

TAX DATA ANALYSIS

ROADMAP FOR INDIAN TAX ADMINISTRATION

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OUTLINE

- Why data?
- Statistics and Research by ITD
 - Looking at International Best Practices & what India can learn- Australia, Canada, SA, UK, USA**
- Tax Statistics
- Research & Analysis
- Regulatory Impact Assessment
- Lack of Utilization of data- India
- Statistics & Research wing set-up

HOW DATA HELPS?

*“It is a capital mistake to theorize before one has data”.
– Sir Arthur Conan Doyle*

- Data is the foundation of tax reforms and policies
- Keeps taxpayers informed
- Improves client-tax administration interface
- Helps in monitoring day to day working and evaluating performance
- Evidence based Tax Policy formulation & regulation
- Tax planning
- Recruitment, training and deployment

HANDLING DATA

- Collecting data- 3 main sources:

Income Tax Returns (ITR),

Third Party information,

Surveys carried by both tax administration and external sources

- Timely Availability of accurate data (Time bound policies)
 - determines quality of research and analysis
- Inter Departmental coordination for data sharing
- Data coordination across and within sectors & departments
- Use of ICT

TAX STATISTICS-

Income Tax Department, India

2 main dedicated bodies:

TPL
Division,
CBDT

Policy
Formulation,
legislation and
budget

Relies on data of other
divisions: IT Budget
Division, IT
Coordination Cell,
Judicial division of
CBDT, Transfer Pricing
and Dispute Resolution
Panel & DIT(Systems)

Research
&
Statistics
wing, DG
(Logistics)

Compiling
Statistics from
Commissioner of
IT(Appeals)

Used to bring out All
India Income Tax
Statistics but
discontinued

INCOME TAX STATISTICS- INDIA

- All India Income tax Statistics
- Administrative Handbook of ITD
- Annual Report, Ministry of Finance
- Report of C & AG on
 - Compliance Audit and
 - Performance Audit of the CBDT
- E-filing website of the Income Tax Department

BEST PRACTICES FROM AROUND THE WORLD

A QUICK VIEW

AUSTRALIAN TAX OFFICE (ATO)

ANNUAL STATISTICS

DETAILED STATISTICS

- Historical data- as old as 1950
- Data for **Individuals, companies, partnerships, trusts, superannuation funds, etc.** by
 - PAYG, withholding (TDS), installment tax (advance tax), activity statements (info return on line of TDS), GST, CGT, FBT, Excise, cost of tax compliance
 - Returns by lodgment mode, tax status, gender, state wise, postcode wise, for age groups (13 groups)
 - Country wise international expenditure and no. of such companies
- Average time taken to complete return form
- Charities claiming concessions by charitable purpose.
- Industry/partnership/trusts benchmarks-
 - gross profit ratio,
 - wage to sales ratio for 214 fine industry groups and
 - 573 fine industry classes
- Invite public feedback on publications to review

CANADA REVENUE AGENCY (CRA)

REPORT TO
PARLIAMENT

CORPORAT
E REPORTS

STATISTICS

RESEARCH
REPORTS

- Historical data – as old as 1962
- **STATISTICS** eg:
 - **Income by area (provinces, census divisions)**
 - No. of returns,
 - No. of non taxable income,
 - commissions,
 - old age security pensions,
 - **interest and other investment: Partnership income for limited or non active partners, alimony or maintenance income, net scholarship and bursary income by total income class, net income by income classes, Percentage of individuals who paid taxes on time, file on time, etc.**
- Required to submit report to parliament each FY on administration of 'Access to Information Act' and 'Privacy Act'
- Quarterly Financial Report-measure the budgetary performance of CRA relative to estimates made

SOUTH AFRICA REVENUE SERVICES (SARS)

- Historical Data: **1995** onwards
- **Annual Reports**: CIT revenue by sector, performance of SARS- leadership effectiveness Index, employee engagement index, workforce profile, etc.
- **Tax Statistics**:
 - taxpayers by categories (individuals, companies, trusts, employers)
 - VAT vendor, exporters, importers
 - PAYE payments received by economic activity (construction, transport, mining, etc.),
 - Domestic VAT payments by economic activity,
 - Distribution of VAT vendors by payment category (monthly, biannually, etc.)

