

**N K SINGH***Sunday , September 11, 2005*

From the ringside

**Put Finance Ministry on reforms path**

The Parliament is in recess. While the Press survives the silly season, Ministers get respite to plan for the future. Chidambaram has already initiated a pre-Budget exercise to re-write the Income Tax Act. This is also a good time for him to reflect on what else he can do which does not get mired in controversy. His second term as Finance Minister has modest success to his credit; bold ideas and initiatives have been stalled in the quagmire of coalition politics. His detractors are as many within the government as among the allies. Given these limitations, there are some areas which are non-contentious and can result in public good.

- First and foremost, to complete the agenda of tax reforms. The exercise to re-write a new Income Tax Act was initiated by him in 1997 but implementation of the Easwaran Committee Report was overtaken by events. Since then, there have been a number of changes in the [tax law](#). A new Act which is written simply, using somewhat non-technical language which can be understood by an average man would be widely appreciated. One bad example was the self-filing Income Tax Return called the Saral (simple) but which in effect was Jatil (complicated). That is a route which must be avoided. We must also enlarge the scope for self-filing and self-assessment of [tax returns](#); the forms can be retained by the assessee themselves while paying off their liability. When in doubt, the returns can be sought by the assessing officer. Otherwise, gathering returns whose custody is onerous merely adds to work, congests space and creates an adversarial culture.
- Second, any reorganisation of the Revenue Department should include better co-ordination among its multiple intelligence agencies. The Central Board of Direct Taxes (CBDT) has an Investigation Division, with field formations for gathering intelligence on tax evasion. It also conducts searches and carries out investigations in cases of tax evasion. I guess while this is necessary both as a deterrence and enforcing compliance, revamping the present system by increasingly replacing overt action through investigative audit needs consideration. At any rate, the obnoxious practice, sometimes followed in the past, where field officers are given targets on numbers of cases, raids and seizures needs to end.

The Central Board of Excise & Customs (CBEC) has a Directorate General of Revenue Intelligence (DRI), a Directorate General of Anti-Evasion and Directorate of Preventive Operations. In addition, there is a Central Economic Intelligence Bureau (CEIB) and the Directorate of Enforcement. The Directorate of Enforcement, with the repeal of the Foreign Exchange Regulation Act (FERA), is concerned with the adjudication of earlier cases. The high pendency of earlier cases which have gone on endlessly are a source of interminable harassment. Enforcement Directorate also implements the FEMA and the Prevention of Money Laundering Act. The CEIB, which has an Economic Intelligence Council, co-ordinates intelligence functions of Intelligence Bureau, RAW, Narcotics Control Bureau and has functions which are similar to the Directorate General of Revenue Intelligence. Clearly, both the DRI and the CEIB need to be merged. DRI is an older organisation with considerable expertise and can effectively absorb the

functions of the CEIB. In addition to this, the functions of the Directorate General of Anti-Evasion and Directorate of Preventive Operations can also be merged.

- Third, the present Acts being administered by the Revenue Department need major simplification. In the area of Direct Taxes, all existing Acts which are still relevant should be merged with the Income Tax Act and the Wealth Tax Act.

In the area of indirect taxes major changes are needed. The Acts include the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974 (COFEPOSA) whose main purpose is “to provide for preventive detention in certain cases for the purposes of conservation and augmentation of [foreign exchange](#) and prevention of smuggling activities and for matters connected therewith”. This is a Draconian Act, because apart from detention powers, its definition is wide to include anyone engaging in smuggling, keeping smuggled goods, engaging in transport of smuggled goods, harboring such persons and particularly specifies areas which are highly vulnerable to smuggling etc.

To buttress this Act, there is another legislation, namely the Smugglers and Foreign Exchange Manipulators (Forfeiture of Property Act, 1976, (SAFEMA) which is designed “for the forfeiture of illegally acquired properties of smugglers and foreign exchange manipulators since smuggling of foreign exchange manipulation have a deleterious effect on the national economy”. As if this was not enough, there is an Appellate Tribunal for Forfeited Property (ATFP) which hears appeals against orders passed under the SAFEMA Act. We have an entire hierarchy of organisations dealing with conservation of foreign exchange with preventive detention, investigation, enforcement, forfeiture of properties and appeals.

At a time when FERA, which was the primary Act for enforcing foreign exchange violation, has been replaced by FEMA, making it a civil compoundable offence, to keep a Prevention Detention Act, (COFEPOSA) and the Forfeiture of Property Act, is untenable. Offences connected with smuggling are adequately covered by the Customs Act, 1962 which if need be can be strengthened. India takes pride in the abundance of its foreign exchange. The Reserve Bank of India, notwithstanding neutral postures, intervenes discretely to prevent excessive appreciation of the Rupee. It is ironic that while one arm, namely the Economic Affairs and RBI, propose clever financial engineering to prevent excessive reserve accumulation, the other arm, namely the Revenue Department, is busy detaining people for preventing the augmentation of foreign exchange. We have a problem of plenty instead of scarcity; continuing the COFEPOSA and the SAFEMA Act is incongruous with contemporary reality. They have increasingly become a source of harassment, manipulation and corruption.

- Fourth, the Expenditure Department faces two challenges:
  - Devising a credible expenditure tracking and evaluation system in line with Chidambaram’s recent Outlay-Outcome document presentation to Parliament and which can truly enforce Performance Budgeting.
  - Resolving the dichotomy in the accountability of [financial advisors](#); torn as they are between the allegiance to their administrative ministry which prefer somewhat lax expenditure control and the MoF seeking rigorous enforcement of expenditure norms.
- Fifth, the Department of Economic Affairs needs a rejig. Bilateral assistance and

even multilateral aid flows have ceased to be our dominant concerns. Nor should the Ministry say, be looking after currency, coinage and government mints which should be transferred to the RBI. Re-organising divisions to focus on infrastructure, investment and play a catalytic role for co-ordinating economic reforms in other Ministries should be the dominant concerns.

Reforming the Finance Ministry to meet contemporary challenges deserves serious attention. Earlier committee reports were either ad hoc, impractical or flawed. Chidambaram can use the period between now and the next Parliament session to initiate serious action. This could signal other Ministries to undertake similar efforts. A reformed Finance Ministry is central in implementing the multiple promises and challenges of the UPA Government. The compulsion to re-adapt economic policies to meet the needs of altered times makes this inescapable.

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