General of Dispute Resolution (DGDR)**. The DGDR will keep a record

of judicial precedence, **analyse dispute issues** for identifying patterns and examine orders to assess fitness for appeals among others.

6.4.6. Separate **adjudication verticals** will be set up in **seven major cities**– in Delhi, Gandhinagar, Mumbai, Bangalore, Chennai, Hyderabad and Kolkata–reporting directly to DGDR.

6.4.7. The current Directorate General of Central Excise Intelligence (DGCEI) will be replaced by Directorate General of GST Intelligence (DGSTI).

6.5. **Administrative Machinery**

6.5.1. It cannot be denied that the present history of Central Excise and Customs taxation finds its roots in the history of revenue department of England. It was the English rule that introduced the organized system for collection of Central Excise and Customs revenue in India.

6.5.2. The existing tax machinery was created and served a particular requirements and cannot be expected to perform to optimum levels and meet the transformed requirements. the goal post for the service has been shifted by almost a complete tangent hence the administrative structure also requires to be suitably modified.

6.5.3. In this regard, there are many options, however the best suited one is being discussed below.

6.5.4. Central Government and the State Governments are going to actively collaborate and implement the GST. Where such integrations are in existence, the Government has the concept of an All India Service already in operation. The IAS, IPS and IFS are successfully performing models, where the Centre and States perform in harmony.

6.5.5. Despite enactment of the GST Act by the Parliament long ago, administrative re-alignment has not even been talked about till now. It beats common-sense - as to why so? but then the natural response is that CBEC has never been known for its personnel management acumen, instead it is a well-known and certified personnel-mis-manager - to put it in the mildest of the terms. It has a proven track record in this regard, where it has time and again refused to implement its own recruitment rules and has resorted to pacifying negotiations with various unions - for GOD knows why. apparetly tis time round also, CBEC seems to be waiting for all chaos to unwind and then take the softer route of negotiations with vested interests - and consequent plethora of litigations, instead of sitting up and taking stock of the need of the times.

6.5.6. Clayton Christensen, a renowned professor at the Harvard Business School opined:“If you wait until the weather is so hot and then and only then do you

plant a shade tree, it doesn't have much impact. You have to plant the shade tree long before it gets hot”.

6.5.7. GST implementation needs ADVANCE PLANNING - not just Technical aspect of it but also re-alignment of the Tax Administration. For this the Tax Infrastructure should be in proper shape and readiness. The new Tax System will be a turning point in fiscal federalism of our country. Continuation of the present mode of Tax Administration will not be a sagacious move. FIRST - firming up the administrative roadmap AND THEN transforming the Tax Administration will make GST a success.

6.5.8. Retaining the current silos of Central and State taxation machineries will, with them retain all the ills of the present Tax Administration. While most State Governments have just one post of Sales Tax Commissioner with a Revenue Secretary and a Principal Revenue Secretary at the top of the hierarchy, the CBEC has multiple Commissionerates with top-heavy *administrations* in every State. The transfer policy has been a source of grouse for many officers. Resultantly, many posts are lying vacant, hampering work. By adopting the All India Service model, the Government of the day can bring a masterstroke and reform the Tax Administration.

6.5.9. In this regard, the Constitution provides for the creation of All India Services (AIS) - which are common for the Union and the States. The All India Services Act, 1951 provides that the Central Government may make rules for regulating the recruitment and the conditions of service of persons appointed to the All India Services.

6.5.10. At present Indian Administrative Service (IAS), Indian Police Service (IPS) and Indian Foreign Service (IFS) constitute All India Services. Historically, in 1948, the Imperial Police (IP) was replaced by the IPS. The modern IFS was established in 1966, after independence under the All India Services Act, 1951 for protection, Conservation and regeneration of forest resources. Thus, any organized service can be brought under the All India Services Act, 1951.

6.5.11. The above attains all the more significance as the State tax staff are already handling State taxation matters and are now being trained in GST provisions by CBEC trainers. Now, the same needs to be reciprocated for CBEC personnel - at all levels - so that in times to come, the CBEC does not lose the edge that it naturally holds today and it will also prepare the CBEC Human Resource (CBEC HR) to handle any possible (even if a far and distant one) further taxation system shift to a Truly SINGLE GST - instead of the presently proposed Dual-GST. It will also enable CBEC HR to become a true mentor for State taxation staff in all matters pertaining to GST roll out. However the biggest advantage out of this cross-learning will be on-ground understanding and proper administration of GST provisions and hence reduced differences of interpretation and consequently possible trimmed down numbers of

litigations. Such a disposition in taxation system can only improve the economic atmosphere in the country.

6.5.12. Accordingly, in order to have harmonious implementation of GST and a sustained taxation system, IRS should be transformed into an All India Service.

6.5.13. In the meantime, there should be inter-movement of CBEC and State tax officials on deputation basis.

6.6. Resolution of Official Equivalence

6.6.1. Another aspect that may turn into a thorn in the overall GST schema, pertains to working out the equivalence of various tax official positions between States and CBEC - especially to cater to a possible scenario of State tax also administering IGST and CGST, as the demand has already been put forth in certain quarters.

6.6.2. While deciding various interventions, CBEC should remember that no initiative can succeed if the people implementing it are not enthused about its compatibility/equivalence to be settled and put in place BEFORE rushing into GST implementation and thereafter carrying out a fire-fighting drill on HR front and lead the entire into another era of litigations/legal issues haunting the entire human resource plaguing their service career prospects .

6.6.3. In fact it is this very aspect that the CBEC has been always found to turn a blind eye to. However at this juncture, the CBEC has a historical opportunity where it can prove all such conjectures / logical and rightful fears of its service-members wrong and carry out a comprehensive cadre planning - without haste or fear or favour - as per the existing rules - instead of negotiations with interested parties like associations etc. in violation of recruitment rules for various cadres.

6.7. Adjudication

6.7.1. Tax Adjudications need to be handled by a dedicated cadre of Tax-Adjudicators specialized in tax laws. The present system of tax collectors masquerading as Tax-Adjudicators has played havoc on the economy, trade and industry as well as courts. This triple assault needs to be effectively stopped, if GST and Make in India policy, has to succeed.

6.8. Re-align DGHRD

6.8.1. In view of above, it is an urgent requirement that Directorate General of Human Resource Development under CBEC should be over-hauled with dedicated divisions for various levels of human resource - starting from the lowest to the uppermost position.

6.8.2. There should be a dedicated division to handle the inter-cadre movement of staff - post GST. This is going to be a very sensitive and ticklish aspect as the State taxation machinery is bottom heavy - headed by a Commissioner tax/revenue, assisted by group B and lower level officers, while the CBEC has a full fledged group A, B, C and D machinery for tax administration.

6.8.3. Towards this aspect, the one area that CBEC should focus its attention FIRST and FOREMOST is the Organisational correct-sizing and correct-structuring. It should be the responsibility plan the career progression for the entire CBEC Staff - Group A/B/C/D - with appropriate organic linkages at between two levels. This requires almost an overhaul of our HR policies and various rules currently being followed. though it may seem like a herculean exercise presently, but once completed it will go a long way in proper HR planning, career progression management and consequent better managed and more satisfied human resource for CBEC. Once the DG HRD has a template for career progression with identified indicative timelines for various progressions along the line, it will be advisable to disseminate the same to the new entrants to the Service at all levels to have an informed human resource.

6.9. Grievance Redressal

6.9.1. CBEC has a penchant for listening to and redressing grievance received from outside agencies, including trade. These grievances are heard, taken cognizance of and possibly resolved at the highest level promptly. However, the same CBEC acts in a comparatively lethargic manner when it is faced with a grievance of its own staff member.

6.9.2. In order to operationalise a proper grievance redressal mechanism - apart from the Public Grievance portal, CBEC needs to create a grievance redressal cell. This cell should not be given as an additional charge to existing officers. Instead this should be manned by a team specifically tasked to handle grievances. Further, it should not only cater to the needs of external stakeholders sending their grievances but should also take cognizance of and resolve grievances received from its own staff too. This mechanism will, in the long term, go a long way in reducing possible litigation cases, if grievances are handled well, especially on administrative and personnel issues.

6.10. Post Script

Before the game begins, the pitch needs to be prepared and not vice versa. And for this the only successful route i.e. the All India Service model.

7. Smart Taxation - Big Data Analytics.

7.1. Introduction

7.1.1. Phenomenon of Tax evasion is not peculiar to India. Instead it is a universal observable fact, including in the developed countries. Advances in technology have not only assisted the tax administrative machineries in detecting evasion but have also facilitated the evaders in devising and adopting innovative means of tax evasion.

7.1.2. In this regard, the customs officers have an increasingly difficult time detecting fraud across high-volume freight traffic, as smugglers continue to outfox officials. The smugglers use creative methods to avoid taxation.

7.1.3. In the field of Service Tax and Central Excise too (effective April 2017 - both of which will give way to GST), manipulative methodologies and innovative accounting methodologies adopted by assesseees keep the taxmen on their feet.

7.2. Switch to Smart enforcement

7.2.1. On international trade front, the Customs officials need to look beyond individual shipments to search for extra information that might throw up warning signals through pattern studies regarding possible suspicious international trade across Indian borders. This becomes all the more important as the manual practices and ways of functioning are not only time consuming but also leave lot of room for human-error.

7.2.2. Presently CBEC is one of the few Departments which have extensive online functioning - both in Customs (which is predominantly electronic system-based functionality) and Central Excise & Service Tax. Hence, in all these fields substantially huge amount of data is already getting built up every day.

7.2.3. Data analytics exercises on this data base will enable customs formations officials to assess import and export transactions, based on pre-determined parameters. Further, as the information is already captured and maintained in electronic form, it easily renders itself suitable to such exercises. The management of electronic information to create risk scores in real time.

7.2.4. Using high-performance, predictive analytics, it is possible to efficiently detect and prevent fraudulent shipments and crack down on organised crime. In this regard, a live example is the use of data analytics by EU Member States which has helped in reducing frauds across borders. Based on processed data, through data analytics exercises, Belgium, for example, has cut losses in carousel fraud – a type of VAT fraud – by 98%, saving almost €1bn per year. As a result, the Belgian Government has gone from €1.1bn in VAT fraud in 2002 to just €18.5m in 2012.

7.3. Intelligent Data Handling - Re-alignment and Re-structuring of Directorate of Systems

7.3.1. An important aspect of the functions entrusted to Customs - being the keepers of Country's economic borders gets relegated to the background in melee of routine passenger and cargo clearance efforts.

7.3.2. CBEC initiated Risk assessment in relation to international trade related functions some time ago and a Risk Management Division was created. This effort resulted in achieving faster and hassle free assessment and clearance procedures for certain categories of importers/exporters. The AEO initiative in this regard, as an extension of the efforts to provide faster and hassle free clearance of goods to certain certified / status holder assesseees did not find many takers.

7.3.3. However, though we have huge data base at our command, yet our capabilities to harness the intelligence contained in these data sets is very rudimentary - to say the least. Moreover, we have still not designated any agency which can undertake analysis of this enormous intelligence input potential. Similarly, Income tax, State tax departments, enforcement wings etc. also have their own databases.

7.3.4. Now there is need of an agency which can collate/correlate/analyse the data and bring out perceptible intelligence inputs to identify possible tax evaders / spurious trade instances to assist field agencies in their enforcement activities and enhanced effectiveness in managing economic borders of the country

7.3.5. With GST, the trade volumes are expected to expand substantially – not only for domestic trade but also in international trade. To handle the added burden, with the existing human resource at the command of CBEC, there is an urgent need to have an agency with proven capabilities to handle and analyse big data that will be generated under GST. Otherwise it may prove difficult to regulate / handle the enhanced burden in an effective and efficient manner and simultaneously provide trade facilitation and check illegal trade and revenue leakage.

7.3.6. Towards this end, a central agency under CBEC needs to be established who will be the custodian and owner of the huge data that is already existing under different IT systems implemented under CBEC as well the data that will be generated in future under GSTN.

7.3.7. For this the existing Directorate of Systems under CBEC needs to be re-aligned, re-structured and re-oriented to take on the job of assisting field formations and intelligence wings with suitably appropriate intelligence inputs based on big data analytics exercises.

7.3.8. Directorate of Systems, in this new role and form can also come up with futuristic modeling based possible tax evasion methodologies to close all possible gaps/holes in existing law/rules/regulations etc.

7.4. Information Exchange - Institutional Re-Structuring

7.4.1. To some extent this aspect exists as certain posts in some agencies are usually filled up with CBEC officials. However, this system needs to be formalised as well as systematised so that adequate and appropriate representation of CBEC Human Resource is ensured in all organisations dealing with investigation/enquiry into indirect taxes - e.g. CBI, FIU, State CIDs, Economic Offences Wings etc.

7.4.2. Further, a dedicated division under CBEC needs to be created to frame the policy regarding exchange of information/personnel between different agencies and provide support for coordination/liaison with these agencies. This division should be headed by an Additional Secretary level officer from CBEC, supported by two Joint /secretaries - each handling international and domestic coordination. This structure should be supported by two/three directors and Under Secretaries. This arrangement will ensure inter-ministerial coordination at the top level within CBEC. It will help in streamlining the information exchange between different organisations under CBEC's and outside it.

7.5. Countering Security Threat Scenario

7.5.1. Customs is not only the first contact point for international passengers and goods crossing the Indian borders but it is also the first frontier that encounters and is instrumental to handle matters related to Security risks. To spot criminals and rogue consignments, customs authorities have moved from relying on manual searches and officers' detective skills to rules-based systems and database mining.

7.5.2. However, these systems are also under pressure as unscrupulous elements/operators have attained sophistication and are better at outmaneuvering out-dated existing systems, trained personnel coupled with dearth of accurate and pin-pointed intelligence inputs.

7.5.3. Big data concept is a very useful concept which has made detecting unusual transactions easier. Similar techniques should be used by Customs authorities. For example, the 2010 Yemen parcel bomb plot could easily have been avoided if a risk detection system was in place with suitable risk parameters assessment mechanism. During this incident, two packages, each containing a bomb of plastic explosives and a detonating mechanism, were found on separate cargo planes. The shipments originated from Yemen, with a final destination in the US. Yemen is not a common route for office supplies to the US. Also, the companies involved in the trade were of suspicious antecedents. With these facts and parameters, a risk detection system could have picked up the anomalies and could

have prevented the loading of this particular cargo. This shows the importance of big data analytics.

7.6. Coordinated Border Management Division - CBEC

7.6.1. At the national economic borders - manned by Customs and other agencies, the major regulators have specific mandates and roles, such as revenue assurance, migration, phytosanitary, radiological, transport, ecological and food safety controls. Many of these agencies are also subject to various pressures, such as financial and staffing limitations, problems of intra-agency and inter-agency cooperation and information exchange, non-transparent legislation, increasing procedural requirements, revenue pressure, and rising demands from the private sector.

7.6.2. Border control authorities around the world all face the same dilemma – increasing volumes of people and goods – without any corresponding increase in resources. Traders and travelers too have great expectations for speedier processing and clearance times whilst governments and society expect border authorities to rigorously apply the law in order to protect their interests, safeguard the health and safety of their citizens, and ensure national security. This requires balancing trade facilitation on the one hand with trade security on the other—allowing legitimate goods and travelers to pass through borders without unnecessary hindrances while protecting the international trade supply chain from threats posed by organized crime, smugglers, commercial fraudsters, terrorists, and even goods that could endanger people.

7.6.3. Coordinated border management (CBM) is now recognized by the Customs community as a potential solution for the challenges that the 21st century presents especially with respect to efficient and effective border management. Its importance resulted in the concept being included in the WCO Council's strategic policy on Customs in the 21st Century that was adopted in June 2008 where it is listed as one of the 10 key building blocks for managing borders in today's environment.

7.6.4. A coordinated approach by border control agencies lays at the heart of the CBM concept, in the context of seeking greater efficiencies in managing trade and travel flows, while maintaining a balance with security requirements. The term gives prominence to the general principle of coordination of policies, programmes and delivery among cross-border regulatory agencies rather than favoring any single solution.

7.6.5. An essential part of CBM involves dialogue between Customs and other agencies at the border as well as between Customs and the business community. Realising the importance of this aspect, the World Customs Organization's initiative in organizing its first Inter-Agency Forum on Coordinated Border Management during July 2009. The Forum raised awareness about the CBM concept and its

benefits and was intended to encourage governments and individual border agencies to engage one another more actively to ensure better and smarter management of national borders.

7.6.6. In India presently our capabilities under CBM are at best rudimentary being restricted to certain routine "meetings" with some agencies. These inter agency exchange needs to be institutionalised at the highest level under CBEC - preferably in the form of a dedicated Coordinated border Management Division, headed by an additional Secretary level officer of CBEC, assisted by an appropriate subordinate machinery with Land, Sea and Air Port wings headed Joint Secretary level officers. These should further be supported by Director/DS level officers of CBEC and other support structure. This division should coordinate with the respective field ports and facilitate inter-agency cooperation at the apex level. It should further ensure cross-port harmonious implementation of various legal provisions related to cross border movement of passengers and goods etc. as well as active interaction and data exchange with various agencies at borders e.g. SSB, Army, Immigration, IB.

7.7. Financial Autonomy

7.7.1. Recently concluded cadre restructuring in CBEC has expanded the cadre and now the Board needs to take up commensurate enhancement of infrastructure in line with the expanded human resource base and the expected role-responsibilities under GST.

7.7.2. There is a saying in Hindi - "Ghar ka Bhedi Lanka Dhahaye" (an insider can destroy the entire house as he knows all the secrets) and "Jaake Pair Na Padi Biwai, Wo Kya Jaane Peer Paraae" (only the wearer knows where the shoe pinches and no one else). Thus, a person from the same organisation is in the best position to appreciate as well as critique the proposals made by any organisations. Thus, it is such a person who, if deputed to the Integrated Financial Unit (IFU) can appreciate and critically examine various proposals made by field formations. Effective examination of proposals will also hasten decisions making process in the Ministry.

7.7.3. In view of above, it is proposed that the IFU under the Dept of Revenue should be headed by an officer with knowledge of functioning of the two taxation branches - i.e. direct and indirect taxes branches. Accordingly, it is suggested that the IFU under Department of Revenue should be headed by an officer from CBEC/CBDDT - preferably in rotation.

7.8. Providing Safe and Secure Working Environment - Use of Robots as Customs Officers.

7.8.1. With the expected surge in number of GST assesseees and the consequent demand of personnel, optimal utilization of existing manpower will have to be made. In addition, the anticipated post-GST increase in international trade, will also require

greater number of officers to be deployed to ensure not only thorough scrutiny but also effective trade facilitation. However, in international trade there is an increase trend of spurious/dangerous/explosive/radioactive etc. material being shipped to countries like India - either for dumping of the same (may be because the originating country probably does not permits its disposal in a cost effective manner in the home country) or for subversive activities.

7.8.2. One possible solution to tackle such trade o goods in the face of looming shortage of field officers is the use of Robots for certain activities to improve customs functions and effectiveness, apart from ensuring human safety from harmful radiations etc. For instance, China has already experimented deployment of ten intelligent robots as customs officers at three ports in southern Guangdong Province, after it used robots for security at an airport. These robots can detect suspicious people and raise an alarm. These robots have state-of-the-art perception technology and ability to listen, speak, learn, see and walk. Further, based on a specialised customs database, these robots can answer questions in 28 languages and dialects. The same concept can be piloted in India in the field of examination of various metal scrap etc landing on Indian Customs ports. Also, these robots can also be used for "manning" customer help-line centre - in multiple languages, based on a smart database.

8. Other New Areas And Initiatives

8.1. Introduction

8.1.1. In the earlier chapters, various initiatives and in-house alignment of various components for CBEC to focus and carry out have been detailed. In addition to these, some important new areas that CBEC should explore are being discussed in this current chapter. Four areas discussed are - Impact assessment and Indirect Tax Research; field of Intellectual Property Rights; Partnership with State Govt. in Training and Capacity Building; and International Cooperation in GST.

8.2. Impact Assessment and Indirect Tax Research:

8.2.1. Reliable estimates of how tax incentives affect behavior are an essential input into the formation of tax policy. Hence, there is an urgent need to set up a dedicated body to conduct impact assessment and Indirect Tax research. An institution on these lines in collaboration with an appropriate academic institute of repute should be set up to provide dedicated and trained personnel conduct indirect tax system research studies, including impact assessment. Such research backed data will help in molding our GST regimen based on scientific research. It will also ensure that there will be better open acceptance of tax reforms in future if they are based on sound scientific research including behavioral aspects thereof.

8.2.2. The institute will then be in a position to spearhead research and provide inputs on a continuous basis for further improvements. It will help in keeping the Finance Ministry and taxation policy up-to date with the implementation aspects of the tax laws and allow them to carry out suitable changes for making the indirect tax law, policies and administration more effective.