HER MAJESTY'S REVENUE & CUSTOMS (HMRC), UK

ANNUAL STATISTICS- over 100 statistical products

- Historical data- 1938-39
- Statistics eg: **Total UK tax receipts by population distributed geographically**, stamp duty land tax receipts, **alcohol duties receipts**
- Comparison to last year's estimates of each type of tax/Duty -- if there is a minor change, very minor change, none, etc. Explains the methodology
- Assets by age and gender, **estate size by age and gender**, distribution of total income for bottom & top 50% taxpayers, **average value of private medical insurance by income range**, total benefits in kind for directors & employees by income range
- Conducts surveys and gives results like how do customers like HMRC statistics, how easy it is to use them, what information is used, etc.
- Annual Schedule: updates about each type of statistics (if any change) and its frequency of release
- Statistics which qualify the code of practice receive the **National Statistics Quality Kite mark**
- Quality of report: gives a quality check vis a vis; a number of parameters

INTERNAL REVENUE SERVICE (IRS), USA

IRS Data
book

Complete Year Data- Detailed
Statistics

Statistics of
Income (SOI)

Other IRS Data
& Research

- **Historical data- 1863, -source wise and district wise data**
- **Archive 1863-1999: all categories of taxpayers including tax exempt organizations like private foundations, charitable trusts, etc.**
- **Complete list of commissioners since 1862**
- **Statistical Publication released since 1916 when mandated by Congress by *Revenue Act 1916***
- **Data Published within 6 months from end of fiscal year**
- **Math error on individual income tax returns by type of error**
- **US population migration data: tracks yearly changes in residential address & movement patterns across states and counties (1991-2013)**

RESEARCH & ANALYSIS

- CBDT carries out studies as part of budget exercises. But not in public domain
- Taxes Foregone Analysis in *Statement of Revenue Impact on Tax Incentives under Central System*
- Studies by external organizations: NIPFP, NCAER, ICRIER, NIFM, FICCI, etc.
- India- no tax gap study in public domain.

INTERNATIONAL PRACTICES: ATO

- **ATO professionalism survey-** evaluates degree of professionalism offered by ATO workers
- **Business perception Survey-** conducted across SME to assess their perception towards ATO services, mostly outsourced
- **Your case matters-** analysis of litigation trends and highlights the significant cases
- **A) Market Research:** to find attitudes & opinions of taxpayers through phone, on line surveys, discussion groups or individual interviews
- **B) General Research:** community perception survey, feedback on ATO's website, to gain understanding of affected tax payers experience and how ATO can provide more effective & timely support following identity crime
- **C) Tax Practitioner Research-** to conduct research to increase understanding of tax agent perceptions and identify irritants with the lodgment program framework
- Lists ongoing projects with year, project identification no., field work dates, name of researcher, start & end date, purpose of study, designated contact

CANADA REVENUE AGENCY (CRA)

- **‘Public opinion’ research**
- **Accessible **within 4 months** of data collection**
 - eg: taxpayer communications clarity testing to evaluate how clear, comprehensible & understandable external administrative correspondence is to clients
- **2011 Taxpayer Attitudinal Segmentation Research: purpose is to use it in developing marketing initiatives for voluntary tax compliance**

HMRC, KNOWLEDGE, ANALYSIS & INTELLIGENCE (KAI)

- Involves: **understanding customer**, maximum voluntary compliance, **dealing with non compliance**, **carry out modeling & empirical analysis** to examine policy options and their impact
- They realize customer behavior is result of the policy and action of the administration
- **HMRC Data Lab**: from where anonymized data can be accessed by a wide community of researchers in a govt. authorized secured environment
- Large no. of Research reports (244), **working papers** and customer surveys
- All research funded by HMRC is published

INTERNAL REVENUE SERVICE (IRS)

- Office of Research, Analysis & Statistics (RAS) & a no. of other units called the Research Community.
- All work coordinated by 'Servicewide Research Council'
- RAS carried through: survey and focus group, analysis of taxpayer characteristics, behavior research, analysis of data to identify trends and issues, creation of models using external and internal data, etc.
- Lab experiments
- Field nature experiments
- Econometric analysis
- SOI Joint Statistics Research Program: bring together IRS and external researchers
- IRS research conferences > research papers available > credit to authors
- Each year's conference document contains a selected set of research paper > sorted by broader topics with hyperlinks to the complete paper.

REGULATORY IMPACT ANALYSIS/ASSESSMENT (RIA)

- RIA- tool to evaluate changed or new legislations/policies by measuring their costs & benefits. Effectiveness depends upon public communication of RIA.
- India- not available in public domain

ATO

- Office of Regulation Review (ORR) clears RISs prepared by various govt. departments
- RIS Guidelines
 - a) Specify policy objective*
 - b) Identify implementation options*
 - c) Impact group identification*
 - d) Cost of compliance*
 - e) Administrative costs of govt.*
 - f) Economic costs*
 - g) Recommendation*
- RIS prepared for: **a) A cabinet submission b) An explanatory memorandum c) Letters to the PM or other ministers**

INTERNATIONAL PRACTICES- RIA

CRA

3 main functions:

1. *Acts as a framework for federal departments taking regulatory initiatives*
2. *Summary for ministers to take decisions on proposals*
3. *Disseminates public information on such proposals*

SARS

RIA granted cabinet approval in Feb 2007. Addresses:

1. *Nature of problem*
2. *Regulation needed*
3. *Clear & reasonable proposals*
4. *Alternative approach/solutions*
5. *Benefits of regulations*
6. *Cost of regulation*
7. *Public consultation*
8. *Support for regulation*

HMRC

- **Carries Impact Assessment (IA) for changes awaiting legislation.**
- **Regulatory Policy Committee (RPC) carries out independent scrutiny. RPC has laid out 7 recommendations:**
 1. *Regulation is not always the solution*
 2. *Put time & effort to consider options*
 3. *Provide substantive evidence*
 4. *Reliable cost benefit analysis*
 5. *Non monetary impacts*
 6. *Explains results clearly*
 7. *Cost to business*

Carried out as part of the legislative proposal

US IRS

- **Regulatory process for both existing & new regulation**
- **Drafting team specifies whether it is ‘significant regulatory action’ based on a no. of factors**
- **Regulatory Flexibility Act (RFA) 1980: requires federal agencies to provide analysis of regulatory impact on small entities**

TAX GAP

- Tax Liability due/ Not paid in time
- HMRC- tax gap studies every year; twice a year (preliminary estimates and second estimates)
- HMRC has working papers on tax gap
- ATO every year- indirect taxes but proposes to do direct taxes soon
- IRS carries periodically; latest in 2014
- Methodology is also published
- In India- no department study in public domain