8.2.3. Towards this, the current institutional mechanism for Indirect Tax Research also needs to be strengthened. The existing Tax Research Unit under CBEC, with a total HR strength of 15 senior officers, when compared with the established Tax Research Units in other countries, is more of an apology. For instance, apparently Tax Research in UK has a strength of 800 officers. It can be argued that India does not have the infrastructure or resources to spend on such research. However, with careful and innovative management of personnel, we too can undertake appropriate research in taxation policy/methodology etc. In this task services of our officers can be availed as many of our own departmental officers are highly qualified and have a flair for such research oriented functions.

8.2.4. Further, Behavioral Economic research - an areas hitherto neglected while deciding taxation policy also requires to be incorporated in every taxation policy decision to arrive at changes/policy aspects that can be formulated and which can assist in improving compliance.

8.3. Partner with State Govt. in Training and Capacity Building - Panacea for all ills

8.3.1. Any tax regimen - howsoever old and established, is liable to multiple interpretation of provisions, based on the party interpreting it. With the change in party, interpretations too change. The difference in interpretations lead to litigations, to deal with which, the tax administration human resource needs to be well trained in the various provisions. further, this Human Resource Training is extremely important in the new GST regime as there is tremendous scope for misunderstanding in the first few years of implementation of the law.

8.3.2. With GST, manifold increase in number of assesses is expected. This will be coupled with the need for greater coordination with State Government indirect tax machinery. In this regard, Training and capacity building is an area where CBEC needs to take the lead. State Government officers are not very familiar with taxation of services. Hence, there is a need for the Central Government to take the initiative and ensure that there is uniformity in training and capacity building of all tax officials – Central and State Government.

8.3.3. Towards this end, there is a need for taking up not only class room based but also field attachment and practical experience based training for CBEC staff - PRIOR to GST roll-out in April 2017. For this, NACEN should be further strengthened with a new division to handle this aspect instead of the usual practice of "additional charge" route which may not yield the desired results - neither in terms of total numbers trained and definitely not in terms if the quality of training - due to sheer lack of time and training resource personnel

8.3.4. It has been observed that the present professional training course like the CA etc. do not have adequate coverage of indirect taxation. Hence, NACEN can partner with various professional bodies (like the Institute of Chartered Accountants etc.) to ensure that professional taxation practitioners' training curriculum incorporates indirect taxation module in sufficient details. This will also assist in creating a professional practitioners' pool who can then provide proper advice and assistance to businesses and certification will ensure standardising knowledge and build capacity at all levels.

8.3.5. Alternatively, to handle the training/certification needs on a regular basis, a joint venture / special purpose entity can be established by under CBEC NACEN (with private participation). This can also supplement the existing in-house training infrastructure. This will also help CBEC to focus on its core work.

8.4. International Cooperation in GST

8.4.1. Many countries have implemented GST. We can learn from the experiences of these countries and avoid the mistakes made therein. Hence, in GST

era, there is expected to be an explosion in international cooperation. We need to evolve systems and procedures so that the results of such international interactions leads to sustained changes in the machinery for implementation of GST.

8.4.2. To operationalise this concept, the CBEC should plan and implement a well-thought out strategy for cooperation. It should have an annual plan for various interaction e.g. interaction of field officers - responsible for implementing the GST law - at various levels including Inspector/Superintendent/Group A officers etc., who should be provided exposure and opportunities for interaction with their counterparts from other countries.

8.4.3. The interaction should be initiated at entry level itself for all levels. This will not only help enhancing the knowledge base of our CBEC officers, but also in greater willingness of field staff to adopt international practices in GST implementation that have been tried and found to yield result through enhanced tax compliance. It will also help the human resource to imbibe and ingrain desirable traits at the threshold.

8.4.4. Such cooperation during the in-service interaction should be carried out with effective customisation of MCTP programmes. These exchange and interaction will also infuse a sense of self-worth and confidence in the CBEC human resource, which will further boost the motivation levels of the CBEC human resource.

8.5. Intellectual Property Rights

8.5.1. Intellectual Property Regime could also be overhauled in the GST regime. Due to the vast data availability on almost all manufacturers, the Indirect Tax Department will be in a position to pinpoint violation of IPR. Strong data analytics skills will enable our department to identify manufacturers of duplicate goods for instance. Thus IPR is one new area that we need to investigate.

8.6. Reducing Legal Uncertainty

8.6.1. In the new GST regime, it is natural for Legal Uncertainty to increase due to the newness of the law. Recognising this, CBEC should create a dedicated division to take up the law/rule related interpretative/other queries from different organisations. This division should act as a tax clinic and provide guidance to field formations on referred legal issues. In addition, there should be regular conference of commissioners at a zonal, regional and all India level to thrash out issues and adopt a uniform stand. In addition, a tax dispute intelligence cell could be set up under this Division which should examine the tax disputes and place them before an Empowered Committee of Commissioners (ECC). This ECC should, after due interaction with the various experts - including tax administration/legal/trade experts, should either provide a suitable clarification/interpretation or may suggest desirable policy/legal amendments that may be considered by the Board. This will

resolve disputes before they spread and will also ensure uniformity of stand across India.

9. Post Script

Given the historical facts and the fact that it is the CBEC which has been the organisation handling major indirect taxes, it is CBEC which merits to head the GST Organisational structure, right from policy decisions to decisions pertaining to rate of GST, Central-State coordination, levy and collection etc. spheres.

Further, CBEC should always remember that no service has ever attained heights nor can it survive without a human resource which is - technically knowledgeable and administratively adept at handling the task at hand.

For this, at every stage of his career, the human resource needs suitable upgradation of skills and knowledge - in this sequence. Organisation which fails its Human Resource is doomed ab-initio.

PROJECT REPORT BY GROUP III

FACILITATING GLOBAL VALUE CHAINS

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Introduction:

Trade and production networks are not new. Firms have been producing items with components sourced from around the globe for centuries. Businesses have continuously sought out new markets for their products. What have changed, however, are the speed, scale, depth and breadth of global interactions. Increasingly, new players have become active in what have come to be called global value chains or global supply chains. "Global Value Chains" (GVCs) has been used to describe the sequence of all functional activities required in the process of value creation involving more than one country (UNCTAD, 2013). Earlier Companies used to make things primarily in one country. But now, a single finished product often results from manufacturing and assembly in multiple countries, with each step in the process adding value to the end product. Thus GVCs involve more than one country in manufacturing products. Since GVCs involve multiple countries, facilitating business in GVCs requires minimizing behind-the-border obstacles. In this report it is attempted to suggest measures to facilitating the GVCs.

2. Global Value Chains:

The frequently cited examples of value distribution in Apple's Ipod provide good illustrations of the low share of offshored manufacturing in the total value added in a product. Although the Ipod were mostly made in Asia, most of the value accrues in the United States and Europe, respectively. The bulk of the value capture of a product developed and owned by a lead firm takes place in the preproduction (product concept, design, R&D) and postproduction (sales and marketing, after sales) stages. This has clear lessons for industrial policy in developing countries. It is no longer enough to focus on manufacturing; it is essential for policy makers to look at all stages of the value chain in order to maximize income and employment outcomes. This calls for an integration of policies for manufacturing, services, investment, innovation and intellectual property in the larger trade policy regime.

GVCs are a powerful driver of productivity growth, job creation, and increased living standards. Countries that embrace them grow faster, import skills and technology, and boost employment. With GVC-driven development, countries generate growth by moving to higher-value-added tasks and by embedding more technology and know-how in all their agriculture, manufacturing, and services production. GVCs provide countries the opportunity to leap-frog their development process. International sharing of production is no longer restricted to developed countries, but increasingly involves developing countries, including emerging ones.

The factors that are important for GVCs are: (a) cost efficiency; (b) market access; and (c) low international trade costs.

A precondition for the international unbundling of the production process is that trade costs must be low enough to enable firms to utilize location advantages of countries arising from factor-price differences and economies-of-scale. Trade costs include the whole range of costs incurred by a firm when bringing goods or services from the place of production to where users or consumers are located.

GVC operations require intermediate inputs to be manufactured in one or more countries and then shipped to another destination for final assembly, and a portion of trade costs are incurred each time a good-in-process crosses a border. An important cost element related to GVCs is coordination costs, as geographically dispersed activities have to be managed in a consistent way. Even a minor reduction in one or more trade cost elements can result in the cost of a vertically-integrated good being reduced considerably due to a cumulative effect of a change in tariffs. Other factors can also result in a reduction of trade costs. During past decades, transport and communication costs have decreased first and foremost due to technological advances such as in container shipment or Internet-based communication. Progress has been made all along the logistics chain, ensuring the smooth flow of goods and services in a coordinated and inexpensive way. Lower trade costs are not limited to technological change. The improvements in trade cost-related infrastructure and services such as logistics, transportation, and information and communications technology (ICT), streamlined customs clearance, and more efficient financial and insurance services have helped reduce trade costs. Institutional and infrastructure factors also have impacts on cost competitiveness.

A trade cost reduction may make it profitable for firms, which had previously kept all of their production stages in one country, to move some stages of the production process to locations overseas. Firms that have already internationally fragmented their production are also likely to increase their flows of the component trade when trade costs decline.

Another motivation for firms to internationally fragment their production is the opportunity to increase efficiency, as growing competition in domestic and international markets forces firms to become more efficient and focused on lowering costs. Spreading production stages over different countries may allow an MNC to achieve necessary production cost savings because some required inputs such as labour, natural resources, and intermediate goods and services, may be available in some countries at cheaper rates than in the home country of the MNC.

Another important form of motivation is entry into new markets and access to strategic inputs. In a GVC context, backward linkages mean that a country imports intermediate goods to be used in its exports, while forward linkages exist when a country exports inputs to be used in exports by other countries. The efficiency of backward linkages requires that GVC-participating firms are able to access the most efficient inputs either from domestic markets or imports. At the same time, the efficiency of forward linkages

requires access to downstream producers who will further process the exports (if those exports are intermediate goods) or consumers (if those exports are final products). It is important to note that the spread of fragmented production is not necessarily across countries; instead, it may be concentrated in a certain region. The issue is emphasized in the literature on “New Economic Geography”, which shows there are “agglomeration effects” that draw firms to cluster in a certain area in order to benefit from positive externality in the form of knowledge spillovers and backward- and forward-linkages. Conditions for certain locations to provide benefits from the agglomeration effects are related to social, environmental, geographical and trade agreements.¹⁴ This report gives particular attention to exploring how trade agreements and regional integration have an impact on the location of GVCs.

GVCs contribution to development:

Developing economies with limited capacities to develop a whole value chain now have a chance to operate tasks previously executed in developed economies, creating local jobs and value-added etc through GVCs. In terms of productivity and competitiveness upgrading, the GVC phenomenon offers an alternative outward-looking development model driven by trade and competitiveness. Firms participating in GVCs are pressured to become more competitive and engaged in innovative activities. The pressure arises from engaging in exporting, by operating in a market exposed to imports or by being exposed to foreign affiliates of MNCs. Also, the outsourcing and offshoring of less efficient activities to more efficient producers can increase the productivity of firms. Interactions between foreign affiliates and domestic firms in host countries increase the potential of knowledge and technological spillovers. Direct investment by MNCs may also positively affect productivity in host countries to the extent that they are more likely to offer training and on-the-job learning. Evidence clearly shows that GVC-driven trade has brought investments in new productive capacity and infrastructure improvements in developing economies.

Participation in GVC activities has boosted employment, enabled increased specialisation and larger scale production, driven more efficient geographical allocation of industrial activities, and increased the availability of a variety of intermediate goods in the developing world.

GVCs from the stakeholder’s perspective:

Different types of chains:

Not every supply chain is the same, of course. Nor is every company involved in supply chains active across the same sets of activities. For example, YCH Group handles not only manufacturing components, but also spare parts for ATM networks in India. Savant Infocomm runs cold storage supply chains for perishable items in India alongside a traditional system that does not require refrigeration and such careful attention to

temperature details. All of these diverse tasks require different sets of skills and management activities.

Managing inventory:

One of the most important roles for many manufacturing supply chain operators is managing inventory. Because lead companies are increasingly pressing their vendors to manage inventory, this task now falls to suppliers or to the last rungs of the value chain. Keeping inventory low and located at different levels of the chain dramatically increases the flexibility and agility of the supply chain. It also lowers the costs because carrying inventory no longer appears on the company's bottom line. Supply chain operators help by managing inventory flow to ensure that the goods arrive at the right place at exactly the right time.

Shifting products across borders:

Globally competitive firms like Dow Chemical literally use the world as their platform. They source raw materials from everywhere. Imported components — nearly 70 per cent of their total inventory — are vital to creating the final products. Of the remaining 30 per cent of products that are produced domestically, many also include some imported components or raw materials as well. Without imports, it is not possible to create products for the domestic market or to manufacture exports. Wind energy provides an excellent example of this kind of globally sourced product. To create huge wind blades, one of Dow's customers requires a specialty product created by Dow. The supply chain for this chemical starts with an oil well somewhere in the North Sea, which is shipped to a refinery in Amsterdam. From there the raw material is shipped to the Dow manufacturing facility in Germany. Afterwards, some is shipped to the Republic of Korea where they do a relatively high distillation process. Then this product is sent to China for formulation where it is packed into small drums and sent to the customer for manufacture into wind blades. In fact, a major manufacturer like Dow now spends more money on logistics and services than on manufacturing. This is particularly true considering that costs in logistics are not simply the costs of the tankers and trucks, but also the inventory costs, service costs, government requirements, reporting requirements, import duty tariffs, and issues like labeling, materials safety, managing inventory, and so forth.

As a result, a huge payoff for business comes from standardization and optimization in logistics. How can the cycle be shortened? How can inventory be pushed around better

and faster? For businesses, it is easier to shift products from one location to another through various operations and touch points while maintaining consistency and standardization in terms of reporting in terms of values, duty, tariffs and so forth. Anything that can be done to reduce costs and improve efficiency in transferring goods across borders would be extremely helpful and welcome.

The role of outsourcing

One risk for supply chain operators is disintermediation — the possibility that lead firms might decide to cut out the middle man and do things themselves at some point. For instance, Dell Computer could opt to bundle their own computer kits and not rely on YCH any longer. However, this does already happen in some cases. What pushes a firm to decide when to outsource and when to hang on to production internally? In part it comes down to core competencies. If there is some aspect of the job that is either viewed as a critical competency for the firm to handle in-house or, if the firm believes it can do this aspect better and more cost effectively internally, it will not outsource. If, however, neither condition holds, the task can be handed off to another firm.

Pressures for consolidation:

Building these relationships can be costly and time consuming. As a result, it can be hard for smaller players to invest in such resources. Even within supply chain and logistics operators, there is an increasing push towards consolidation into larger firms. Not everyone can handle the pressure for lower margins, higher costs and higher demands for service. These pressures are also magnified by the needs of some of the largest lead firms. Since it is difficult and costly for them to constantly search for the best firms.

The role of transportation

Global business relies on efficient means of transportation. The exact method of transport depends on the business model. Many of the leading companies use multiple methods — air, rail, road and ships. For some companies, such as Zara, nearly all shipments are via air. This includes sourcing some products from Asia, shipping via air back to Spain, then returning finished goods via air back to Asia for consumers. Despite expensive shipping costs, Zara remains one of the most profitable clothing retailers in the world. Why do they use air freight every day? Because their business model is all about limited fashion. The time of conceptualization to appearance in the retail store is about six weeks and such a compressed schedule requires products to move via air. For this company though, their obsolescence is nearly zero given their quick response and

the fact that they carry almost no inventory costs at all. If, however, another company were to try to follow a similar model and air freight all their goods without being properly geared up for that, they would be bound to fail. Their logistics costs will be sky high. So, it is important to pick the right transport model for the overall business model.

Innovation:

Supply chain operators are grappling with labour challenges. Getting sufficient workers with the right set of skills is proving to be difficult. As a result, more of the process is being automated with a higher reliance on information technology. Singapore is trying to create something new in a “supply chain city.” This is a dedicated, highly automated facility designed by YCH Group for up to 10,000 supply chain experts, professionals and practitioners. It has been designed from the beginning to allow for very flexible operations. For example, it allows firms to manufacture on the spot, change designs, test products, and prepare to scale up if things go well. It also includes a huge automated storage and retrieval system for inventory. The facility encourages the clustering of suppliers in one place. Singapore’s Economic Development Board has strongly backed the project.

Specific government’s discouraging measures:

All of the logistics operators spoke warmly of specific measures taken by some countries to speed up the processing of goods. One such example is bonded logistics parks (BLPs). China makes particularly good use of BLPs. Among other benefits, they allow an on-the-spot refund of taxes due for exports. (Although BLPs are different in different parts of the world — those in India are not the same as those in China.) But some countries have implemented policies that make it difficult for companies to locate inventory domestically. To return to the example of the Dell computer assembly for a moment, although most of the components are delivered just-in-time for assembly, it can be critical to have some inventory on hand, as well as spare parts. But a variety of policies can make it impossible for Dell or YCH to locate such a facility in some domestic jurisdictions. Equally problematic can be policies that create extra challenges to servicing equipment. In many places, domestic rules make it too costly to allow a proper third-party repair hub to operate outside the country and allow products to flow easily across borders. This means that firms must set up suboptimal domestic repair operations, resulting in higher servicing costs for consumers and firms. Other rules can make it hard for firms to operate in value chains. For example, lead firms may start operating in a market as a joint venture. If the business is successful, the lead firm may decide to take over the business from the joint venture partner. Even if the transition is entirely amicable between firms, government regulations could turn this into a nightmare. Customs officials may now regard the company as a “non-trusted company”

in the same category as a new importer and subject to 100 per cent inspections, higher guarantees, and so forth. Other problematic rules conflict with the value chain pressures to push inventory to suppliers. Lead firms may want suppliers to hold inventory. But in many territories, suppliers cannot hold inventory unless they are resident companies, as there are no provisions for non-resident importers. This could require suppliers to do all sorts of contortions to satisfy the domestic requirements that are not desirable from the perspective of a global value chain. YCH has had to develop a creative solution to this problem in India. They are now allowed to represent suppliers that do not have a physical presence in India. The company underwrites the inventory, takes part of the license, brings the shipments into the country, and transfers the product to the manufacturer on a just-in-time basis. Global value chains have been promoted as one way that countries can pursue economic development. This is especially true since most developing countries rely heavily on small and medium enterprises (SMEs), rather than on large firms. SMEs, even from developing countries, are often seen as important actors in a global supply chain in providing parts and components, for example. However, one particular challenge for SME participation comes from the pressures of lead firms to push inventory costs down on the suppliers. For larger firms or those with secure financing, the costs of holding inventory might be manageable. For SMEs, these costs are prohibitive. Imagine that you are being asked to hold a US\$ 1 million in inventory. This has to be held for a full month, plus the time it takes for the order to be delivered. It could also take another 60–75 days to be paid for this delivery. This leaves the company with no cash flow for several months and several million tied up in inventory. Solving this problem requires some creative thinking on the part of governments and financial institutions.

Another set of business obstacles comes from incompatible regulations and standards. Distribution centers currently need to carry two different sets of pallets — one for Europe and one standard size. If you want to ship products from Asia to the Russian Federation and on to Europe via rail, it needs to change cargos three times. Why? Because the rail width is different. Each change adds significantly to the cost and complexity of moving goods.

Global Value Chains- India's perspective:

The Indian IT industry:

Within the impressive growth of the services trade in South Asia, the performance of India's information technology business process outsourcing (IT-BPO) industry has been remarkable. During fiscal year 2012, despite the global slowdown, Indian industry

achieved aggregate revenues of over US\$ 100 billion, including exports of US\$ 69 billion. Of this, IT software and services revenue was approx US\$ 88 billion, reflecting growth of around 15 per cent over the previous year. Despite the controversies around offshoring, India was able to increase its share of the global sourcing industry from 51 per cent in 2009 to 58 per cent in 2011. Reflecting the growing sophistication and diversity of the Indian industry, engineering and R&D services, and software products constitute one fifth of its total software and services exports. The industry added 230,000 jobs in fiscal year 2012, thus providing direct employment to about 2.8 million people and indirectly employing 8.9 million. The industry's revenues now comprise around 7.5 per cent of India's GDP compared to 1.2 per cent in 1998. Over the same period, its contribution to total Indian exports (merchandise plus services) increased from less than four per cent to about 25 per cent. The performance of India's IT-BPO industry enables it to provide positive responses to several questions that policymakers concerned with GVCs would tend to ask. India's participation in GVCs is creating jobs and augmenting incomes, thus helping to reduce poverty; it is moving up the value chain and scaling up to remain competitive; it is diversifying its markets in response to changing conditions; and it has been able to hold its own and even increase market share in the global sourcing industry during the economic crisis.