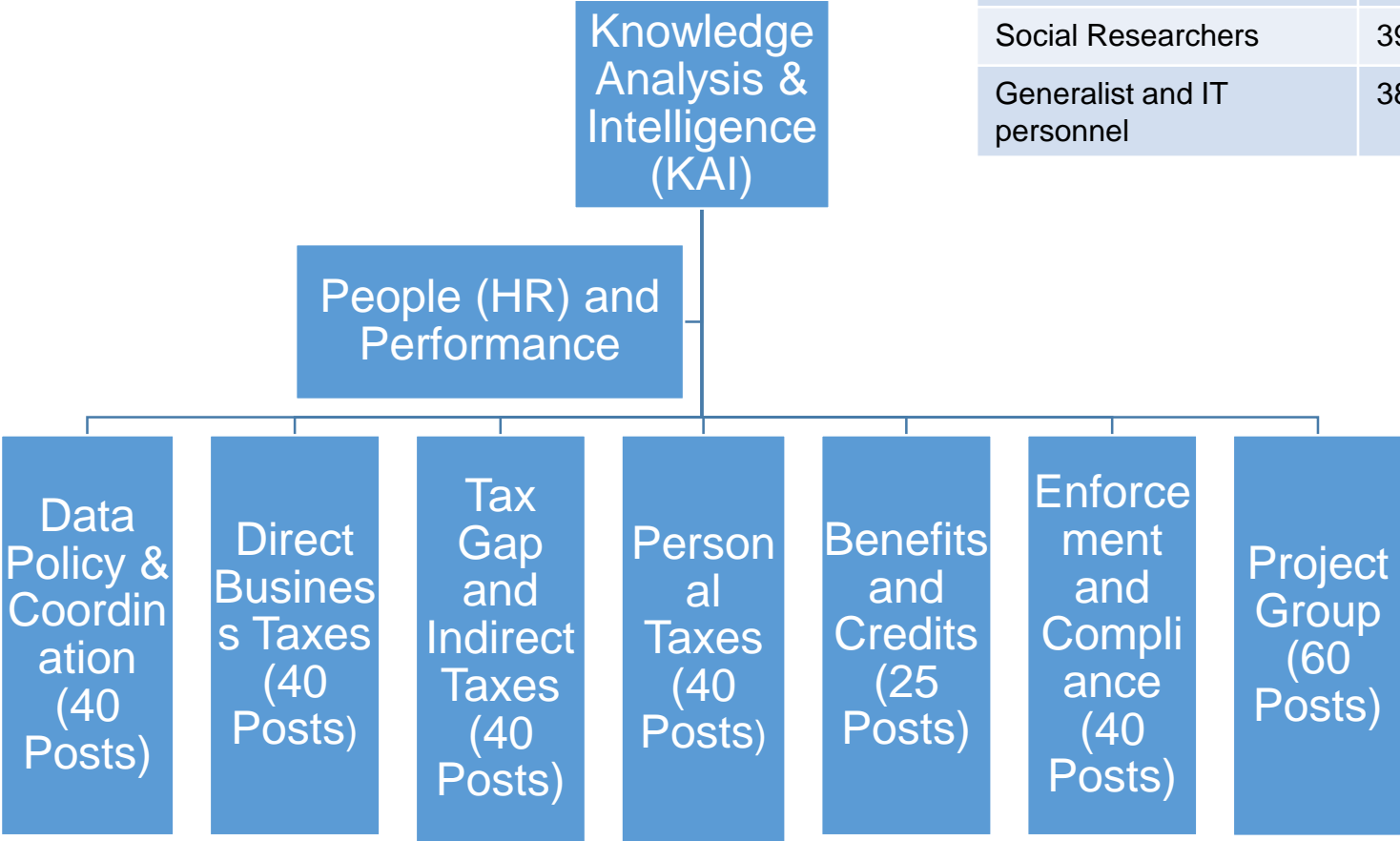
LACK OF PROPER UTILIZATION OF DATA- INDIA

- A lot of Information received by way of tax returns, TDS, TCS & other external sources.
- Tax payment data and income tax returns processed on computers since 1999-2000 now centralized at primary data centre from 2008
- TDS & TCS also electronic since 2003
- 90% electronic filing of returns in India
- Data sources: PAN database, all tax returns including ITR6 contains details of various parameters ,exemptions claimed, TDS, TCS
- Audit reports also filed electronically

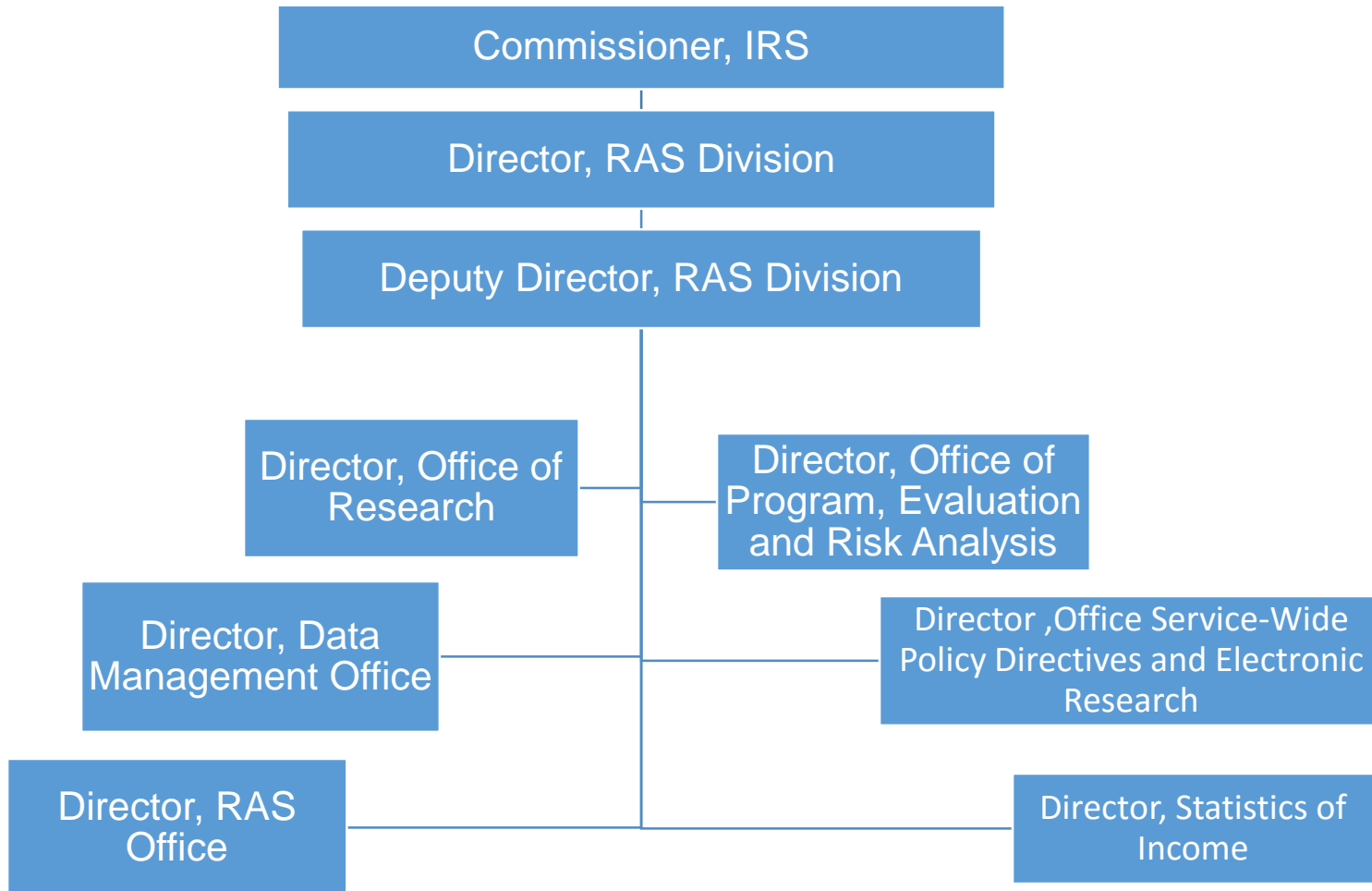
Information not maintained or compiled in the normal day to day administration