A number of factors have enabled India to take advantage of global opportunities to build its IT services industry. These include positive policies which have enabled its industry to take advantage of openness in key markets, high-quality telecom facilities including broadband, innovative programmes such as the government's Software Technology Parks initiative in 1991. This initiative created the base for IT start-ups and high-quality tertiary education through institutions like the Indian Institutes of Technology that helped foster a large pool of highly skilled IT workers. A growing domestic economy needing IT solutions to enhance productivity has been another positive factor.

The Indian automotive industry:

The Indian automotive industry provides an illustration of how government policies can leverage domestic market advantages to improve the bargaining power of local firms and thus influence value distribution in a GVC. Initially, the industry developed under tightly controlled policy conditions. The Auto Components Licensing Policy of 1997 provided four requirements to be fulfilled by investors: establishment of production facilities, minimum foreign equity of US\$ 50 million, a phased programme of indigenization and broad foreign exchange balancing over a defined period. The United States and the EU filed a complaint with the WTO, which was upheld, against the local

content and indigenization requirements. However, India's policy along with a high tariff regime contributed to its success in attracting the global automobile majors to set up production facilities in India. In fiscal year 2011, the industry produced over 20 million vehicles, including over two million passenger cars, with a turnover of US\$ 58.58 billion. About 2.9 million vehicles were exported including over half a million passenger cars.²² Similarly, the auto components sector has witnessed rapid growth. In fiscal year 2011, the industry had a turnover of US\$ 43.5 billion including exports of US\$ 6.8 billion. Some 59 per cent of the exports went to the United States and Europe.

A mix of factors has enabled Indian automotive firms to straddle the value chains at all levels: high protection walls, policies that incentivize local production, a large and growing domestic market, a reservoir of skilled labour and strong IT skills. India's strengths in IT-enabled design have helped Indian firms move into this area. These factors have also strengthened the bargaining position of Indian firms with the lead firms in the automotive GVC. The acquisition of foreign automobile brands (Jaguar and Land Rover by Tata Motors, SsangYong by Mahindra) has helped Indian firms to acquire valuable know-how, especially in design and development.

India being developing economy can't offered to stay out of the increasing global trend of Global Value Chains, many steps have already been taken to effectively participate in the GVCs. However still lot to be done to maximize the benefits of GVCs. The following are measures are suggested for facilitating Global Value Chains.

1. Ease of doing business
2. Reduction in tariff and Non- tariff barriers
3. Regional and Multi lateral Trade agreements
4. Infrastructure development
5. Industrial Cluster approach
6. Port led industrial development
7. Improving Connectivity – Road, Rail and Air
8. Effective Border Management with neighbors for free trade
9. Improving communication facilities
10. Creating favorable environment for Investment
11. FDI liberalization
12. Long Term Policy which is stable

Issues in India:

Cross-border flows of capital, goods, and people accelerate the diffusion and development of new technologies, while making it easier for economies to adapt to changing patterns of comparative advantage, ride the product life cycle, and move up the value chain. Countries upgrade their technology base by adopting existing foreign technologies and inventing new ones. These two channels feed on each other. Attractive location for investment in production facilities and can reap greater gains from specialization, economies of scale, and increased competition.

As tariffs are reduced, it is becoming increasingly apparent that the main costs involved in trading arise from problems with moving goods around—getting goods from the factory or farm via a road to the port, across the ocean, through the port again, down the road in the importing country, and through the wholesale and retail network. It is estimated that even for high-income countries, the price of goods at the importing country's retail level averages 170 percent higher than the price received at the factory or the farm in the exporting country. Worldwide, reducing trade costs associated with border administration, transport and communication infrastructure even halfway to global best practice would lead to an additional \$2.6 trillion in global GDP (4.7 percent)

What others have done?

ASEAN is a good example of a south-south agreement where regional cooperation has enhanced trade facilitation, reduced trade costs and enhanced intra-regional trade. In ASEAN, most countries have established either **Trade Information Portals** or **Single Windows**. A Trade Information Portal allows traders to electronically access all the documents they need to obtain approvals from the multiple units of government involved in exporting and importing. A Single Window also allows for electronic submission of such documents. These windows, which are national initiatives, are linked in the ASEAN Single Window (ASW), which allows compatibility of national windows using international open communication standards. This facilitates trade both within the region and with other countries using similar standards. The ASW supports a unified ASEAN Customs Declaration Document and exchange of the intra-ASEAN certificate of origin. In the area of trucking, three ASEAN countries (Malaysia, Singapore and Thailand) are piloting the ASEAN Customs Transit System as of November 2014.

Suggestions:

Trade facilitation can apply to trade in services as well as goods. In the case of services, one barrier to trade involves the movement of national persons from one to another on a temporary basis to offer a wide range of business services that can enhance development in manufacturing, mining and agriculture. In Mercosur, the Residence Agreement, which was implemented in 2009 among full and associate members, allows

workers to reside and work for up to two years in a host state. This residence permit can be extended to a permanent one if the person proves that they can support themselves and their family through work. While there are some national differences in implementation of the Residence Agreement, it represents a major step in facilitating trade in those kinds of services that require personal presence to deliver most effectively.

Countries impose a wide range of NTMs affecting international trade, Some of these are relatively heavy-handed measures prohibiting trade in certain categories of goods, or requiring a non-automatic license to be allowed to import. Other measures have the stated intent of promoting human, animal, or plant life and health, or workplace and product safety. These include sanitary and phytosanitary standards (SPS) and technical barriers to trade (TBT). While such measures may pursue legitimate national policies, they can be designed in such a way as to be more trade-restrictive than necessary or to constitute a disguised barrier to trade. In most but not all cases, an NTM becomes a non-tariff barrier (NTB) to the extent that the measure applies only to imports and is not imposed on domestic production. To reduce the incidence of NTBs, NTMs need to be streamlined. This requires initiatives to (1) identify the existing stock of NTMs; (2) identify those policies of most concern to traders; and (3) where possible, streamline the most problematic measures so they can achieve their regulatory ends. Within ASEAN, there is a commitment by all members to document their NTMs using an internationally recognized classification scheme developed by UNCTAD. ASEAN members have also formed intra-governmental committees to identify the most problematic NTMs and select candidates for streamlining or removal.

Separately, ASEAN has also harmonized regulatory regimes for electrical and electronic equipment, going substantially deeper than the zero-tariff commitments in the Information Technology Agreement, and has also implemented a Cosmetics Directive.

Among the African Economic Communities (COMESA, EAC, SADC) there is an online Mechanism for Reporting, Monitoring and Eliminating NTBs (<http://www.tradebarriers.org>). This type of mechanism for collecting complaints can be very effective, helping to resolve disputes in a transparent and multi-country setting, thereby also contributing to building trust between trading partners. Traders may address a wide variety of complaints, including rules of origin, customs clearance and border procedures.

Some ways to reduce trade frictions arising from NTBs are harmonization of regional standards and mutual recognition of standards (countries allow imports on an

agreement that the other country's standards provide for the same degree of safety or protection, but the details can differ on a national basis). Mercosur has established guidelines for recognition of equivalence in food control systems, and designed harmonization of regulations in telecom technologies, and is moving forward with a protocol on harmonization of industrial design standards

A high share of international trade—as much as 80 percent by some estimates—is associated with direct investment, either because firms engaged in foreign direct investment (FDI) are also large traders or because such firms engage in trade in their own intra-firm networks. Thus, promoting intra-regional investment is an important tool for promoting intra-regional trade. In addition, maintaining policies that are attractive to FDI are now widely understood as important for attracting current technology and capital. As a result, many RTAs now include investment provisions. Such agreements aim at insuring non-discrimination between domestic and foreign investors, limiting such requirements on foreign investment as domestic content and hiring provisions and restrictions on repatriation of assets or profits, and providing for some type of dispute resolution mechanism between investors and states. National geography often affords opportunity for regional cooperation in power generation and transmission- the north east of India could truly be our gateway for this effort- the peak load times in ASEAN are bound to be different from those in India simply because of the difference in time zones.

Rules of origin: There is also difficulty of “**attributing**” a single country of origin in situations in which several countries are involved. To overcome these problem Substantial Transformation is required to have clarity about the rules, predictability and stability of the rules. The *origin* offers useful information to consumers and governments. The *objective* is to focus on the **last** country where a substantial transformation has occurred. Further steps should be taken to distinguish preferential and Non-preferential Rules. There appears to be costs of understanding the rules applicable in each case (importing country), in addition to in-house regulatory compliance team, tracking systems (firm's product codes vs. HS system). However these costs may be offset by the benefit received.

Other complications:

- Business uncertainty generated by a lack of understanding about the rules applicable may be made worse by other factors:
 - Tariff classification;
 - Presence of anti-dumping duties;

- Existence of trade quotas;
- Possible changes in the rules of origin;
- Existence of preferential rules of origin

The clarity in this regard ensure harmonization of regional standards and mutual recognition of standards, which promote intra-regional investment which is an important tool for promoting intra-regional trade.

Transport and logistics is a sector in which global value chains (GVCs) play a vital role in connecting countries, spreading technology, and promoting best practice around the world. In addition to its role as a GVC in its own right, the transport and logistics sector is also key for the performance of other sectors of the economy. The data suggest that countries with better logistics performance tend to specialize more in manufacturing GVCs. Delays, which are related to poor transport and logistics performance, can be costly, an extra day can reduce exports by at least 1%, and can also impede export diversification. Manufacturing and agriculture both depend on being able to ship their goods to consumers quickly, cost- effectively, and reliably. Hard infrastructure: Many developing countries still require significant investments in basic infrastructure like ports, airports, roads, and rail links. The state of infrastructure in the country is poor and a big challenge currently. So much so that growth is deterred. Road conditions are bad, [rail](#) has not been upgraded significantly in a long time and sea and inland waterways are underdeveloped still. Inland waterways- transporting goods over water is cheaper than by road or rail- Water highways are cheaper than road and rail to develop and maintain. The cargo conveyance cost, too, is lower because of minimal energy requirements. One horsepower of energy can ferry four tonnes by water, against only 150 kg by road and 500 kg by rail. Many countries in Europe and elsewhere carry over 40 per cent of their passenger and freight traffic through water. But in India this proportion is only 3.5 per cent.

Different aspects of the logistics industry fall under different ministries and this creates inefficiencies as well. Currently, the federated tax structure is a big deterrent for 3PL.GST should help and so should the growth in the e-commerce sector .The growing fragmentation of production across borders highlights the need for countries to have an open, predictable and transparent trade and investment regime as tariffs, non-tariff barriers and other restrictive measures impact not only foreign suppliers, but also domestic producers. Looking ahead, the government's focus on infrastructure development, favourable regulatory policies like liberalization of FDI norms, increasing number of multi- modal logistics service providers, growing trend of outsourcing logistics to third party service providers and entry of global players are expected to provide impetus to logistics services. *Economic Survey 2016.

Indeed, the GVC business model that has become so important in sectors such as electronics or agrifood is impossible to implement without a strong transport and

logistics sector in each of the countries involved. In this regard Motor Vehicle Agreements with Bhutan, Bangladesh & Nepal is way forward to achieve the minimize the time taken further negotiation is underway with Myanmar & Thailand.

The transit of goods across national and international borders will always be a work in progress for shippers, logistics service providers and regulatory bodies. The key intent is to manage the flow as seamlessly as possible, keep costs down and make the process as painless as possible. Connectivity involves the elements of infrastructure – both hard and soft – and the primary roles of each stakeholder in the specific areas of transport services, warehousing, distribution, and data and information management. Speed to market is necessary to ensure timely consumption of the goods and services that are intended for the destination market. In an age of growing globalization, the supply chain lines and linkages will only become more pervasive. Leaving goods to dwell at a certain node for too long without any value creation or addition does not help the business cause. Policy decision makers must share the same view as business so that trade growth will not be impeded by supply chain glitches arising from poor connectivity issues. The connectivity of the poorer countries needs to be brought up to par with the better-connected countries so that everyone can clearly see and appreciate the benefits of good supply chain connectivity.

One issue that has regularly come up in policy discussions of trade facilitation is whether “hard” or “soft” trade facilitation is more important for improving trade performance. Hard trade facilitation is usually used to signify improvement to roads, seaports and airports – or overall transportation infrastructure – and also sometimes to telecommunications infrastructure. Soft trade facilitation refers to improvements in customs procedures, such as single windows and trusted-trader programmes, as well as measures to improve transparency and reduce corruption. It is generally believed that hard trade facilitation is much more expensive than soft, although there are certainly costs associated with soft trade facilitation such as automation and training.

The need and willingness to better share information through the National Single Window mechanisms, (ii) to improve the collection of data, (iii) to accelerate the harmonization of procedures and regulatory requirements particularly customs, and (iv) to spur proactive effort to remove non-tariff barriers. The recipe for success is a tripartite effort involving governmental cooperation, multi-agency cooperation and vested commercial interests.

The types of policies that may reduce costs, time and uncertainty along the supply chain are diverse both in terms of the level of policymaking involved and their costs. Some measures, such as improving bad feeder roads in developing countries, may be expensive and involve national or local resources. Measures to improve customs can be

undertaken unilaterally and may not be too expensive but can be facilitated by technical assistance. Trucking deregulation can also be achieved unilaterally, perhaps at the stroke of a pen. Improving market access in logistics, express delivery, telecommunications and retailing can be a matter of negotiation or of unilateral action. Reforming the ways in which international shipping rates are set may be both international in scope and involve innovation in policy. Limiting the negative trade impact of regulatory NTMs may involve difficult negotiations. After reviewing the evidence, it appears that the North-South divide over how trade facilitation should be approached is based at least in part on empirical features of the actual trading world. The absolute gains from improving transport and communications are probably very large and comprise a substantial component of the overall gains from national economic development, including in the domestic economy. At the same time, the reduction in trade costs per dollar might be largest for “soft” reforms such as customs modernization. This does not mean that action in either “hard” or “soft” areas of trade facilitation needs to be postponed because the other is seen as a higher priority. Further quantitative research can help with setting priorities. It is also useful to recognize that there are interaction effects between reforms at different stages of the supply chain, so that a “soft” reform may help address a “hard” problem and vice versa. The intimate relationship between “hard” port reform and “soft” customs reform is a good example of this.

Reducing trade costs is, on the whole, a win-win proposition. This should not blind us to the fact that in a number of cases, political economy issues may need to be overcome before progress can be made in reducing trade costs. There are obvious beneficiaries from barriers to entry in trucking, shipping and retailing, which needed to be identified and taken care of.

A recent study of India’s agricultural trade (USITC, 2009) examined the road system, and found again a mixture of “hard” and “soft” issues leading to long and unreliable transit times. Many roads are in poor condition and consist of mixed traffic (freight trucks, private cars, bicycles and animal-drawn carts), with few having limited access – an expensive infrastructure issue. On the other hand, trucks are compelled to stop at state borders due to differing state regulations on weight, emissions and safety, as well as to collect entry taxes. Such issues in principle could be addressed without any new road building.

Requirements for facilitating Global Value Chains:

- A comprehensive trade liberalization Tariffs and the numbers of non-tariff measures (NTMs).The tariff liberalization is a critical step in competitively engaging in the value chains, both globally and regionally.Tariff reduction could enhance GVC-related exports of final and intermediate products, both to global and to intraregional markets.Import barriers of a country could impede its capacity to export through GVCs.

- Although, in general, tariffs have declined substantially during the past few decades as a result of trade liberalization, both by unilateral and multilateral actions, tariffs remain an important impediment to trade in GVCs. Removing barriers to cross-border movements of goods will not suffice for strengthening the competitiveness of national producers from the perspective of participation in GVCs. Appropriate liberalization of services sector, including trade in services, and movements of capital and labour are also necessary for the development of GVCs.

- Facilitating business in GVCs requires minimizing behind-the-border obstacles. This relates to the quality of regulatory institutions, which includes a broader set of domestic policy reform, deregulation and improvement of the transparency and efficiency of law enforcement. For example, a strong legal system to protect intellectual property rights and contract enforcement is crucial for participating in GVC tasks related to R&D, design, innovation and branding. Countries that have political stability, open to foreign investment and adhere to international standards are likely to succeed in attracting foreign investment and becoming a part of GVCs. Improving behind-the-border and border trade facilitation Fast and efficient procedures at the border are essential to the operation of GVCs because goods cross borders many times as both inputs and final products. The efficient customs and simplified administrative procedures at the border are thus a critical factor for participation in GVCs as they will have an impact on the overall trade costs.

- In order for a firm to be able to better connect to GVCs, improvement of hard infrastructure, such as port connectivity, transport, logistics and the information communication network, is required. The accessibility and high quality of these physical infrastructure features are critical to helping firms minimize trade costs and thereby increase their opportunities for connecting with global production networks. Better logistics and ICT connectivity of an import partner that reduce the cost of GVC.

- Customs, tariffs, and related issues: It seems plausible that the costs of implementing customs reform are low relative to the cost of upgrading physical infrastructure, and that the (monetizable) gains in transit time are non-trivial. Thus, even if there are more absolute gains to trade and welfare available from infrastructure improvement, on the margin the gains per dollar of expenditure

may be higher for customs. Customs upgrading may be cheap in a relative sense, but it is not free. There are often expenditures involved both for electronic document management and training. Many customs systems still rely heavily on “heaps” of difficult-to-search paper. The role of IT in customs is critical. The ability of traders to file documents on line, especially in a single-window arrangement which facilitates communication with multiple government agencies simultaneously, leads to significant efficiency gains. Properly trained customs staff with access to information can also apply risk assessment schemes. This means that instead of inspecting every package, an algorithm is used to identify those packages which have a high probability of needing to be seen – because the products have high duties, the shipment raises security, regulatory, or intellectual property issues – while randomly sampling the other packages at a low rate. This reduces wait time. Automation also reduces the scope for corruption by increasing transparency. This is true for port automation as well as customs automation. A port official may claim that a container is difficult to locate, or a customs official may claim that a package is “somewhere” in the inspection queue, in either case demanding a “speed payment” for locating the shipment. Such incidents are less likely if a supervisor can verify the claim using an electronic database. Moreover, it is often reported that “soft” customs is the bottleneck in the port or airport, which means that customs inefficiency could lead to knock-on inefficiency in the “hard” transport operations. If we observe ships floating in the ocean waiting for their turn to berth, the first suggestion might be to build more berths, which may get rejected on costs. However, if trucks are also queued up at the port exit gate because customs is slow to do their job, everything may back up behind customs as well. Reducing the customs bottleneck could create a positive externality for the rest of the port. In the twelve months ending June 2012 alone, 22 countries improved some aspect of customs procedures, risk management or related port procedures (World Bank, 2013). What do the countries have in common that do not reform customs? One suspects a political economy motive – if the inefficiencies are linked to corruption, there is a constituency against reform. Finally, a fair amount of customs administration is taken up with collecting *de minimis* tariffs (variously defined as less than 1 per cent or 5 per cent *ad valorem*), many of which are legacies of the formula tariff cuts in earlier GATT rounds. Such duties may have minimal impact either in their effect on domestic producers or on customs revenues, although this is an empirical question. Agreements to eliminate *de minimis* duties could have a salutary impact on customs efficiencies.

- Leverage the data with EDW to identify who are in a GVC and who potentially could easily step up into it. Efforts should be made to network analysis to work out density, in degree, out degree, *clustering coefficient*, *degree centrality*, *betweenness etc.* For this purpose a Portal should be set up which gives complete information to those who are engaged in a GVC. Further help should be there to

iron out the difficulties there. Further the Courier centred entities should be converted into Logistics centred ones. Leverage ADG Tax Payer Service office to disseminate such facilities.

Policy related suggestions:

1. self-assessment or fast-track import procedures involving customs duties for those destination country-product category combinations where the flows are consistently predictable, year-by-year, eg. thermal coal from Australia to Japan; the taxes from these flows should also be quite consistent.

2. Customs should focus more on the “irregular” imports to ensure revenue is not lost. However, these will often involve short lead times, so additional personnel manning may be necessary to avoid delays;

both 1. and 2. Will be subject to compliance audits.

3. A range of productivity initiatives to destination countries which are low-rated countries on the “ease of doing business” index, eg., China and India.

4. There should ways to increase and expand the United States Container Security Initiative (CSI) beyond the 58 global ports currently participating. CSI addresses the threat to border security and global trade posed by the potential terrorist use of a maritime container by deploying multidisciplinary teams to foreign seaports. These teams target and examine high-risk cargo before it is laden on board a vessel bound for the United States - protecting global trade lanes and systems between overseas points of origin and the United States, thus attaining greater security through collaboration. In particular, a similar initiative could be started between pairs of non-US ports around the world. The aim should be to smooth the passage of containers to 80 per cent of trading nations.

5. The major trading countries such as India and Brazil, and to certain African countries, exactly what priorities in terms of infrastructure investment would have the most positive impact on their respective economies.

6. The laggards in the top trading countries, tax reform that will speed up trade-flows across their borders and within (across state borders).

Global Value Chains- Way forward for India

- Improving ease of doing business
- Reducing dwell time in movement of goods and services
- Cluster approach of manufacturing
- Port-led industrial development
- Improving connectivity by road, rail, air.
- Non- negotiable long term policy for development of goods and service sector
- Consistency in policy
- Financial Sector reforms to invite more FDI
- Allowing foreign entities in service sector without any restrictions
- Regional and Multi-lateral free trade agreements

Development of economic corridors which integrate logistics, manufacture, energy and urban amenities.

Final Words:

The future of global supply chains will be influenced by four key determinants:

- 1) Improvements in coordination technology that lower the cost of functional and geographical unbundling;
- 2) improvements in computer integrated manufacturing that lower the benefits of specialization and shifts stages toward greater skill-,capital-, and technology-intensity;
- 3) narrowing of wage gaps that reduces the benefit of North-South offshoring to nations like China; and
- 4) the price of oil that raises the cost of unbundling.

In the end, because we now live in such an inter-connected world, the best solution to freeing up complex supply chain and trading networks around the world will likely involve a mix of new and modified regulations plus a range of completely new and

innovative non-regulatory initiatives. Getting that balance right is the challenge that lies ahead for the WTO. The lessons to learn from the content of this paper are that we must break down the aggregate numbers involved in trade flows, and better understand why they are and what they are. After all, it is the decisions of personnel along enterprise supply chains that in aggregate underpin these numbers.

A finer alignment with customers and other influential stakeholders will drive productivity, improvements at every point. In addition, tax revenue collection will also be more targeted and therefore more efficient, and lead times more competitive for shippers –a win-win for all parties involved in global, regional and national supply chains.

PROJECT REPORT BY GROUP IV

EVOLUTION AND JOURNEY OF LTU

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EXECUTIVE SUMMARY

- ✚ A sustainable tax system requires good tax administration. Robust and sustainable tax collection requires a well-designed set of tax administration arrangements that are managed competently.
- ✚ This report compares the administrative frameworks, functions, and performances of Large Tax Payer Units (LTUs) in various economies in Asia and the Pacific. The descriptive analysis is based on surveys of revenue bodies conducted. Any extensive reforms, however, of the institutional arrangements between revenue bodies and ministries of finance cannot be carried out by the revenue body on its own, but require working with the government, civil service systems, and other public sector departments.
- ✚ Effective human resources management is a key requirement for tax administrations where people are the most important enablers to carry out their main mandate, which is to collect tax revenue.
- ✚ Moreover, the environment in which tax administrations operate is rapidly changing with rising complexity of tax rules, increasing globalization and international transactions, and growing demands and expectations from taxpayers in terms of service delivery and law enforcement. Revenue bodies require an adequate level of staffing of motivated, well-trained professionals with high integrity.
- ✚ Some revenue bodies, such as in Cambodia, India, Indonesia, the Philippines, and Myanmar, seem to be under resourced and understaffed in proportion to the size of their populations. The revenue reports examined by this group in the study reports reported to have large taxpayer unit focusing on the tax affairs of large enterprises. A substantial portion of tax revenue is raised from large corporations, and having a team dedicated to large taxpayers can help improve the efficiency and effectiveness of tax administrations.
- ✚ Information and communication technology (ICT) is another important aspect for tax administrations. It is a significant component of the overall expenditure budget for several revenue bodies, but ICT costs as a percent of total expenditures are relatively low in some countries (e.g., Indonesia, the Kyrgyz Republic, and Malaysia). ICT offers electronic taxpayer services, which can significantly reduce administration costs and taxpayer compliance costs.
- ✚ Availability and penetration rates of electronic filing systems vary among jurisdictions. In developing countries, while there are challenges to expand the usage of electronic filing, for example, because of the limited availability of internet access for individuals, there probably is scope for expanding electronic filing by companies for corporate income and value-added taxes. Regarding tax

payments, either internet banking or direct debit via bank accounts is available in 16 jurisdictions.

- ✚ Some revenue bodies still offer traditional payment methods such as in-person payment at tax offices, which are costly to provide. A shift to electronic tax payment methods would help reduce tax administration costs and the scope for bribery and corruption. Moreover, some revenue bodies reported to have started to use social media platforms such as Facebook, Twitter, and YouTube to provide information and interact with taxpayers. While the use of social media platforms is still limited, they could become an effective communication tool for tax administrations, and future developments are expected in this area.
- ✚ Compared with OECD countries, where there has been a growing trend toward integrating various government services and functions, revenue bodies in Asia and the Pacific have limited non-tax functions, such as the collection of customs and social security contributions. Given economies' limited fiscal resources and tax administrations' know-how, office network, and human resources dedicated to collection operations, a similar trend is expected to emerge in Asia and the Pacific.
- ✚ The study report referred by the group include the report by Asian Development Bank's (ADB) which intend to help governments on trends in tax administration practice and performance, and to identify opportunities to enhance the operation of their tax systems. It is important to recognize that the economies covered in the report represent a broad mix of advanced, emerging, and developing economies that can also be distinguished by a diverse range of cultural, political, economic, social, and historical factors.
- ✚ It is therefore to be expected that the analyses made reflect economies where the tax administration setups in place and their respective levels of performance are at widely varying levels of maturity.
 - (i) In line with international practice, in the vast majority of economies there is a unified revenue body (administering both direct and indirect taxes), with an internal structure based on functional principles and undertaking the full range of recognized tax administration processes, and with a dedicated **large taxpayer division**.
 - (ii) Revenue bodies in many developing economies have fairly limited autonomy, particularly in relation to the flexible use of budgeted expenditure, the design of their internal structure, and/or the ability to influence the recruitment and mix of staff.
 - (iii) The vast majority of economies reported having a formal plan or strategy for improving the range and quality of their electronic services over the medium

term. The areas for priority attention most frequently reported were (i) online filing of tax returns; (ii) online payment of taxes; (iii) upgraded websites, offering additional tax system information and applications; (iv) other online transactions; and (v) integrated taxpayer accounts.

- ✚ Finally, many factors influence the functioning of tax administrations, and the next step is to use the study report to determine which factors have a significant influence on continuation of Large Tax Payer Unit in India.

A. OBJECTIVES

The evolution and the journey of Large Tax Payers Unit (LTUs) over the period of time. In the change in economic scenario in the advent of Goods and Service Tax (GST), the role of LTUs in the direct and indirect tax administration and way forward.

B. CONSTITUTION OF THE GROUP

The group is constituted by NACEN, as part of Mid-Career Training Program (MCTP) - Phase IV Group 2. Ms. V Sangeeta, Commissioner, CBEC is designated as a Mentor to make a study on the topic - Evolution and the journey of LTU. The members of the Group are –

| | |
|------------------------|---|
| K. Ramakrishnan | Addl. Commr., Chennai-II, Customs |
| Maneesh Kumar | Addl. Dir., DRI , Ahmedabad |
| Pankaj Haribhau Bodkhe | Addl. Dir., RMD, Mumbai. |
| Imamuddin Ahmad | Addl. Commr., State Govt.of Bihar (on deputation). |
| Anil Ramteke | Joint Dir., Directorate of Enforcement, Delhi (on Deputation) |

C. BACKGROUD AND OVERVIEW

A number of tax administrations in the world have established special systems to administer their large taxpayers. In the 1950s and 1960s, several OECD countries introduced special tax audit operations for large operations. A more recent trend, especially in developing and transitional countries, has been to set up full-fledged large taxpayer units that are responsible for most tax administration functions relating to such taxpayers, including collection, enforcement of tax arrears and audit. Some developed countries (such as Australia, the Netherlands, New Zealand, the United Kingdom, and the United States of America) have reorganized their tax administrations around different types of taxpayers, or taxpayer segments. LTU began in Latin America Argentina (1977) followed by Peru and Ecuador. Concept spreads to Eastern Europe Hungary, Latvia, Poland and Bulgaria followed by Russia in 1998.

2. Beginning in the 1980s, the IMF has recommended that member countries facing revenue crises and looking to strengthen tax administration establish large taxpayer units (LTUs) to increase control over the largest taxpayers and improve large taxpayers' compliance in the short and medium term.

- 2.1. This study paper prepared by IMF provides an overview of the organization, systems, and procedures used by tax administrations in about 40 countries to monitor the compliance of the large taxpayers. It also reviews the effectiveness of large taxpayer operations in selected developing and transition countries where the IMF has recommended their establishment. Information provided by tax officials in the countries surveyed, as well as IMF staff and IMF experts' views on the effectiveness of large taxpayer operations in these countries, form the basis for this discussion.
- 2.2. Case analysis indicated that countries may **gain significant benefits** from setting up special operations to control the compliance of the largest taxpayers. It also shows that certain risks need to be addressed. Clearly, the experience of many developing and transition countries shows that setting up special operations to control large taxpayer compliance has resulted in increased compliance and more effective tax administration overall. Such special operations have focused tax administration efforts on relatively few taxpayers that account for a large percent of total tax collection. Many of the countries surveyed reported that **establishing an LTU helped them address major operational weaknesses in tax administration and improve core tax administration functions**. In addition, in many countries the LTU has been a pilot for the tax administration to test reforms later extended to the rest of the taxpayers. These include the self-assessment of taxpayer liabilities, single taxpayer master files, unique taxpayer identification numbers, an organizational structure based on the main tax administration functions, electronic filing, and new computerized information systems.
- 2.3. The trend to establish LTUs or organizational arrangements based on large taxpayers in developing and transition countries is similar to efforts in developed countries (e.g., Australia, France, the Netherlands, New Zealand, the United Kingdom, and the United States). Tax administrations in these countries are reorganizing their operations around segments of the taxpayer population (especially according to taxpayer size) because the various segments require different strategies to manage their tax compliance and also because these distinct segments present different revenue risks.
- 2.4. At the same time, **risks are associated with establishing an LTU** that tax administrators and other public finance officials should consider. If the LTU is only partly established, it will not reach its potential to improve the operations of the tax administration and increase large taxpayer compliance. Thus, not only is an important opportunity for reform lost, but the LTU loses credibility as a vehicle for modernizing tax administration. Unfortunately, there are several such examples among the transition countries.

- 2.5. **Sustaining the reforms introduced through the LTU, and extending the modernization to the entire tax administration**—including the tax offices dealing with small and medium-size taxpayers—have been major issues for several countries. Without consistent political and management support, as well as the needed financing and staff, LTUs that were initially successful can succumb to the same problems that existed before their implementation.
- 2.6. Further risks specific to the operation of the LTU include **overemphasizing the administration of the large taxpayers and ignoring the medium-size and small taxpayers**; failing to provide specific types of controls for the large taxpayers (e.g., those to ensure compliance with return filing and payment obligations); assigning too many taxpayers to the LTU, thereby rendering compliance management ineffective; and allowing irregular or corrupt practices by LTU officials who are not properly supervised. Related to this, a major challenge for tax administrations setting up an LTU is to attract and retain staff of sufficient calibre to audit complex operations, provide large taxpayers with accurate and up-to-date information, and create a professional work environment that discourages tax officials from engaging in corrupt practices.
- 2.7. Finally, to gauge the effectiveness of the LTU's operations and changes in large taxpayer compliance, **tax administrations must identify and compile performance indicators**, which are the basis for effective management reporting.
- 2.8. Against this background and from the IMF's experience in assisting member countries to set up and manage large taxpayer compliance operations, important lessons have been learned, that are outlined as below -
- i. For the LTU to be effective and for the large taxpayers' compliance to improve significantly, the government must **fully commit to setting up the LTU**, providing it with the necessary resources (staffing, physical infrastructure, computers, etc.), and supporting auditing and enforced collection for the largest taxpayers.
 - ii. The long-term effectiveness and credibility of the LTU depends on the government's ability **to incorporate the LTU into a broader tax administration reform**. This is an area where the IMF could improve follow-up of the initial LTU reform effort.
 - iii. The **LTU needs continued reform and modernization**, like the rest of the tax administration, to remain effective and to keep up with changes in the economy and the taxpayer population.
 - iv. For an LTU to work properly, it must meet certain minimum requirements (many of which are also applicable to the overall tax administration), including

- a. A sound legal framework;
 - b. Clear and simple criteria for selecting large taxpayers;
 - c. Standard and transparent procedures;
 - d. The administration of all the large taxpayers by the LTU;
 - e. The administration of all national level domestic taxes by the LTU;
 - f. LTU performance of all core tax administration functions;
 - g. Clear reporting lines between the LTU and the headquarters office;
 - h. Appropriate job grading and remuneration of LTU staff;
 - i. Effective LTU staff training; and
 - j. Identification and regular compilation of key performance indicators.
- v. Even if these conditions are met, the establishment of an LTU cannot strengthen large taxpayer compliance and generate added revenue when there is prolonged downturn in the economy.
 - vi. The experience of the transition countries with LTUs suggests that a **positive relationship exists between the successful implementation of an LTU and progress in macroeconomic stabilization and other structural reforms**, including tax policy reforms.
 - vii. The most **effective LTU operations are based on strong, centralized supervision of operations and limited organizational units**. In contrast, the least effective LTUs seem to be those that are highly decentralized.

In Asia, 13 countries have established LTUs at different points of time, including our neighbours Pakistan, Sri Lanka, Bangladesh and Nepal. The LTUs functioning in these countries have achieved a fair deal of success in meeting their objectives and have universally led to increased satisfaction amongst taxpayers by reducing their compliance and transaction costs and in bringing more efficiency in tax administration

D. STUDY OF LARGE TAX PAYERS UNIT (LTUS) BY VARIOUS BODIES IN DIVERSE CONTEXT'S

- 1) The report on the – ‘Experiences and Practices of Eight OECD Countries’ - Forum on Tax Administration: Compliance Management Of Large Business Task Group dealt in detail about the type of tax structure and published in July 2009. The report highlights that –

‘the various types of taxes that are administered by large business units are income tax, personal tax withholding, social contributions, value added tax, and excise taxes. Table

below summarizes the scope of taxes large business units are responsible for in the participating countries. With the exception of Australia and Norway, the large business units are responsible for other type of taxes in addition to income or company tax. In the case of Ireland, the large business unit is responsible for a variety of taxes that include VAT, employment tax, excise tax, customs and others’.

| Scope of Taxes Covered by Large Business Unit Country | Corporate /Company Income Tax | Value Added Tax or GST | Employment / Social Security Tax | Excise Tax |
|--|--------------------------------------|-------------------------------|---|-------------------|
| Australia | Yes | No (1) | No | No (1) |
| Canada | Yes | Yes | No (2) | Yes |
| France | Yes | Yes | No | No |
| Ireland | Yes | Yes | Yes | Yes |
| The Netherlands | Yes | Yes | Yes | No |
| Norway | Yes | No | No | No |
| UK | Yes | Yes | Yes | Yes |
| US | Yes | N/A | Yes | Yes |

The report concludes that -

‘.... This review is the first step to learning about the various approaches and practices of selected tax administrations in managing the compliance activity related to the large business segment. It is clear from the review that the participating tax administrations have established sophisticated compliance management methods for large taxpayers.’

The report further recommends that -

The findings drawn from the high-level review of the eight tax administrations practices and experiences represent a starting point. OECD member countries would benefit from further review and in-depth study of some of the methods and models developed by a number of tax administrations. The following particular areas may be useful and therefore warrant further study:

- i. **Risk management:** Risk assessment has been institutionalized by all of the participating countries to maximize the effective use of their large business unit resources. A number of tax administrations have adopted methods to identify and address risk on large taxpayers. Australia has the Two-step approach;

Canada, the Two-tier approach; France, Two-level approach; the Netherland, horizontal monitoring; Ireland, commercial system, FAME, for corporate profiling; and the US, Industry Issue Focus approach.

- ii. **Compliance issues:** A number of countries have developed unique approaches to deal effectively with various compliance issues.
- iii. **Build a better relationship:** Identify the approaches and initiatives used by tax administrations to both meet the expectations of the large taxpayers and to elicit more cooperation from the taxpayers to encourage voluntary compliance, as discussed broadly in the “building a better relationship” section of this paper.
- iv. **Real-time management approaches:** Various tax administrations have adopted methods to engage in real-time dialogue with their large taxpayers. They have developed tools to provide early certainty to taxpayers and to increase early identification and resolution of issues.
- v. **Corporate governance:** Different approaches are applied by countries that believe tax should be part of or linked to corporate governance principles and that tax policy of large tax taxpayer’s should be considered at Board level.
- vi. **Building capability and skills:** The key to successfully administering and managing a large business unit is to recruit, develop, train, and maintain a capable workforce that can deal with challenges facing the tax administration, as observed in the “building capacity and skills” section of this paper. Member countries can learn from the various programs, models and strategic initiatives adopted by several tax administrations to develop and retain a highly skilled workforce.
- vii. **Performance measures:** Some tax administrations have developed processes and systems to measure large taxpayers’ levels of compliance and to measure the impact of the tax administration’s programs and strategies associated with enforcement or service activity.
- viii. **Uses of technology:** A variety of information technology tools and programs have been developed by tax administrations to improve taxpayer service and to enhance enforcement activities, for example better data analysis capabilities to improve quality and early identification of risk.
- ix. **Development of a mission statement:** The importance of designing a mission statement specifically for the large taxpayer segment is to stress and publicize the goals and commitments of the large business unit and to encourage voluntary compliance.

2) **As per ADB report, 2014 titled - 'A Comparative Analysis of Tax Administration in Asia and the Pacific' deals with various aspects of Tax Administrations, states that** – many tax administrations that have adopted a taxpayer segment-based model have a large taxpayer unit, which is a division dedicated to taxpayer services, audits, and other tax affairs of large taxpayers, typically large enterprises. While such a unit chiefly deals with corporations, some tax administrations also have a unit dedicated to High Net Worth Individuals (HNWIs). The report broadly highlights four benefits to tax administrations from setting up a division that focuses on large taxpayers.

(i) First, as large enterprises often conduct their business operations countrywide beyond a single district, it is difficult for a district tax office, the jurisdiction of which is geographically limited, to cover large taxpayers' wide range of business activities. Therefore, the large taxpayer unit is typically located in the headquarters or provincial tax offices that have a wider jurisdiction and can therefore deal with large taxpayers' tax affairs more effectively.

(ii) Second, a relatively small number of large taxpayers contribute a large proportion of tax revenues in many jurisdictions. For example, in Japan, large taxpayers, which make up less than 1% of total enterprises, contribute two-thirds to the total amount of declared taxable income from all enterprises. Therefore, it is important for tax administrations to dedicate a fair amount of resources to large taxpayers.

(iii) Third, large enterprises tend to have characteristics different from other small and medium-sized businesses, for example, they often have international transactions, ICT-based accounting, and complicated tax planning schemes to minimize tax burdens. Tax administrations are, therefore, required to have audit teams equipped with specific knowledge and expertise to deal with large enterprises.

(iv) Fourth, as large enterprises are often subject to not only corporate income tax but also to multiple taxes including VAT, withholding personal income tax with respect to the salaries of employees, and other indirect taxes such as liquor tax and petroleum tax, it is efficient from both taxpayers' and tax authorities' perspectives that large taxpayers have a designated single unit in charge of large taxpayers rather than different units for different tax purposes.

3) **Comparative analysis report, is part of an Asian Development Bank (ADB) Analysis of Tax Administration in Asia and the Pacific, 2016. The Report Highlights Commonly Observed Features of Large Taxpayer Units in Advanced Economies include -**

- (i) A large taxpayer unit's (LTU) responsibilities tend to cover both direct and indirect taxes, enabling a "whole of taxpayer" focus to be given to administering taxpayers' affairs.
- (ii) Business units typically provide both service and verification functions. Reflecting this and the significant revenue and compliance risks they present, considerable resources are devoted to large taxpayer administration in many economies (e.g., Australia, Canada, Italy, Japan, Mexico, the Netherlands, Poland, Spain, Turkey, the United Kingdom, and the United States).
- (iii) A fair number of economies have specialized industry-focused setups within their LTUs. For example:

United Kingdom: Compliance operations are organized into 17 industry-based sectors: agriculture and food, alcohol and tobacco, automotive, banking, business services, chemicals, construction, general retailing, healthcare and pharmaceuticals, insurance, leisure and media, manufacturing, oil and gas, public bodies, real estate, telecommunications and information technology, transport, and utilities.