STATISTICS & RESEARCH SET-UP OF HMRC

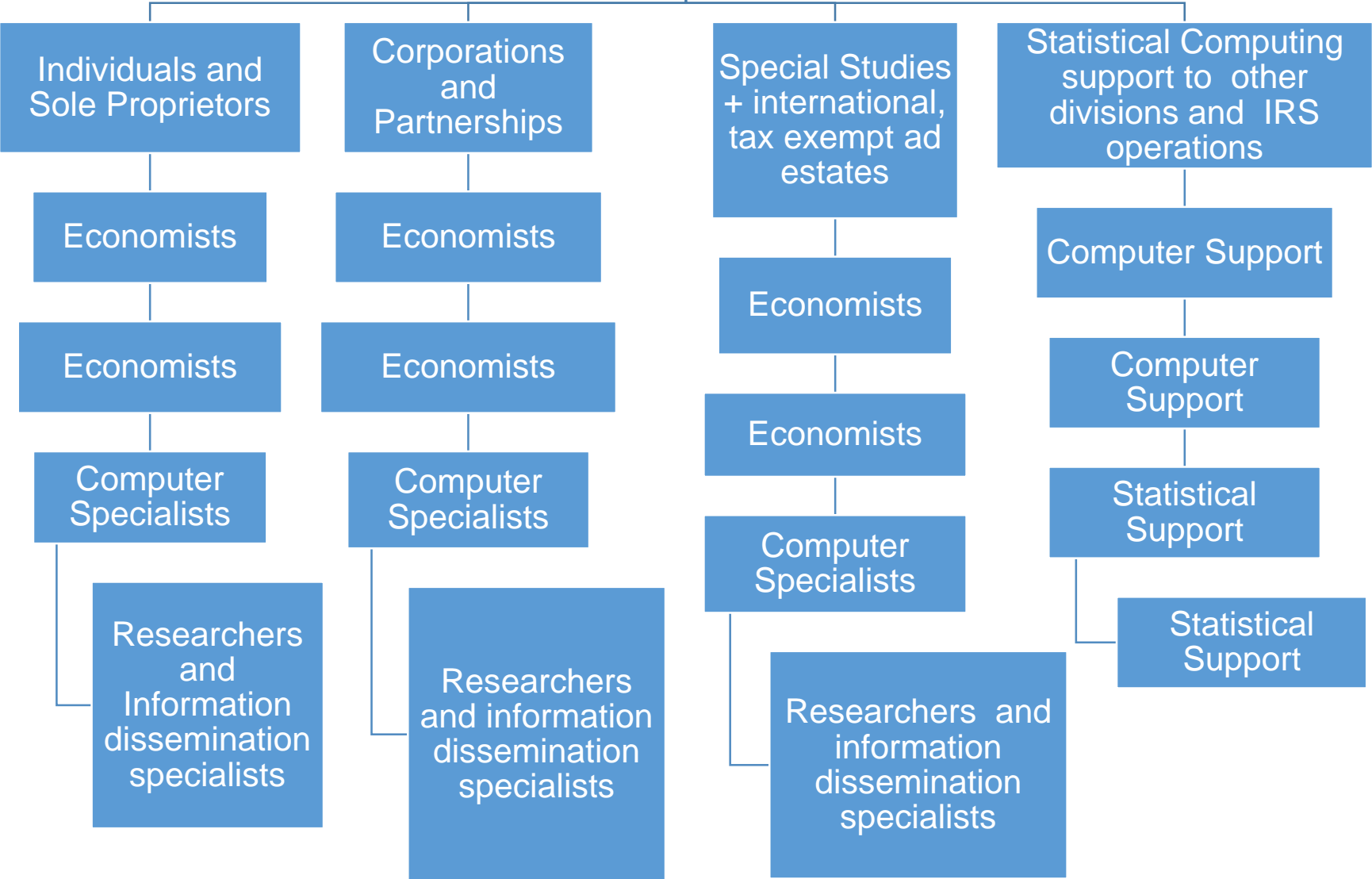
Team Discipline	Number
Statisticians	128
Economists	59
Operational Researchers	70
Social Researchers	39
Generalist and IT personnel	38