United States: The Large Business and International (LBI) Division of the Internal Revenue Service is organized along six domestic industries and four international functions. LBI's field specialist functions are now integrated into LBI's domestic industries. The domestic industries are (i) communications, technology, and media; (ii) financial services; (iii) heavy manufacturing and pharmaceuticals; (iv) natural resources and construction; (v) retailers, food, transportation, and healthcare; and (vi) global high wealth.

- (iv) In addition to tax and accounting skills, specialist teams or expertise for support in areas such as industry knowledge, economics, international tax issues and computer-based examination techniques are included in the LTU.
- (v) To optimize performance, considerable emphasis is given to the development of industry knowledge through the use of industry-based teams and experts for key sectors of each country's economy.

Further, the vast majority of revenue bodies reported having a dedicated organizational division or unit that manages the tax affairs of designated large taxpayers. Exceptions to this included Brunei Darussalam; Hong Kong, China; the Republic of Korea; Myanmar; Papua New Guinea; and Taipei, China. For some revenue bodies (e.g., Tajikistan) the operation of a large taxpayer office is a relatively new venture that has yet to be fully established. As a result, the level of resources allocated for administration of designated large taxpayers is relatively small (i.e., less than 1% of overall staff resources). On the other hand, there were a fair number of revenue bodies (e.g., Australia, Indonesia, Japan, the Philippines, and Thailand) reporting relatively large LTU operations (i.e., more than 5% of total resources).

Source: OECD Tax Administration 2015.

- 4) **The TARC feedback report submitted** states that the low success of the LTU was not due to the concept itself but because of the selective capture of large taxpayers in the LTU because joining the LTU has been left optional, and the two departments continue to function in silos without information exchange between the two despite being located in the same office. The concept of Large Business Service (LBS), it should be understood, would be entirely different and, if appropriately implemented, was certain to usher in success. Hence, the report suggests that –

‘The present silo working of the Large Taxpayer Units (LTUs) has not achieved desired integration through data sharing or building a common framework for delivery of services to taxpayers. The experience so far has been far from satisfactory, preventing a comprehensive taxpayer focus. It also fails to provide a level playing field among similarly placed, large taxpayers in other countries. Setting up Large Taxpayer Service (LBS) with unified taxpayer services, compliance verification, dispute management, and recovery and tax debt collection will provide improve the ease of doing business. Segmentation in the LBS should be exclusively based on different sectors such as insurance, banking, oil and gas, other resource industries, media and telecom, manufacturing, ITeS, etc., and not on the basis of differentiated taxes. This approach would adopt international practice and usher in better tax governance.’

- 5) **A report submitted by the Committee headed by Shri A.K.Singh, Commissioner (Retd.)** has also been referred to. Issue that required consideration of the said Committee was with respect to continuation or otherwise of Large Taxpayer Units in GST regime. Based on the inputs received, the committee came to the conclusion that LTU may not lose relevance under GST regime. It was felt that LTUs can continue for administering CGST and IGST. It was also concluded that LTU arrangement would be of far greater importance under GST regime and hence the existing LTU set up was not only to continue, but would need to be scaled up to meet the goals of trade facilitation and ease of doing business. Continuation of LTU in GST regime was warranted in view of the benefits like single window clearance, quick disposal, easy accessibility of the officials, minimum pendency, efficient working atmosphere, etc. However, it was also suggested that the working will have to be adjusted according to the needs of the state-wise registration requirements under GST. The committee suggested three options for LTU in ensuing GST regime -

OPTION-I - LTU HAVING ALL INDIA JURISDICTION FOR ADMINISTERING CGST AND IGST: Under this option, there will be a LTU having all India Jurisdiction for administration of CGST and IGST only. This arrangement will be optional for the assessee. Assessee will file separate GST return for its registrations in each of the state. However, all the returns will be forwarded by the CBEC IT system to one place (where LTU status is obtained) and it will be assessed centrally for CGST and IGST at LTU. Simultaneously, the assessee will be assessed separately in each state for SGST purposes

by the respective state administrations. This arrangement may be provided for the assesseees who want to opt for centralized assessment and are above the prescribed threshold i.e. those who have paid more than 10 crores of tax (CGST, IGST and SGST taken together) in the previous financial year. This option may have the following challenges - (a) It may require setting up of more LTUs in big cities due to discontinuance of present system of Centralized registration available to service providers; (b) Coordination between Centre and States GST officials as there will be a need of coordinated audit and uniformity of assessment between Centre and number of States; (c) There may be some problems in the matters of appeals, etc. as jurisdiction for Centre and States would be located at different places.

OPTION-II - LTU HAVING ALL INDIA JURISDICTION FOR ADMINISTERING CGST, IGST AND SGST: Under this option, Tax payer will have an option to opt for a centralized registration for all their constituents across the country instead of state-wise registration. The taxpayer will file a single return and they will be assessed at one place i.e. LTU for CGST/IGST as well as SGST. The SGST component of the inter-state transaction will flow to the consuming State through IGST mechanism. The LTU office may be manned by CGST officers as well as SGST officers. To begin with, the option to be given only to service categories such as insurance, telecom, banking & finance where operations are in large number of States. From the trade facilitation perspective and to have a uniform assessment practice, this is the best suitable alternative. This option however will also have its own challenges. In this model the States lose administrative control over such taxpayers which may have an adverse bearing on acceptance of such a scheme by the States and therefore this model can be adopted only if the States agree. There will also be problem regarding the posting of the officers from the states as all the states would like to post their officers to LTU for safeguarding their interests.

OPTION-III - LTU HAVING STATE-WISE JURISDICTION FOR ADMINISTERING CGST, IGST AND SGST: Under this option, there will be state-wise LTU manned by Central and State GST officers. The taxpayer will have a single registration in a State for all of his businesses in that State and will file a single GST return. All the assessment for CGST/IGST and SGST will be carried out in a coordinated manner by the officers both from CGST and SGST administration, posted in LTU. This mechanism will ensure uniformity of assessment in CGST, IGST and SGST as also with respect to the tax treatment of the same taxpayer in respect of the same transaction. From dispute resolution perspective, this is the best option as all assessment relating to CGST/IGST and SGST will be administered by officers from both from Centre and State simultaneously. However, in this option there will be issue of administrative parity between Centre and State GST officials posted in LTU due to different administrative structure in Centre and States.

E. LTU IN INDIAN CONTEXT

Following the international practice, the Hon'ble Finance Minister in his Budget Speech 2005-06 announced the proposal to set up Large Taxpayer Units (LTUs) which would act as a single window facilitation centre for all large entities paying excise duty, corporate tax/income tax and service tax. Committee constituted with industry representatives & Government officials to work out a paper on procedures. Approach Paper finalised by the Committee and circulated on March 1, 2006 after series of deliberations with Industry and Trade.

The proposal has since been worked upon in the Government and wide ranging discussions have also been held with the trade and industry bodies/associations. It has been decided to establish LTUs in India in a phased manner. LTUs would be established initially in five large cities of the country, viz. Bangalore, Chennai, Delhi, Kolkata and Mumbai and will be made operational from early financial year 2006-07.

RATIONALE OF LTUS

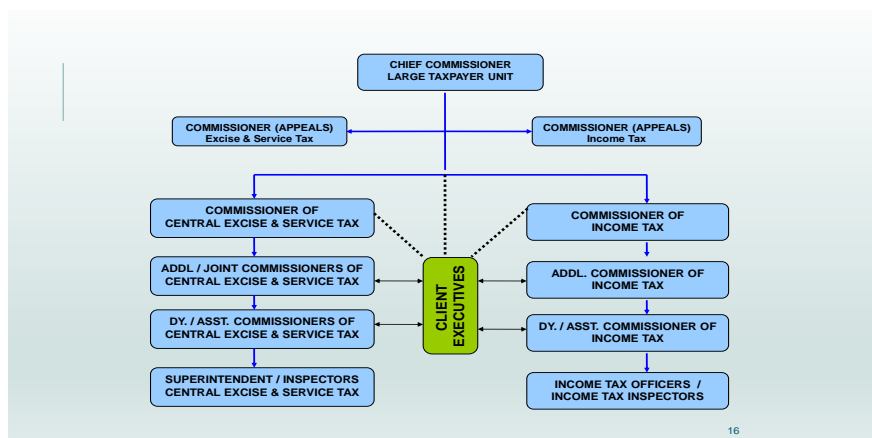
An LTU is self-contained tax office under the Department of Revenue acting as a single window clearance point for all matters relating to Central Excise, Income Tax/ Corporate Tax and Service Tax. Eligible Tax Payers, who opt for assessment in LTU shall be able to file their excise return, direct taxes returns and service tax return at such LTUs and for all practical purposes will be assessed to all these taxes there under. These units are being equipped with modern facilities and trained manpower to assist the tax payers in all matters relating direct and indirect tax/ duty payments, filing of documents and returns, claim of rebates/ refunds, settlement of disputes etc.

LTU (Large Taxpayers Unit) is a self-contained office to provide single window facilitation to taxpayers who pay direct and indirect taxes above a threshold limit. This office that would deal with Central Excise/ Service Tax/ Income Tax/ Corporation Tax issues of all units holding a single PAN. It also provides certain [tangible advantages](#) (such as duty free movement of goods across the different units/ premises of a PAN holder, transfer of credit amount from one such premises to other); to ensure time bound disposal of refund claims and dispute settlements; and to follow single set of simple procedures for all units.

The underlying commitment is of providing better service to the taxpayer, through personalized attention, quality of service, transparency in transactions and cordial atmosphere. This will reduce tax compliance cost, reduce delays and ensure uniformity in the matters of tax/ duty determination. [Eligible taxpayers](#) may opt to avail the facility of assessment under LTU, which would be especially beneficial to those taxpayers with multi-locational operations.

PRESENT ORGANIZATIONAL STRUCTURE

Each LTU will be manned by officers and officials drawn from the Customs and Central Excise Department and the Income Tax Department. The LTU will be headed by a Chief Commissioner drawn from either of the two Departments who will be the overall in-charge of the LTU for all matters pertaining to its functioning. Under the Chief Commissioner would be Commissioners who would perform the administrative and statutory functions in respect of the three taxes. Under each administrative/executive Commissioner, officers of the rank of Additional/Joint Commissioners would be placed as Range heads who, in turn, would be supported by Deputy/Assistant Commissioners and other supervisory and managerial staff. The are schematically presented as under –



CHARACTERISTICS OF TAXPAYERS—RISKS FOR THE REVENUE

| | Small and medium-size businesses | Large enterprises |
|--------------------------------|---|--|
| Number of taxpayers | Few millions or hundred of thousands | A few thousands or hundreds |
| Revenue potential per taxpayer | Thousands or lakhs of Rupees | Lakhs or millions of Rupees |
| Return preparation | Prepare and file their return with advice of local accountants | Receive advice from international lawyers and accountants |
| Risks of non compliance | Deal in cash, with sometimes poor record keeping, ready opportunity for evasion | Maintain records, but minimized taxes through local / international arrangements |
| Nature of compliance issues | "Transactional" or from non participation in the system (informal sector) | Involve complex transactions with major revenue implications |
| Lobbying capacity | Medium | Powerful |

TYPICAL COMPONENTS OF TAX ADMINISTRATION REFORMS STRATEGIES

- Improve management and organizational structures

- Modernize taxpayer registration
- Improve collection enforcement
- Develop effective audit programs
- Develop better taxpayer services & improve appeals
- Automation and Unique Taxpayer ID
- Strengthen return processing and payment systems
- Establish LTUs

MAIN REASONS FOR ESTABLISHING LTUS

- To improve the level of compliance among large taxpayers
- To act as a pilot to introduce new organizational structure & procedures (e.g., function-based organization and self-assessment procedures)
- Good for reform in tax administrations

VISION FOR LTU

- Reaching out to all the large tax payers by rendering quality services to the present clients
- Achieve excellence in the implementation of tax initiatives
- Have greater voluntary compliance built on mutual trust and synergy
- Fully automate business processes to deliver quick and prompt solutions
- Infuse talent and continue up-gradation of skills to deliver services of global standards.

FUNCTIONS

The LTU will perform all the statutory functions presently mandated under the Income Tax Act, 1961, Wealth Tax Act and Rules made there under (in respect of direct tax matters), under the Central Excise Act, 1944 and Rules made there under (in respect of central excise matters), Customs Act/Rules (in respect of functions handled by excise authorities) and under the Finance Act, 1994 and Service Tax Rules (in respect of service tax matters).

Benefit/ Facilities offered

- i. A large taxpayer (single PAN-based entity) can file all his direct taxes, excise and service tax returns at a single place, irrespective of the geographical location of their units.
- ii. All other documents, correspondence, intimations such as export / import related central excise documents, bonds, proof of exports, etc. pertaining to all these establishments can be filed with LTUs.
- iii. To begin with, the returns of the company and its units can be filed electronically and the payment of tax/duty can be made electronically. Gradually, these units would be provided with required software and infrastructure so that other documentations, such as filing of rebate/ refund claims, filing of intimations or permission, reply to notices can also be done electronically.
- iv. Digital signature certificates can be issued on request by the Department, free-of-charge, to facilitate electronic transaction. There would be no requirement for filing a parallel paper document.
- v. Upon joining the LTU, an officer of the level of Assistant / Deputy / Joint / Additional Commissioner would be appointed as 'client executive' for each taxpayer. The taxpayer can remain in touch with the client executive for assistance in any/all tax matters (for example for returns filing, classification issues, intimation matters relating to refund/rebate, exports, other claims, etc). This would ensure that the taxpayer need not interact with different section / officers of the LTU.
- vi. Once a taxpayer opts for the scheme, the erstwhile jurisdictional field officers (including preventive units of the erstwhile Excise Commissionerate) would not *suo-motu* visit its units or interact with them for any issues arising. However certain procedures under the Central Excise Rules, requiring physical control, and verification of premises or documents, would be carried out by the local Commissionerates under the express directions of the LTU. Further, in respect of excise and service tax matters, on-going investigation, appeals, provisional assessments that had commenced prior to the large taxpayer opting for LTU would continue to be with the erstwhile jurisdictional Commissionerate.
- vii. Cases, where show-cause / demand notices have been issued by the erstwhile jurisdictional officers but not adjudicated, would stand transferred to LTU and the same would be adjudicated by officers posted at LTU. All pending matters with the jurisdictional Commissionerates of Income-tax, other than those with CIT(Appeals) would stand transferred to the LTU.
- viii. The taxpayer would have the option to transfer any excess CENVAT credit (of central excise duty or service tax) accumulated in one manufacturing unit or service providing unit to any other eligible unit of his choice through a simple mechanism. Necessary changes in the CENVAT Credit Rule, 2004 are being made.

- ix. The taxpayer would have the facility of removing capital goods and inputs from one unit to any other unit of its choice, without payment of duty / reversal of credit through a simple method. Similarly the finished product of one unit can be transferred to another unit, without payment of duty, provided the second unit uses the products as inputs and pays excise duty on the finished goods manufactured using such inputs.
- x. The taxpayers would not be subjected to mandatory audit. The selection of a taxpayer for audit would be based on 'risk assessment'. The Department would ensure that audit schedules are drawn in consultation with the taxpayers so as to cause minimum inconvenience.
- xi. The taxpayers would do self-sealing in case of all exports. In order to ensure that there is no delay in examination and sealing by the officer, the requirement of examination / sealing by the officers at the units of taxpayer is dispensed with.
- xii. It would be ensured that there is uniformity in the practice as regards classification, valuation, credit availment and similar other issues, for various units of a taxpayer. Trade notices will be issued centrally by the LTU.
- xiii. The rebate / refund claims would be disposed off within 30 days of their filing, if the claims filed are in order.
- xiv. With respect to income-tax specifically, facilities would be provided for on-line submission of returns, e-payment of taxes, electronic credit of income-tax refunds, and on-line filing of grievances and appeals.
- xv. **services offered to Large Tax payers -**
 - 1) Application
 - 2) Registration
 - 3) Filing of returns
 - 4) Payment of Taxes
 - 5) Refunds
 - 6) Audit and Scrutiny
 - 7) Adjudication/ Appeals
 - 8) Export
 - 9) TDS Returns
 - 10) General Procedure

11) Interactive forum

LESSONS LEARNT AT LTU

- Voluminous transactions, ever increasing CENVAT Credits, Sheer size of Large Taxpayers are big Challenges.
- ACES proved to be best platform for e-payment and e-filing but is not serving the purpose of verification and regulatory compliance
- CAAP Audit – inability / reluctance to provide voluminous data amongst taxpayers.
- Non co-operation of taxpayers in furnishing data.
- No clear cut policy on anti-evasion work by LTUs.
- Service to taxpayer on trust motto has destroyed the spirit of enquiry by taxman
- No complimentary tax administration like data sharing between Central Excise and Income Tax presently.

NEED OF THE HOUR – Technical Issues

- To have a system in place for monitoring & speed up verification
- LTU web-site to facilitate taxpayers to file the supporting documents for their claims like refunds/rebates, RC etc.,
- Conduct of both scrutiny and audit is felt necessary.
- In reality desk review focus is different and unrelated.
- Removal / rejection option to send out taxpayers who do not pay minimum entry level Revenue in PLA
- Data sharing and non intrusive form of Investigation using data warehouse
Establishment of Third party information system to enable correlation of data with Tax returns

F. GST REGIME AND RELEVANCE OF LTU

The detailed stud has been made by Organization for Economic Co-operation and Development (OECD) on operations of large tax payers indicates that LTUs are operative in the countries where GST is implemented e.g. Canada. More than 150 countries have already introduced GST/National VAT. Typically GST is a single rate system but two/three rate systems are also in use depending upon requirements. The standard GST rate in most countries ranges between 15-20%. All sectors are taxed with

very few exceptions/ exemptions. Full input tax credits on inputs are available. Canada and Brazil alone have dual GST. US does not have a GST but only sales taxes

OBJECTIVES OF GST

- Lowered tax rates due to broadening of the tax base and minimizing exemptions & exclusions
- Creation of a common market across the country
- Redistribution of the burden of taxation equitably between manufacturing and services
- Reduction in transaction and compliance costs.
- Facilitation of business decisions on purely economic considerations
- Enhanced efficiencies & productivity through the supply chain

WHAT EXPERTS BELIEVE

- ✓ “...The Large Taxpayer Unit (LTU's) will be needed to bring out GST. LTU's are Large Taxpayer Units....” Mr. VS Krishnan, Member GST, CBEC at an ASSOCHAM event held in New Delhi ON 16th September, 2015
- ✓ **Some experts believe that LTUs failed to fulfill the expectation of large taxpayers. T.R. Rustagi, former joint secretary of ministry of finance said, "LTU was not a great success. It would die its natural death with introduction of GST. [OCTOBER, 2016]**
- ✓ **Sumit Dutt Majumdar, former chairman of Central Board of Excise and Customs (CBEC), said, “We must not abandon LTUs, Rather, we should extend the concept to STUs (Small Taxpayers Units) in the GST regime. And, as mentioned, it can have CGST and SGST authorities and income tax authorities as its constituents.” [2016 OCTOBER]**
- ✓ **The Tax Administration Reform Commission, chaired by Parthasarathi Shome, said the progress of LTUs, however, has been far from satisfactory, as not many large taxpayers have joined these LTUs. In the CBEC restructuring plans for audit, it should be ensured that audit staff for LTUs is housed in the LTU office itself, which is important from a customer service perspective.(Section XII.4.e) It was explained that low success of the LTU was not due to the concept itself but because of the selective capture of large taxpayers in the LTU because joining the LTU has been left**

optional, and the two departments continuing to function in silos without information exchange between the two despite being located in the same office.

IT group Nasscom:

- ✓ LTUs could not give desired results on the ground. In January 2016, raised administrative and operational difficulties in LTUs, suggesting their dismantling.