ORGANIZATIONAL STRUCTURE- US IRS

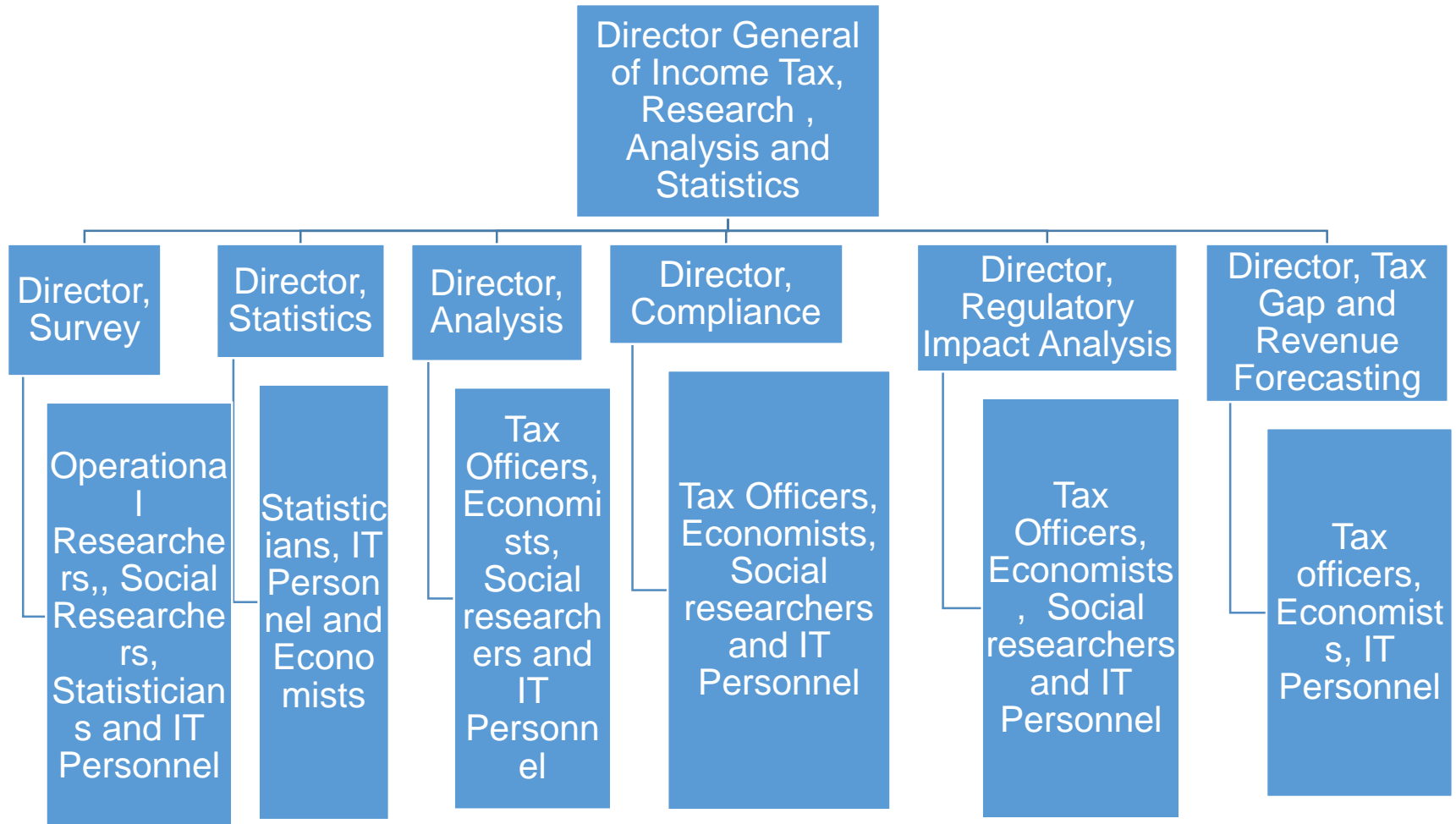


Statistics of Income Division



STATISTICS & RESEARCH SET UP FOR INDIA- RECOMMENDATION

India needs a dedicated Research & Analysis set up in ITD.



WHERE CAN WE IMPROVE? A GUIDE FROM THIS WORK

- Historical data: 150 years by USA, 75 years by UK, etc. Publish Indian data whatever available with caveat
- Statistics on all line item of returns, TDS Returns, Audit reports etc
- Extensive Analysis of data on various parameters
- Social security data integrated with tax data- Brazil, Canada, UK, USA, others
- Integrating data, building strong database
eg: Land records, Agriculture income, etc. with ITR even for delivery of benefits
- Carrying out surveys by the Department
- Putting data and reports in public domain- hardcopy and soft copy (PDF and Excel format)- to facilitate research and analysis
- Data sharing between government and private sector
- RIA & Tax Gap studies

THANK- YOU