The American Chambers of Commerce in India:

- ✓ too strongly reacted against credit transfer issue in LTUs

For details of various countries tax administration wherein, organizational structure of the revenue bodies are presented in the table below -

| Table 2.1. Selected features of the organisational structure of revenue bodies | | | | | | | | |
|---|---|--|--------------------------------|------------------------------|--------------------------|--------------------|-----------------------------|---------------------------|
| Country | Main criteria for structure: T- tax type, F- function, TP- taxpayer | Selected features of revenue bodies' internal organisational structure | | | | | | |
| | | High net worth individuals | Large taxpayer division / unit | Dedicated processing centres | Debt collection function | Tax fraud function | Dedicated disputes function | Full in-house IT function |
| OECD countries | | | | | | | | |
| Australia | All | + | + | + | + | + | + | + |
| Austria | All | x | + | x | + | + | + | x /1 |
| Belgium | All | x | + | + | + | + | x | + |
| Canada | F | + /1 | + | + | + | + | + | + /2 |
| Chile | All | + /1 | + | + | x /1 | + | + | + |
| Czech Republic | T, F | x | + | + /1 | + | + | + | + |

| | | | | | | | | |
|-----------------|-------|------|------|---|------|------|------|------|
| Denmark | All | x | + | + | + | + | + | x |
| Estonia | All | x | x | + | + | + | + | + |
| Finland | All | x | + | + | + | + | + | x /1 |
| France | TP | + /1 | + | + | + | + | + | + |
| Germany | All | x | + | + | + | + | + | + |
| Greece | All | + /1 | + | + | + | + | + | + |
| Hungary | All | x | + | + | + | + | + /1 | + |
| Iceland | All | x | x | x | x | + | + | x |
| Ireland | TP | + | + | + | + | + | x /1 | + |
| Israel | All | x | + | + | + | + | + /1 | + |
| Italy | All | x | + | + | x | + /1 | + | x /2 |
| Japan | All | + | + | + | + | + | + | + |
| Korea | All | x | x /1 | x | x /2 | x /2 | + | + |
| Luxembourg | F,T | x | x | + | + | + | + | x |
| Mexico | F,TP | x | + | + | + | + | + | + /1 |
| Netherlands | F, TP | x /1 | + | + | + | + | x | + |
| New Zealand | All | + | + | + | + | + | + | + |
| Norway | All | x | + | + | + | + | + | + |
| Poland | All | x | + | + | + | + | + | + |
| Portugal | All | + /1 | + | + | + | + | + | + |
| Slovak Republic | F | x | + /1 | x | + | + | + | x |
| Slovenia | All | x | + | + | + | + | x | + |
| Spain | All | + /1 | + | + | + | + | x /2 | + |
| Sweden | All | x | + | x | x | + | x | + |
| Switzerland | F,T | x | x | + | x | + | + | + |

| | | | | | | | | |
|---------------------------|------|------|------|---|---|---|---|------|
| Turkey | F | x | + | + | x | + | + | + |
| United Kingdom | All | + | + | + | + | + | + | x |
| United States | TP | + | + | + | + | + | + | + |
| Non-OECD countries | | | | | | | | |
| Argentina | All | + | + | + | + | + | + | + |
| Brazil | F /1 | + | + | x | + | + | + | + |
| Bulgaria | F | x | + | x | + | + | + | + |
| China | All | x | + | + | + | + | + | + |
| Colombia | F | x | + | + | + | x | + | + |
| Costa Rica | F | + | + | x | + | + | + | + |
| Croatia | All | x | + | + | + | + | x | + |
| Cyprus | T | x | x /1 | + | + | x | + | x |
| Hong Kong, China | All | x | x | + | + | + | + | + |
| India | F | x | + | + | + | + | + | + |
| Indonesia | All | + | + | + | + | + | + | + |
| Latvia | F | x | + | x | + | + | + | + |
| Lithuania | F | x | + | + | + | x | + | + /1 |
| Malaysia | F | + /1 | + | + | + | + | + | + |
| Malta | All | x | x | + | + | + | + | x |
| Morocco | F,TP | x | + | x | + | + | + | + |
| Romania | F,T | + | + | + | + | + | + | + |

| | | | | | | | | |
|--|-------|---|------|---|---|---|---|---|
| Russia | All | x | + | x | + | x | + | + |
| Saudi Arabia | F | x | + | x | + | + | + | + |
| Singapore | F,T | x | + /1 | + | + | + | x | + |
| South Africa | All | + | + | + | + | + | + | + |
| Thailand | F, TP | x | + | x | x | + | + | + |
| <i>Source: Tax Administration 2015 survey responses.</i> | | | | | | | | |

WAY FORWARD

- ✚ On the bases of analysis and detailed study above, it is inferred that LTU may not loose relevance under GST regime and can continue for administering CGST and IGST. LTU arrangement would be of far greater importance under GST regime and hence the existing LTU set up has not only to continue, but would need to be scaled up to meet the goals of trade facilitation and ease of doing business. LTU is also required to be continued even under GST regime in view of the benefits like single window clearance, quick disposal, easy accessibility of the officials, minimum pendency, efficient working atmosphere, etc. The working has to be adjusted according to the needs of the state-wise registration requirements under GST.
- ✚ Accordingly, the group made detailed analysis and makes specific recommendations to the Board on the way-forward / Way ahead in the ensuing GST regime. LTU can play a vital role in the GST regime with GSTN in place since LTU concept is not new to some of the state governments. Re-structure the existing LTUs by inducting officers from state government. Decision to exclude or continue income tax assessee as part of new regime of LTU- GST may be taken. The following pros and cons are identified and presented -

LTU IN GST REGIME

Pros...

- a) SINGLE POINT OF CONTACT FOR TAX PAYER
- b) EFFECTIVE GRIEVANCE REDRESSAL
- c) QUALITY OF SERVICE DELIVERY IS UNIFORM
- d) LESS RESOURCES AND MAXIMUM REVENUE
- e) SOME STATES ALREADY ESTABLISHED LTUS UNDER VAT REGIME IN 2006 EX. AP

Cons....

- a) INTER-DEPARTMENTAL AND INTRA-DEPARTMENTAL CO-ORDINATION
- b) CENTRE-STATE CO-ORDINATION FOR EFFECTIVE IMPLEMENTATION
- c) GST COUNCIL HAS NOT INDICATED ORGANIZATIONAL STRUCTURE FOR LTU.
- d) PERFORMANCE OF LTUS IS NOT EFFECTIVE
- e) DIFFICULT IN MONITORING OF UNITS
- f) SHORTAGE OF WILLING OFFICIALS

RECOMMENDATIONS

- (i) After detailed deliberations, and keeping in consideration that LTUs are functional in countries where GST structure also in vogue apart from their merits and demerits - option II discussed above is a model option from the trade facilitation perspective and also from the perspective of uniformity in assessment, the challenges to the said option are not easy to overcome. In the present scenario, the states may not be willing to give up their administrative control over the large tax payers. Similarly, option-III may also not be acceptable to the states as the said option is surely to lead to the SGST officers ask for parity with the CGST officers which will entail financial cost for the states which the states will not be ready to incur.
- (ii) Considering this, the group came to the conclusion that the Central Government may go ahead with option-I by setting up LTUs at central level for administering CGST and IGST.
 - a. As this option doesn't depend on the acceptability of the state administrations, this is the only option possible.
 - b. This option will reduce the troubles of the taxpayers to a certain extent as they will be assessed at a single location at least for the purpose of CGST and IGST, if not for SGST.

- c. The Service Providers which are currently centrally registered will also get some respite from getting assessed even for CGST and IGST.
- d. This option will also ensure uniformity in assessment in respect of CGST and IGST for the large taxpayers as separate assessment for CGST and IGST at state wise registration level is certain to lead to divergence in assessment practice even when assessed by the CBEC officers.
- e. The SGST shall be administered by state governments and also require to create LTUs within state so that in long run, the same would be subsumed to the central LTUs and complementary to each other and later when policy requires merger of the LTUs in the state and centre level once GSTN network stabilized

For this reason, it is recommended continuation of LTU in the GST regime with LTUs having all India jurisdiction for administering CGST and IGST

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PROJECT REPORT BY GROUP V

HOW EFFECTIVELY WE HAVE LEVERAGED TECHNOLOGY (OTHER THAN IT) IN THE DEPARTMENT? FUTURE ROADMAP AND SPECIFIC AREAS FOR IMPLEMENTATION

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EXECUTIVE SUMMARY

With the rapid changes happening in the environment in which our Department function, adoption of new Tools / Technologies is necessary to keep pace and even remain ahead of these challenges. As per the topic assigned to this Group, the tools / technologies in use in different Customs formations of India, as well as in other countries and best practices being followed in different formations in India were studied. Some of the major areas where new tools / technologies can be introduced are

-

- a) **Intelligence & Investigation** - Officers working in these specialized areas can be provided with a tool kit consisting of various technological instruments like photography / videography device, tablets PC having internet connection, data forensic devices, data retrieval devices for aiding intelligence gathering and sound investigation.
- b) **Examination & Enforcement of prohibitions and restrictions** - Officers doing examination of Import/export goods may be provided with a tool kit consisting of tools like magnifying glass, measuring tape, magnet, Barcode reader, tablets PC having internet connection, Personal Digital Assistant (PDA), etc. Further, some of the technologies that can be utilized in effective examination are as under -
 - i. **Scanning technology** - Container scanner, radiation scanners.
 - ii. **Detection technology**-TruNarc narcotics analyser, puffer portals.
 - iii. **Product identification technology** - Spectrophotometric productanalyser.
 - iv. **Safety technology**- Radiation Frequency Identification Device (RFID),Container Digital Exchange (CODEX), E-seal.
- c) **Office Automation** - Use of office automation technologies like e-mail / web based office working software, Document Management System, Personal Digital Assistant, Automated DAK System, SMS Facility, Use of Social Media (Facebook, Twitter), for smooth, efficient and speedy office work.
- d) **Data Storage & Management** - For easy and immediate retrieval of historical data, introduction of LAN-based Dropbox style offline storage for data with secured ID and Password; Standardized norms for file name, folder name, indexing, etc and creation of dedicated 'Record Keeping Section' may be considered.

- e) **Training** – To make the process of enriching officers, as well as trade, free from constraints of time and physical presence by having online e-learning modules on the lines of Massive Open Online Courses (MOOC).

DETAILED REPORT

1) Introduction:-

The subject topic was given to our MCTP Group-5 as part of MCTP Project, to explore the possibilities of harnessing the power of modern information and communication technologies for bringing about improvement and efficiency in Customs functioning. A study was undertaken under the guidance of our mentor Sh. B.B.Gupta, Commissioner of Customs, ICD, Patparganj. Tools / Technologies in use in different Customs formations of India, as well as in other countries and best practices being followed in different formations in India were studied. Detailed discussions were held in this regard and a detailed power point presentation was made during the de-briefing session at NACEN, Faridabad. A copy of the same is annexed herewith.

2) Major areas where new Tools & Technologies can be introduced / Future roadmap:-

Today, Customs agencies are under tremendous pressure to perform at the highest levels to facilitate the legitimate trade while protecting its nation's citizens from ever-growing and dynamic threats. Therefore, the need for Customs administrations to make maximum use of information and communication technology for capacity building cannot be overemphasized. Customs must take advantage of new and emerging technologies to enhance, amongst others, processing, working efficiency, risk-management, intelligence and non-intrusive detection. With the rapid changes happening in the environment in which our Department function, adoption of these new Tools / Technologies is necessary to keep pace and even remain ahead of these challenges. The future roadmap of the use of non-IT technology in our department can primarily be in the following areas:

- A. Intelligence & Investigation** - The use of sophisticated search and match technology will improve Customs administration's ability to identify, individuals and cargo, for intervention and control. Improvement in Intelligence capacity, including exchange of information with other national and international agencies, is required. The internet provides Customs with an invaluable source of information for its control and enforcement functions across the board, including valuation, identity management, goods classification and track/trace activities.

Officers working in intelligence & investigative wings of the Department can be provided with a tool kit consisting of various technological instruments like photography / videography device, tablets PC having internet connection, data forensic devices, data retrieval devices, etc. where they are undertaking activities such as intelligence gathering, investigation, search, seizure and there should be forensic lab at the zonal levels. These steps will result in sound, speedy, proper and evidence backed investigations.

B. Examination & Enforcement of prohibitions and restrictions- Due to the current focus on heightened national security concerns, improved inspection and examination capabilities of the imported goods, through improvement in human competencies and deployment of appropriate technical aids, have gained immense importance. Hence, Examining Officers at Import & Export Docks / Sheds may be provided with a tool kit to enable them to conduct thorough and efficient examination. The said kit may consist of tools like magnifying glass, measuring tape, magnet, Barcode reader, tablets PC having internet connection, Personal Digital Assistant (PDA), etc. Further, some of the technologies that can be utilized in effective examination are as under –

- v. **Scanning technology** - Container scanner, radiation scanners.
- vi. **Detection technology**-TruNarc narcotics analyser, puffer portals.
- vii. **Product identification technology** - Spectrophotometric product analyser.
- viii. **Safety technology**- Radiation Frequency Identification Device (RFID), Container Digital Exchange (CODEX), E-seal.

The above technologies are being used by Customs formations in many countries, especially the developed ones. Though, some of the above technologies like TruNarc narcotics analyser, puffer portals, Spectrophotometric product analyser, etc. have high cost component involved, however, the same can be brought down by efficient use of such products and beginning with their installation at select places having high requirement. Further, these technologies will result in better control and prevention of smuggling including interdiction of narcotics drug trafficking.

These technological initiatives may have financial implication, however, considering need of the time, CBEC & Ministry of Finance may take a holistic view and take appropriate steps to introduce them.

C. Office Automation- To bring about efficiency and speed in the functioning of Department, office automation is absolutely necessary. The workflow inside our department should be automated to enable efficient government processes and also to allow visibility of these processes to stakeholders to bring about

transparency. With the Government's thrust on adoption of paperless clearance procedures, Office Automation is all the more necessary, to bring about improved efficiency, control and transparency in Department's functioning. Various office assistance and automation technologies which could be introduced include Document Management System, Personal Digital Assistant, Automated DAK System, SMS Facility, Use of Social Media (Facebook, Twitter), More use of emails than paper letters.

To reduce the use of physical means of official work i.e. Files, an online e-mail / web-based office working software for submission of proposals (Files), can be created on the lines of our EDI System. Such a system is already functional in many private organizations and in some Government organizations and introduction of the same in our department may be considered. Every official can be allotted a secured 'Login ID' and 'Password', to work on the system. Once any proposal in the form of notesheet or a letter is made by an officer, he can enter the same in his system and it will go to his higher/lower officer, as required. The higher officer can have the option to amend the same and put it up to his senior or send the same back with query to his junior. Necessary viewing and tracking features can be incorporated in the System to ensure accountability.

Further, the above system may be developed to have an option to seek/submit any periodic or one-time report/information, like PQ, to Board. The said system is already available for submission of Monthly Performance Report (MPR). This will not only help Headquarter office to keep a track of receipt of reports but will also eliminate the need of circulating the letter to each and every filed formation and further down to each Section. This will save lot of manpower and will also ensure timely report submission.

However, if physical maintenance and movement of files and letters is still continued, then at least a file/letter tracking Software could be introduced. Like if any letter is received, then its entry should be made in the System, and as it moves to different levels of office hierarchy, the system will keep a record of its movement. This will make the tracking of the letters and files easy and also ensure accountability in the form of time taken to process the file/letter.

As all the above discussed initiatives are already being used in many organizations (Private and Govt.) and even to some extent in our department, the introduction of the same on all-India basis is very much feasible. Further, the cost component involved will not be much compared to the benefits department will derive from these new initiatives.

D. Data Storage & Management - Proper record storage and data management is a major area where utilization of IT tools can solve lot of problems and make office working very smooth.

With the constant requirement of historical data for reference, RTI, etc., there is immediate requirement of proper data storage. As the proper record and data management is a big issue in the department, in time of need, most of the staff find it extremely hard to retrieve the records, as the same are not readily available. The records consume a lot of space in the offices and when required, it takes lot of time to fetch the same from the voluminous records.

To mitigate this problem, LAN-based Dropbox style offline storage for data with secured ID and Password may be considered. Further, standards should be fixed for file name, folder name, indexing, so that future retrieval of data/information can be easy. All databases and information should be held in electronic form and not manual.

Also, creation of a dedicated 'Record Keeping Section' can be considered which will be mandated to retain the soft copy or PDF of every single office document e.g. Note sheet, Letter, Files, etc. This will make handling of records very easy and the speed of the retrieval of records will be very fast. This will save the time and improves the efficiency of the office.

Directorate General of Data Management may issue appropriate Standard Operating Procedures in this regard for uniformity.

As our department is already storing the huge amount of trade data and has created necessary infrastructure and work force for the same, creation of infrastructure for storage of Office data will not be of much concern, as quantum of Office data is very small in comparison to trade data. Further, the cost component involved will not be much compared to the benefits department will derived from these new initiatives.

E. Training –Regular training and enrichment of all the officers and staff is very important. However, many a times, it is noticed that sizeable number of Officers are on training in NACEN or at different forums. Due to this, the office work gets hampered. Further, officers do not have option to revisit those courses.

To mitigate this problem, NACEN can think of providing online videos on their website, of training sessions organized by them which can be made accessible to the departmental officers only.

Further, apart from conducting physical courses, NACEN can develop an online learning portal providing courses on the lines of Massive Open Online Courses (MOOC). NACEN may provide facility of online learning of various subjects/courses which at present are being physically organized by them. Each course may be designed like an interactive textbook, featuring downloadable pre-recorded videos, quizzes and projects. As part of such courses, the learners may be provided with an option to connect with other learners to debate / interpret topics, discuss course material and even study together.

These steps will obviate the need of physical presence of officers in training sessions and will also give them an opportunity to gain knowledge at any time. The introduction of these initiatives is not difficult as our department is already adopting online technologies in a big way. Further, the cost component will also not be much and in fact, these steps will result in some cost cutting also.

With the introduction of new initiatives like SWIFT, GST, etc., there is need of training and disseminating information to trade (Importers / Exporters / CBs). Therefore, facility of providing online training to trade should also be considered.

3) Implementation

While some of the above mentioned technologies are in use in different formations/countries, others are yet to be introduced in the Department. Wherever these technologies have been introduced in India, it is more because of the initiatives taken by the local officers themselves rather than the Department pitching as a whole. The need of the hour is to have all the formations take these technological measures simultaneously in a time bound manner. Each Zone can have a dedicated young Commissioner to ensure that the Zone achieves the target for ensuring the implementation of right technologies.

A brief note on some of the above mentioned technologies is as follows. Details have been depicted with pictures/flowcharts/diagrams in the Powerpoint presentation.

- a) X-ray Inspection Systems:** Though this facility is being used in some ports/airports but its use is more *ad hoc* than a serious risk-based and feedback-based intelligent analytical system that the group found was being used effectively in advanced ports of Europe. There is need of more coordination for a better feedback between the X-ray section, RMS wing and the physical examination section in the Customs ports in our country.
- b) Personal Radiation Detectors:** With the increasing smuggling of radioactive materials, most countries have started using radiation detectors as a part of the tool kit available with Customs officers while examining cargo. A scan with the help of these hand-held detectors would help in identifying dangerous cargo and segregating it.
- c) TruNarc Analyzer:** It is hand held equipment which works on Raman Spectroscopy technology. It identifies even the different classes of Narcotics in real time without having to come in contact with the substance itself. A clear colour-coded result can be obtained in a few seconds. This equipment will be of

much use in the present scenario of narcotic drug or drug derivatives in the import / export front.

- d) Puffer portals** - Suspects crossing the checkpoint are singled out to pass through the Puffer portal. Uses puffs of air to dislodge tiny particles of Drugs/ Explosives from suspects' clothing. The air is then analysed for presence of these items.
- e) RFID (Radio Frequency Identification Device) and E-Seals:** RFID in association with satellite technology (GPS) can become an important part of international supply chain, allowing secure tracking and monitoring of cargo. A detailed study on usage of RFID and E-Seals was made and has been explained in detail in the power point. Both these technologies can be very well used in ensuring the safety and integrity of the cargo and containers. E-seals are gaining more popularity and usage in the international transport of the cargo. E-seal works on the RFID technology. Once E-seal reader captures the data after a container has been sealed, the same will be fed into the database before departure of the container. If any attempt is made to tamper with the E seals, an alert will be sounded immediately by the RFID system so that necessary action can be taken. After reaching the destination, the seal can be cut after scanning through the E-Seal reader. The use of RFID and E-Seal will definitely help a safe and secured movement of the cargo. The powerpoint shows some pictures to elucidate its functioning.
- f) CODEX (Container Digital Exchange):** In the era of digital India Codex acts like a common platform connecting all stakeholders where trade can be monitored, paperless transaction can be executed and digital approvals can be given on a real time basis. The department can take initiative and rope in other departments/agencies to implement the project. A same set of documents can be accessed by multiple agencies working at the port and clearances/permissions by multiple agencies can be viewed on a real time basis by all stakeholders leading to much ease of doing business. A pictographic and diagrammatic representation has been shown in the powerpoint.
- g) Personal Digital Assistant (PDA):** PDA is small hand-held equipment through which information like inspection reports, field data from the examination yards/docks can be stored and transmitted instantly to the departmental users in the back-office. These PDAs will help greatly in reducing the time gap in clearance of the cargo in the era of ease of doing business. A picture of the PDA is shown in the powerpoint.
- h) Automated DAK:** It is the automation of all DAK in and out of an office along with movement and ultimate disposal of each letter in the DAK. Automating DAK will not only increase efficiency but the response to public letters/issues would also go up thus increasing the image of the department. A pictographic representation has been shown in the powerpoint presentation.

- i) SMS Facility:** It appears a technology of a bygone era but for a department where it's hardly being used even presently, it can do wonders in saving time, paper and improving the image of the department apart, in this era of ease of doing business. Except for a couple of local Commissionerates, no other Commissionerate is using this facility. SMS can be used to convey dates of personal hearings and can be used to keep the assesses informed during different stages of processing of claims like refunds, drawback, etc.
- j) Document Management System (DMS):** It is maintaining electronic format of all the documents submitted by the trade during various Customs procedures. The documents can be viewed from a central server at any time later. A pictographic representation has been shown in the powerpoint slide.
- k) Passenger feedback kiosks:** For a department which deals with hundreds of passengers and trade on a daily basis, its important to be sensitive to the needs and requirements of its various stakeholders. Time being an item of premium, any feedback system which takes more than a few seconds won't be of any success. The passenger feedback kiosk, an initiative of Cochin Customs, well-elucidated in the powerpoint, would be close to an ideal passenger feedback which we could have.
- l) National helpline for GST related queries:** With GST round the corner a national toll free helpline can be started to address the queries of the trade, at least for a year or so after the new tax scheme is rolled out. The helpline can have facility for directing an assessee to a local telephone line where the assessee is based.
- m) Valuation App** – Possibility of creation of an App for NIDB data may be explored. The access to this App can be restricted to departmental officers only through secured login ID and Password. Ready availability of such data to officers can be very beneficial to officers.

What perhaps is needed is a thrust to ensure that at least some specified technologies, if not all, are taken up by all the Commissionerates and implemented in a time bound fashion.

PROJECT REPORT BY GROUP VI

ENHANCING PROBITY AND ACCOUNTABILITY **IN ORDER TO IMPROVE PUBLIC PERCEPTION OF** **CENTRAL BOARD OF EXCISE & CUSTOMS (CBEC)**

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Abstract

Perception is belief or opinion held by many based on how things seem. Even though the reality may be different from perception, but perception continues to impact outcome, by influencing the way an individual or an organization perceives itself and its role. Positive perception motivates people to perform well even under adverse circumstances, whereas negative perception invariably has a demeaning effect on the people. It is imperative for the organizations to take timely corrective steps so as to keep their workforce motivated. Of the various steps needed to improve public perception, enhancing probity and accountability are two such steps. The impact of these methods besides other steps required to improve the public perception of CBEC, have been discussed in this paper.

Introduction:

In marketing parlance, companies create positive perception about their products through building a brand image, which provides distinctive identity to their products. To build a brand, companies invest heavily in quality improvement and also seek guidance from brand ambassadors, who advise them on the ways and methods to improve their image. Now a day, branding is also being undertaken by the Government and non-government agencies to improve their image and to create a positive perception about their roles and activities.

Dr. Paul Temporal (Associate Fellow in Said Business School, University of Oxford) a leading global expert on brand creation and development, in his book "*Branding for the Public Sector*" has cited example of "Canada Public Service Agency" which undertook various steps in 2007 to bridge the gap between the image it desired for its public services and the perception of Canadian public. Dr Paul observes that branding or image building by government organizations should be seen as a strategic investment because investors, businesspersons and foreign visitors often judge a nation by the efficiency of its government personnel. In the era of market-oriented economy, the better the perception of the government, the more likely the country is to attract direct foreign investments.

India being a developing economy has been looking for foreign investment in various sectors and a number of reforms have been carried out in recent past to create an investor friendly environment. Digressing from its colonial past, marked by culture of secrecy and confidentiality, the present Governments have constantly been striving to bring more transparency in their operations. Enactment of Right to Information Act has empowered public to seek information from any public authority thereby bringing more accountability in the government operations. A lot of information is being placed in public domain through departmental websites and interactive platforms are being created so as to bring government closer to public. Efforts are being made to create

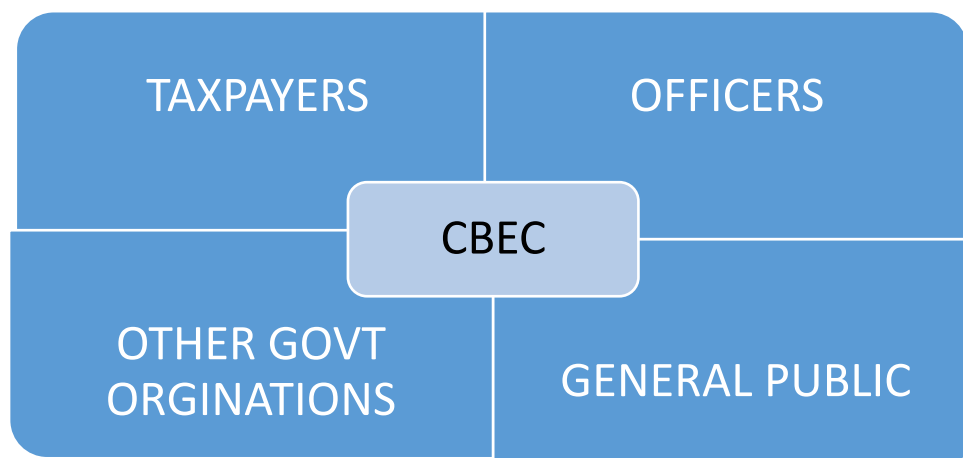
single window systems to redress public grievances and resolve them in a time bound manner. A number of initiatives in form of simplification of rules and regulations and streamlining of procedures have been undertaken, so as to remove public hardships and minimize compliance costs.

An important factor influencing investors' decision is their perception of tax policies of the target country and the transparency followed in tax administration. The countries having high transparency index enjoy competitive advantage. It is in this context, that probity and accountability attain high significance in taxation matters.

Central Board of Excise & Customs (CBEC)

CBEC is part of Ministry of Finance under Union Government, entrusted with task of policy formation and collection of indirect taxes. Currently, CBEC looks after tax administration in the areas of Customs, Central Excise, Services and Narcotics. All these taxes are levied under separate legislations but collected through a unified administrative structure, keeping in view the ease of implementation and inter-linkages between various taxes. The "Vision" statement of CBEC provides for an efficient and transparent mechanism for collection of indirect taxes and enforcement of cross border controls with a view to encourage voluntary compliance. The "Mission" of CBEC is to achieve excellence in the formulation and implementation of Customs, Central Excise and Service Tax laws and procedures.

Important Factors - The public perception of the CBEC can be analysed from perspectives of Taxpayers, Employees, General Public and Government. These are important factors in public perception and making the image of department. Let's discussed each factor with view to improve public perception by enhancing probity and accountability.



FACTORS- TAXPAYERS

Taxpayers are most important stakeholders in making image of the department. Over the last few decades, as the Indian economy migrated from the license permit raj to the era of liberalization, CBEC too has undergone multiple transformations from stringent physical control regime to a modern tax administration based on voluntary compliance standards. To this end, there has been a sea change in the policies, laws and procedures of the CBEC to usher in changes that are in consonance with the changing economic dynamics both within India as well as a rapidly globalizing world. However, despite the far reaching changes, the primary focus of the tax administration has remained tethered to the achievement of revenue targets and consequently, the administration appears to have ingrained a spirit of blind revenue bias across all levels. The obvious casualty to this approach is the quality of taxpayer services which are forced to take a backseat. The revenue bias of the administration has manifested in the form of mutual distrust between the taxpayers and the tax administration resulting in a series of ills that ail the system such as lack of trust and service orientation, flawed system of dispute resolution, lack of clarity and standardization in policy and procedures, etc.

Corruption in administration is undoubtedly a crucial issue and tax administrations, by the very nature of their functions, are among the more vulnerable sectors of government. Data taken from the CVC's annual reports indicates that about 6 percent to 7 percent of complaints handled by the

CVC fall in the areas of the CBDT and CBEC. Their two CVOs together handle about 10 percent to 12 percent of the total complaints handled by CVOs across the government and the two departments account for approximately a little under a quarter of the prosecutions sanctioned

against government servants on the advice of the CVC. These figures, in particular the last one, underline the sensitivity and vulnerability of the tax administrations. It is important to tackle the issue of corruption for better public perception.

A wide range of metrics are used by tax administrations to evaluate the success of their services strategy. The most commonly used metrics are timeliness of specific services provided to taxpayers, quality of services delivered as established via survey responses, taxpayer

satisfaction established through a survey, trend in the adoption rate of specific services, tax administration cost reduction, etc. Survey is the best tool to find out the feedback about services provided by the department. In order to understand taxpayers' perception on various reforms undertaken by CBEC, two surveys have been conducted by KPMG and FICCI in 2015 and 2016. In the first survey, the taxpayers identified around ten areas of concern, namely treatment of taxpayers like tax evaders, revenue biased approach of tax authorities, lack of clarity on tax issues, delay in grant of refunds

and rejection of refunds on trivial grounds, unwarranted litigation, persistent delay in responding to queries/ concerns of tax payers, lack of Customer service approach, intermittent transfer of officers without proper handover/takeover arrangements, lack of transparency and undue expectations by the field formations. The second survey also hovered around same issues with respondents reporting some improvement. The respondents also emphasized the need to improve infrastructure, train officials, update website and IT systems, introduce e-communication, infuse attitudinal change, focus on tax evaders, simplify procedures and fast track adjudications.

RECOMMENDATION – Keeping taxpayer at center of scheme, following recommendations are made to enhance probity and accountability in order to improve public perception.

- Change in attitude- The role of revenue officer has changed from gate keeper to facilitator but there is hardly any change in attitude of the officers. The revenue biased approach and save my skin kind of behavior has actually dented the taxpayer services. The primary focus of the department should be on the taxpayers and not on revenue. The KPMG survey has clearly indicated that the first thing to do for CBEC is change the attitude. The survey has also indicated that dispute resolution and refund processes handled by the officers are area of concern. It is important to note that though the success of department at different judicial forum is 20-25%, at first stage of adjudication by the officers almost 90% cases are confirmed.
- Distance between assessee and assessor – Departments like PWD, RTO, CUSTOMS , POLICE, RAILWYAS etc are always considered as most corrupt departments by the public. The main reason is all these organizations are dealing with public and lesser the public interaction the chances of corruption also minimizes. The complaints of bribe pertaining to our department are mainly coming from adjudication, refund , assessment and examination of goods etc where revenue officers are having public interaction. Earlier there were complaints about registration of units but now as the entire procedure is in ACES , there are hardly any complaints about registrations. Same is case with the BEs going through RMS and officers have no role in assessment / examination. Thus if there is distance between assessee and assessor then chances of complaints are minimum. Such system can be created by using ICT in departmental procedures. The business processes re-engineering with the help of information and communication technology is most effective way to enhance probity and accountability.
- SIMPLIFY – The simplified procedures and rules help the taxpayers to comply with the law. The amendment in warehousing procedures has helped many EOUs from recurring problem of extending the warehousing period for capital goods which was area of complaints. The simplification has to be coupled with

removing discretionary powers to the officers. The power to impose penalty in departmental proceeding is often misused by the officers. However thanks to provisions like mandatory penalty under the Act which has reduced the complaints by removing discriminatory powers.

- “PAY” ATTENTION TO TAXPAYERS’ SERVICES. – The focus of the department over the years is revenue rather than customer. The successful achievement of revenue target has masked the need to pay attention to taxpayer services. This has resulted in mistrust and litigations. Time has come to be professional and pay attention to taxpayers’ services. We also need to “PAY” for tax payers services. Over the years we have put our back for having lowest administrative cost (apprx. 0.8) to collect taxes but what about cost of paying tax which taxpayers bear? The study shows that lower the administrative cost to collect the taxes for government then more is cost for assessee to pay duty. In developed economy the countries are spending 15-20 % on taxpayers services where as we are paying only around 5%. We need to spend more on taxpayer services. We are spending huge amount on GSTN but in long run it will cut the cost of paying duty for taxpayers also as three ledgers of each assessee are automatically maintained in the system.
- ADOPT BEST PRACTISES- To improve the public perception of the department, it is necessary to adopt some of the best practices in other tax administration. Such taxpayer services can help in voluntary tax compliance. One of such practice can be taxpayer advocate service adopted by IRS USA. They have set up this service to help the taxpayer to resolve the dispute with department. Even they are appointing advocates for the taxpayers and this service is free of cost. We are about to implement GST which will be biggest tax reform after Independence. Initially it is expected to have more litigations due to confusion while implementing new law. In such scenario the taxpayer advocate service will be of great help to the taxpayer.
- INTERFACE BETWEEN CUSTOMS AND C. EXCISE- At present there is no interface between ACES and ICEGATE. The network of Customs and C. Excise can’t interact with each other which resulted into delay in due benefits to exporters and complaints. The EP copy of shipping bill is automatically transmitted to DGFT and DGFT is transmitting license online based on those shipping bill to the Customs. However in our own department we are unable to transmit the EP copy to C. EX formations to claim rebate, file Proof of Export etc. there is no time limit in which department has to complete the procedure of accepting proof of export. The delay in accepting POE can cost the exporter especially merchant exporter who has to execute additional bond with BG. The online procedure of accepting POE can address the grievances of the exporters.

- Some of the other recommendation include to rewrite citizen charter, sevottam etc. Instead of revenue collection we can write our main motto as customer satisfaction. Sevottam has prescribed the time limit for refund, drawback etc but no time limit is prescribed for reply to query raised by the taxpayer. Similarly we can reward exemplary taxpayers. Such reward need not be only in form of certificate. In South Korea the selected taxpayers are awarded with different things like providing loan from bank at concessional rate, opening VIP lounge at airport etc. Such practices can be adopted in India also.
- FASCILITAION BUT WITH CHECK- While extending the facilitation we must keep eye on duty evasion. Promoting facilitation which can actually lead to duty evasion will harm the moral of the administration permanently. Many advance countries have adopted RMS and check only 2-3 % of BEs but they have strong Post Clearance Audit system. We are also in process of increasing BEs through RMS but there is no effective OSPCA. Nowhere in the world the audit of BE is given to VAT/C. EX department. The present system is like three leg race where appraiser and C. Ex officers are tied to each other to conduct audit of BEs. The appraiser has knowledge of Customs Act but doesn't know how to read financial statements and on other hand C. Ex officers are trained in reading financial documents but they have no knowledge of Customs Act and procedure. With their combined strength and weaknesses they are expected to conduct OSPCA. Such system can never work and we must immediately find proper method to conduct PCA.

FACTORS- REVENUE OFFICERS

The other important factor for better public perception can be Revenue officers. The image of the department can't be different than that of officers. The policies of government are implemented by officers and thus form important part of public perception of the department. Like every organisation, CBEC is also a collective entity comprising of individual members who strive in their prescribed role for realizing the stated common goals of the organisation. Seen this way, CBEC is essentially an ensemble of employees at all levels across all formations field, headquarters and the Board who interact continuously with the stakeholders in general and taxpayers in particular to realize the larger mandate of CBEC. Thus, each individual member of CBEC and especially those in the cutting edge is a brand ambassador of CBEC representing the face of department. It is, therefore, imperative that such brand ambassadors uphold high standards of integrity, efficiency, motivation and commitment to provide quality taxpayer services.

Poor accountability, reluctant to take decision, punctuality, lack of skill etc are the factors related to officers which have dented the image of department. There are many institutes which are set up with good intension but are actually affecting the morals of

officers. The 5 Cs which include CAG, CBI, CVC, CIC and CCS are actually affecting the efficiency of the government officers across the ministries. In order to have proper accountability, it is necessary to keep the morals of the officers high.

RECOMMENDATION – Keeping revenue officers at center of scheme, following recommendations are made to enhance probity and accountability in order to improve public perception.

- **FIX ACCOUNTABILITY-** The reluctant to take decision or revenue biased decision is major issue which taxpayer face while dealing with revenue officers. The use of IT in day to day procedures can fix the accountability. Biometric system for attendance is good example of fixing accountability and resulted in punctuality of the officers. Another good way would be to install cc tv cameras at public places like docks, appraising hall etc.
- **CODE OF ETHICS-** It noted that many administrations abroad had adopted detailed codes of ethics for public servants while, in India, there was no such code. With regard to the CCS (Conduct) Rules, 1964, it observed that they enunciated a code of behavior which “while containing some general norms like ‘maintaining integrity and absolute devotion to duty’ and not indulging in ‘conduct unbecoming of a government servant’,

were generally directed towards cataloguing specific activities deemed undesirable for government servants. These conduct rules

do serve a purpose, but they do not constitute a code of ethics.”

The importance of such a code of ethics is twofold:

(a) it will provide clarity and meaning to general expressions like ‘maintaining integrity and absolute devotion to duty’ and ‘conduct unbecoming of a government servant’, occurring in the CCS (Conduct) Rules, 1964, in the specific context of tax administration and provide a standard on which conduct can be judged; and

(b)it will provide support to the ethical dimension of performance management and set clear expectations regarding employee behavior and conduct.

- **PREVENTIVE AND PUNITIVE VIGILANCE-** There are two dimensions of vigilance management: preventive vigilance and punitive vigilance. The former focuses on measures that deter the occurrence of moral lapses or unacceptable conduct while the latter focuses on punishment for such conduct. The preventive dimension operates at the systemic level by reducing opportunities for corruption and misbehavior. It focuses on aspects like simplification of procedures, transparency, accountability, reducing discretion, and infusion of technology. Punitive vigilance , on the other hand focuses on detection and punishment for breaches of conduct rules and prosecution of offending

civil servants in egregious cases, such as those involving corruption. To maintain standards of integrity in the organization, the leadership must place strong emphasis on both.

- WELFARE OF OFFICERS- Capacity building, infrastructure, promotions/HR issues, parity with other services, speedy conclusion of disciplinary proceedings etc are important issues which will help the officers to keep their morals high. There is one circular which indicate that when the order is dropped in favor of assessee then such orders should be marked to vigilance section. This kind of instructions actually plays havoc in field formations and explains the reason behind confirming 90% of OIOs. This badly affects the public perception of the department. The delay in disciplinary proceedings actually is more severe than actual punishment. It may be examined whether something like plea bargaining can be thought to cut the delays in concluding disciplinary proceedings.

FACTORS –GENERAL PUBLIC

It is a plain fact that the general perception of the public towards „Customs“ and „Excise“ is not very favorable. The moment the word „Customs“ is mentioned, it conjures up an image of a harsh, burly officer dressed in white at the airport ready to search one’s belongings. This is the

Closest touch-point a common man has with the Customs department as a whole, when he arrives at the airport after a grueling journey in the wee hours of the morning. Many has the perception that customs officers are the most corrupt lot and even some believe that customs officers get foreign „gifts“ on a daily basis in the course of their work. Most people does not know that the same customs officer is responsible for preventing smuggling of drugs, fake currency, endangered wild life etc. The opinion of general public is neglected area. In GST many of these people may come under our tax net. Similarly we as government officers are treated as privilege persons by society and it is necessary to fulfill our social obligations.

International airport is a place where general public can have interaction with the department. Recently a passengers’ survey was conducted by L.N.Welingkar Institute of Management, Mumbai at CSI AIRPORT. Almost 70% of the passengers have opinioned the experience at CUSTOMS Mumbai is better than other places in world. However lack of information about baggage rules , problems faced in carrying TV, Jewellery etc are the issues raised by the passengers. The problems like carrying jewelry abroad need to be sorted out immediately. To have better public perception among general public the officers can take part in functions like blood donation camp, swatch bharat abhiyan etc along with people. In South Korea the bags which were

confiscated by the Customs for IPR violation were distributed among poor people after removing brand names. In India also we can think on similar line.

FACTORS –OTHER GOVERNMENT DEPARTMENT

-The coordination with other government agencies can help better public perception. This coordination can lead to better accountability and transparency. The swift initiative offering single window to importer is good example of coordination. Often at port/ airport customs is blamed for delay though other agencies may be responsible for it. The coordinated boarder management is good way to cut down the time taken for importer/exporter at ports and airports. As Customs has public face, we should take initiative in cooperation among all government agencies. GST will give us good opportunity to act in coordination with state. With the help of state tax administration we should see the smooth transition from present tax regime to GST. This will be in interest of taxpayers as well as government agencies.

LONG WAY TO GO –

What is the difference between taxidermist and tax collector? Taxidermist takes only your skin. -Mark Twain

The above quotation underlines the harsh reality in the world of the taxman, the fierce and hostile environment in which he has to navigate between the statutory functions of the government and the overbearing inclinations of the public, at large to avoid payment of taxes. This uneasy coexistence of the Taxman and the tax payers creates an environment where the taxman has to live with the paradoxes of keeping the taxpayer happy as well as extracting the correct amount of tax from him at the same time. Consequently, it is but natural that the Tax Departments don't enjoy a favorable image in the minds of public at large. In this background where we have started our work as "namak ka daroga" in the past and now we have to change the public perception treating taxpayer as equal partner in development of nation is difficult task. There are issues of corruptions, infrastructure, cadre management, attitude which can hamper the speed of any change for better public perception. In such gloomy scenarios when we have to tune to the world economy and become economic giant then we can look for Gandhiji for inspiration. We had political independence under his leadership and we can achieve economic supremacy following his thoughts which still inspire us.

A small body of determined spirits fired by an unquenchable faith in their mission can alter the course of history. - Mahatma Gandhi

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PROJECT REPORT BY GROUP VII

TAX REFUND FOR INTERNATIONAL TOURISTS

UNDER PROPOSED GST LAW

Mentor : Mr. Yogendra Garg

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Kunduru S. V. V. Prasad

Tax Refund for International Tourists scheme provides an opportunity to the foreign tourists to purchase goods during their stay in any country on payment of GST/VAT and obtain refund of the GST/VAT so paid, at the time of exit from the country. Nearly 52 countries have adopted such kind of refund mechanism.

Such a scheme is necessitated so as to, -

- (a) zero rating of export goods
- (b) attract foreign tourists
- (c) provide boost to the Make in India Initiative

2 EXISTING PROVISIONS

Currently, there are mechanisms for refund of customs duty /central excise duty /VAT suffered in respect of goods exported. Gist of such provisions in India is detailed below:

2.1 Customs :

As of now, on the customs side, Duty Drawback has been one of the popular and principal methods of encouraging export. Under Duty Drawback Scheme, relief of Customs and Central Excise Duties suffered on the inputs used in the manufacture of export product is allowed to Exporters. The admissible duty drawback amount is paid to exporters by depositing it into their nominated bank account.

Duty Drawback provisions are given under section 74 and 75 of the custom Act, 1962. Section 74 allows the duty drawback on the re-export of duty paid goods and the same can be claimed as per the Re-export of Imported Goods (Drawback of Customs Duty) Rules, 1995. Whereas Section 75 allows the drawback on imported goods used in the manufacture of export goods. Under Duty Drawback Scheme, an exporter can opt for either All Industry Rate (AIR) of Duty Drawback Scheme or brand rate of Duty Drawback Scheme. Major portion of Duty Drawback is paid through AIR Duty Drawback Schedule, which essentially attempts to compensate exporters of various export commodity for average incidence of customs and Central Excise duties suffered on the inputs used in their manufacture.

Customs and Central Excise Duties Drawback Rules, 1995 have been framed outlining the procedure to be followed for the purpose of grant of duty drawback (for both kinds of duties suffered) by the Customs Authorities processing export documentation. Brand rate of duty drawback is granted in terms of rules 6 & 7 of Customs and Central Excise Duties Drawback Rules, 1995 in cases where the export product does not have any AIR or duty drawback rate, or where the AIR duty drawback rate notified is considered by the exporter insufficient to compensate for the Customs/Central Excise duties suffered on inputs used in the manufacture of export products.

2.2 CENTRAL EXCISE:

On the Central Excise Side, Refund of any duty of excise is governed by Section **11B** of the Central Excise Act, 1944. By definition, refund includes rebate of excise duty paid on goods exported out of India or on materials used in the manufacture of goods exported out of India. Manufacturer has two options for clearing his goods for export. He can pay the central excise duty and claim the rebate of the same as provide by Rule 18 of Central Excise Rules, 2002. On the other hand, he can clear the goods without payment of duty on Bond/LUT, as provided by Rule 19 of Central Excise Rules, 2002.

2.3 STATE VAT:

State governments are offering VAT refunds to foreign diplomats and officials of multilateral agencies. For example, The Sixth Schedule read with Section 4 of Delhi VAT, provides that specified Diplomatic Missions/Consulates of Countries and International Organizations and their Diplomats/International Officers in respect of Purchases made by them for official or personal use can claim the VAT refund.

3. However, there is no mechanism as on date, for refund of VAT/Central Excise duty paid on the goods purchased by foreign tourists. On the verge of rolling out of GST in the country, Report of the joint committee on business processes for GST felt the need for TRT- Tax Refund for International Tourists scheme, and stated that this scheme will be implemented through particular retailers who are registered for this scheme. It envisaged that, Refund of GST will be available at designated airports and ports only and the refund of the GST paid on retail purchase by the foreign tourists during their stay in India is allowed. A part of the eligible amount of refund will be deducted as handling fee for services rendered. The Committee asked the GST law drafting Committee to provide for this provision and the details of the scheme.

4. Provisions relevant in this regard, in the model GST law:

Model GST law has dealt with exports /input tax credit /Refund etc.

Some of the relevant provisions in this regard are enumerated below:

- 4.1** Model GST Laws provides that:
- 4.2** the refund of tax on goods and/or services exported out of India or on inputs used in goods and/or services which are exported out of India . [section 38 (6) (a)].
- 4.3** the word“ export of goods” means taking out of India to a place outside India [section 2 (43)].
- 4.4** exports shall be treated as zero-rated supply [section 2 (109)].

- 4.5 an Integrated GST (IGST) would be levied on inter-State supply (including stock transfers) of goods or services.
- 4.6 IGST would be collected by the Centre so that the credit chain is not disrupted.
- 4.7 Refund of IGST shall be given to the tourists leaving the country.
- 4.8 Import of goods or services would be treated as inter-State supplies and would be subject to IGST in addition to the applicable customs duties.
- 4.9 The input tax credit of any input tax in respect of any supply of goods/services would subject to certain conditions.

5. Goods and Services Tax Network (GSTN).

- 5.1 GST is proposed to be driven by the robust system called GSTN.
- 5.2 GSTN would provide three front end services, namely registration, payment and return to taxpayers.
- 5.3 It would be the back bone of the GST administration as it provides seamless flow of transaction data.
- 5.4 Input tax credit would be subject to the condition that relevant invoices are uploaded by the supplier.
- 5.5 Thus GSTN would ensure the flow of input credit online and settlement of input credit.

6. VAT/GST mechanisms in some other Countries:

In order to understand the VAT/GST refund mechanism available to International tourists , said procedures available in Singapore/European Union Countries were studied and the salient features of the said mechanisms existing in those countries are detailed below:

6.1 VAT Refund in UK:

Eligibility:

- a. Tourists who visit the UK but live outside the EU and are going back home
- b. Tourists who are an EU resident leaving the EU for 12 months or more
- c. Persons who are a non-EU residents but work or study in the UK and are leaving the EU for 12 months or more.
- d. Not all retailers offer tax-free shopping.

- e. VAT refunds only for goods bought within the last 3 months.

Non -Eligible goods/Services:

- a. mail order goods, including internet sales, delivered outside of the UK
- b. goods you've already used in the EU, such as perfume
- c. service charges, eg hotel bills
- d. new or used cars
- e. goods worth more than £600 exported for business purposes
- f. goods to be exported as freight
- g. goods that need an export licence (except antiques)
- h. unmounted gemstones
- i. gold over 125g, 2.75 troy ounces or 10 tolas
- j. a boat you plan to sail to a destination outside the EU

Mechanism:

- a. VAT 407 form to be obtained from the retailer on showing the passport.
- b. The goods, the completed form and the receipts to be shown to customs at the point of leaving the EU (this might not be in the UK).
- c. Customs will approve your form if everything is in order.
- d. On Submission of the said approved form, refund shall be paid.
- e. Refund may be paid immediately at a refund booth, eg at the airport,
- f. If not possible, the approved form to be sent to the retailer or their refund company to get the refund.

6.2 VAT refund in EU: In General

Following Categories are **Not eligible** for VAT refund:

- (i) VAT paid on hotels and meals is not refunded.
- (ii) Similarly Motor cars not eligible.

Eligibility & Restrictions:

- a. Most of the tax paid on merchandise such as clothes, cuckoos, and crystal are refunded.
- b. Tourists are not supposed to use purchased goods before they leave Europe.
- c. There is a threshold limit: To get any refund, purchase has to be above a certain amount — ranging from about \$20 to \$300, depending on the country.
- d. Typically, this threshold is at a single retailer — they can't add up purchases from various shops to reach the required amount,
- e. Refund is to be collected within three months of the purchase.

Mechanism:

The details on how to get a refund vary per country, but generally following are the basic steps:

At the Shop :

- a. Passport to be shown to prove the Visitor status
- b. Retailers choose whether to participate in the VAT-refund scheme. Most tourist-oriented stores do; often a sign in the window or by the cash register (if not, ask) is indicated for VAT-refund shop.
- c. On purchase, the merchant should fill out the necessary refund document, often called a "tax-free form.". The receipt need to be attached to the said form and should be kept safely.
- d. Some stores may offer refund on the spot.
- e. They may offer through third-party agency to get an immediate cash refund .
- f. In either case, the documents need to be stamped at the border, & then mail them back; if they do not receive the documents, (normally in 3-4 weeks) they'll charge the refund to the credit card of the said tourist.

At the Airport or Departure Point:

- a. Documents like receipt, VAT refund form etc., to be presented along with purchases at the airport or border crossing to the Customs.

- b. Documents need to be stamped at customs.
- c. At customs, an export officer will stamp these documents and may ask to present unused goods to verify the export.
- d. If the purchases are inside checked luggage, the presentation of goods to customs should be before check in.

Collecting the cash:

- a. Once the form is stamped by customs, tourists have to turn it in.
- b. If the purchases were bought from a merchant who works with a refund service such as [Global Blue](#) or [Premier Tax Free](#), refund can be got from their offices inside the airport.
- c. On presentation of the stamped document, they'll likely give the refund in cash, right then and there.
- d. The refund will be in the currency of the country they are leaving; Otherwise, they'll credit the refund to your credit card.
- e. Other refund services may require the visitor to mail the documents — either from home, or more quickly, just before leaving the country (using a postage-free, pre-addressed envelope — just drop it in a mailbox after getting the customs stamp).
- f. It could take months. They have to look for a refund on their credit-card statement or for a check in their mail.

6.3 VAT{ Imposta sul Valore Aggiunto (IVA)} Refund in Italy,-

There are three ways of getting VAT refund in Italy:

A. Instant refund at city point

- a. Tax Free form along with the passport and valid Visa, MasterCard, Amex or Diners card (no debit or electronic card) to be presented at a city refund point in Italy and refund will be given in cash (a cash fee may apply).

- b. Then, Tax Free form need to be export validated by customs and to be returned it to Premier Tax Free within 21 days (prepaid envelope can be used if available).
- c. Failure to return the export-validated Tax Free form to Premier Tax Free within 21 days will result in a charge to the credit card of the full VAT amount plus an additional fee.

B. Getting cash at an international refund point

- a. First the Tax Free form to be export validated.
- b. then the same need to be presented at an international refund point
- c. and then refund can be in cash (a cash fee may apply).

C. Getting the refund onto credit card

- a. Once Tax Free form has been export validated, the number of a valid credit card is to be written on it,
- b. Then the form to be sent back to Premier Tax Free (prepaid envelope can be used if available).
- c. Once they received export-validated Tax Free form, refund will be credited to the credit card.

6.4 Refund at France

Eligibility:

- a. Should be non-resident EU
- b. Over the age of 16.
- c. Should be in france for less than 6 months.

Conditions:

- a. Good should be purchased from a retailer offering VAT refunds.
- b. Goods should be tourist goods
- c. They should be purchased on the same day in the same store at a total cost of over €175 including VAT.

- d. the goods should be taken back by the tourist to his country.

Getting stamped while leaving:

- a. They can be stamped at any PABLO barcode reader.
- b. There is no need to contact Customs.
- c. PABLO barcode readers are generally located near to Customs offices in international airports, ports and at border crossings.

At PABLO Reader:

- a. one of the eight languages proposed on the touch screen, to be selected.
- b. The bar code on the form to be scanned using the reader.
- c. A green screen will appear with the message «OK, form valid»:
- d. this electronic approval is exactly the same as a Customs stamp and the approval process is complete.
- e. If a red screen appears the instructions on screen to be followed.
- f. Once the form has been scanned and approved, Visitor can obtain a refund directly at a reimbursement window if there is one located at the exit point.
- g. Alternatively, they can opt for a refund via bank transfer.
- h. They should inform the retailer of their preferred option when purchasing the goods.

6.5 Tourist Refund Scheme in Singapore:

A. Eligibility :

Must be a tourist and must meet the following criteria:

- a. Not a Singapore Citizen or Permanent Resident;
- b. Should have spent 365 days or less in Singapore in the last 24 months before the date of purchase
- c. Should have not been employed in Singapore in the past 6 months before the date of purchase

- d. Should not be a crew member of the aircraft/ship .
- e. Should be 16 years or older at the time of purchase.
- f. Should be leaving Singapore from [Changi Airport](#) or [Seletar Airport](#); or are an international cruise passenger leaving from the [Marina Bay Cruise Centre Singapore](#) or the [International Passenger Terminal](#) at HarbourFront Centre. {If they are leaving Singapore on a cruise-to-nowhere, a round-trip cruise or a regional ferry, they are not eligible for a GST refund. If they are leaving Singapore by the Causeway, they are also not eligible for a GST refund.}
- g. They must have made purchases within two months from when they apply for a refund.

Purchases that are not eligible for a GST refund include:

- a. Goods which have already been used or consumed in Singapore.
- b. Goods that are being exported for commercial purposes.
- c. Goods that will be exported by freight.
- d. Accommodation in a hotel or hostel, and services such as car rental and tour charges.

Where to get the refund:

- i. If they are leaving by air, they can apply for GST refund using the Electronic Tourist Refund self-help kiosks (**eTRS kiosks**) found at [Changi Airport](#) Departure Check-in Hall (before departure immigration) and Departure Transit Lounge (after departure immigration); and at [Seletar Airport](#) Immigration & Checkpoints Authority (ICA) duty office.
- ii. If they are leaving by international cruise, they can apply for GST refund using the Electronic Tourist Refund self-help kiosks at Levels 1 and 2 at [International Passenger Terminal](#) at HarbourFront; and Level 1 and Level 2 Mezzanine at [Marina Bay Cruise Centre Singapore](#) at Marina South.

Electronic Tourist Refund Scheme (eTRS) : Working

There are *two ways* to claim the refund using the eTRS.

I.

- a. One credit/debit card to be used as a Token.
- b. Every time they make a purchase, the same card to be presented to the retailer. This card will be used to link up all their purchases.
- c. When they want to get a refund at the airport or cruise terminal, they should go to an eTRS self-help kiosk and swipe that Token.
- d. Details of all their purchases will be retrieved at one go, and they can proceed to make their claim following instructions on the kiosk.
- e. By choosing a credit/debit card to be used as a Token, does not necessarily mean that they have to pay for purchases using that card.
- f. They can still pay by cash or by other credit/debit cards.

II.

- a. If they don't have a credit/debit card, or don't wish to use the card as a Token, they must collect an eTRS Ticket from the retailer at the time of a purchase.
- b. All such eTRS tickets to be scanned at an eTRS self-help kiosk one by one. They can claim the refund by following the instructions on the kiosk.
- c. After swiping the token card or scanning of eTRS tickets, they will be asked to choose whether refund to be made to the credit card or in cash (for tourists departing from [Changi Airport](#)).
- d. If they are departing from [Seletar Airport](#) or the cruise terminals, they will be asked to choose the refund to be made by bank cheque or credit card. When it is chosen, the kiosk will issue a Notification Slip. It should be read to see whether the tourist need to go to the Customs Inspection counter, where customs officers may ask to see purchases for further verification.
- e. If tourist choose to have refund in cash, they should head to the Central Refund Counter in the Departure Transit Lounge (after departure immigration) with the Notification Slip to collect the cash.
- f. If they choose to have the refund credited to the credit card, the money will be credited to the specified credit card within 10 days.
- g. If they choose to have refund by bank cheque, they need to write their name and mailing address on the Notification Slip and drop the slip

into the cheque refund box. The bank cheque will be mailed out to them 14 days later.

- h. The actual amount refunded will be less than total GST because of handling fees. The details of the handling fees will be shown on the eTRS Tickets issued to the tourists.

7. Salient Features of the system in other Countries : Synopsis

- a) It is not universal but is applicable only through a specified participating retail shops.
- b) Tourists eligible for refund have been specified.
- c) Non-eligible goods/services has been specified in UK and they are mail order goods, including internet sales,.
- d) There exists a threshold limit for administrative convenience.
- e) The mechanism is only meant for unused goods of non commercial quantities.
- f) Car is also excluded from the purview of the refund in all these countries.
- g) Hotel bills are also excluded from purview of refund in UK /EU and Singapore.
- h) Parameters captured in the refund form are Passport Number, Invoice Number, Duty Details.
- i) Singapore and France are using support of electronics system for smooth processing of refund.
- j) Mostly the customs examination of the goods at the exit point is envisaged.
- k) Cash refund/ Cheq refund/ Refund through credit cards are some variant methods.

| | Eligibility | Threshold | Excluded | Mechanism |
|-----------|-----------------------------------|-----------------------------|---------------------------------|---|
| UK | Residing out side for > 12 months | Min: GBP 75 Max. GBP 600 | Cars; Boats; Hotel bills; | With VAT 407 form Claim at departure; Examination; Refund from the |

| | | | | |
|------------------|--|-------------------|---|---|
| | | | Used goods | retailer, |
| EU | Foreigners as per Passport | 80 EUR to 175 EUR | Cars; Yatches; Hotel bills | Instant refund Claim at Airport Claim after leaving |
| France | In France < 6 months; Age >16 years | 175 EUR | Cars; Boats; Hotel bills; Used goods | PABLO Claim after leaving |
| Italy | Visitors only; Age > 16 years | 150 EUR | Cars; Boats; Hotel bills; Used goods | Instant refund Claim at Airport Claim after leaving |
| Singapore | Tourists only;(>12 months) Age > 16 years | No limit | Cars; Commercial Hotel bills; Used goods | e-TRS Link with Credit/Debit card; Kiosk at airport; Can also claim after leaving; |

8. Proposed Model for India:

8.1 Legal requirement:

- a) IGST should be charged on supply to tourist like import of goods.
- b) The supplier will upload the invoice generated for tourist to the GSTN, immediately (preferably within 6 hours)
- c) Purchase should be from the retail shops registered under GST.

- d) Rules/Regulation making power for refund of duty to tourist under GST to the Foreign Tourists.

8.2 Eligibility:

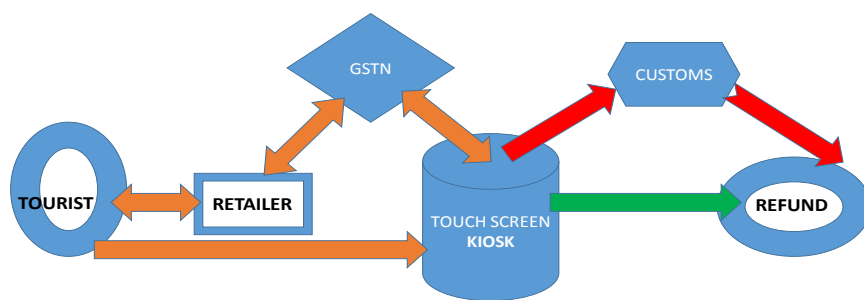
- a) Tourist should not be an Indian Citizen
- b) Should be a short time visitor (<60 days) so that our FE reserves are intact.
- c) Threshold limit can be kept at about INR 5000.
- d) Goods covered under OGL should only be eligible.
- e) Taxes paid on hotels and meals, goods & services consumed before departure should be in the negative list.
- f) Non-eligible goods/services should include, mail order goods, internet sales etc.
- g) Car/vehicles should be excluded from the purview of the refund.

8.3 Procedure :

- a) Purchase should be from a registered retailer under GST.
- b) On presentation of tourist status IGST should be charged.
- c) Invoice should be generated and uploaded to GSTN by the retailer.
- d) Refund form should be provided there in itself.
- e) Instant refund can be sanctioned there itself by blocking credit amount from his card.
- f) Tourist can go to Touch screen kiosk at terminals.
- g) Touch screen kiosk can validate the invoices and may accept the refund claim and sanction
- h) Kiosk may direct for customs examination.
- i) There should be designated customs officer at each international Air port.
- j) One GSTN terminal should be provided to the designated customs officer.
- k) Refund form to be submitted to the designated Customs officer by the tourist.

- l) On submission of the same along with invoices, officer should verify from GSTN and match with the goods presented by examination.
- m) If found eligible, refund should be sanctioned(GST paid minus handling charges of 1%/2% of amount of refund).
- n) Based on the said refund order Refund Counter should pay the refund in the currency of the destination.

8.4 Simple Work Flow Chart of the above said mechanism is depicted below:



8.5 Conclusion

- a) Purchases from authorized duty free retailers should only be eligible for refunds
- b) Supplies to International Tourists deemed to be exports and to be charged to IGST
- c) The purposed model envisages seamless transaction backed by GSTN.
- d) Easy to administer and sanction of refund after instant verification through GSTN.