

Enhanced relationship in developing countries

FIT Mumbai, 2013

6 December 2013

Basic relationship: Meaning

- Basic relationship between taxpayer and tax authorities provides what each party is legally required to do without any urging or persuasion from the other
- ‘Obligation-based’ nature of relationship
- For taxpayers, basic relationship means:
 - File tax return disclosing minimum information
 - Declare and pay ‘right’ amount of tax on time
- For revenue authorities, basic relationship means tax officer is equipped with certain administrative tools to:
 - Question taxpayer about tax declaration
 - Seek more information about tax declaration
 - Take enforcement measures to correct calculation of tax

Enhanced relationship: Meaning

- Move from basic relationship to enhanced relationship is driven by:
 - Recognition that tax compliance can be improved by blending incentives to full compliance with the traditional penalties for non-compliance
 - Recognition that tax authorities should bring balance to their service and policing roles
- Key measures for enhanced relationship:
 - Commercial awareness of tax officers
 - Impartial approach
 - Certainty
 - Disclosure and information
 - Less litigative approach
 - Regulating tax administration

Issues for discussion

1. What is your understanding of enhanced relationship?

Issues for discussion

2. What are the key attributes of enhanced relationship from the perspective of taxpayer and revenue authorities?

Issues for discussion

3. Would enhanced relationship encourage voluntary compliance by taxpayers?

Issues for discussion

4(a) What steps the taxpayers need to take for enhanced relationship to work in a developing country?

Issues for discussion

4(b). What are the changes required in the tax administration of developing countries for enhanced relationship?

Issues for discussion

5. What is the role of intermediaries in fostering enhanced relationship?
- How intermediaries influence taxpayer behaviour and assist taxpayers in complying with their tax obligations?

Issues for discussion

6. Do you think accountability of tax authorities for administration of taxes would aid in fostering enhanced relationship?

Issues for discussion

7. In developed economies can a taxpayer obtain an advance clearance from the revenue authorities in respect of proposed/ actual transaction before filing the income tax return?
- If yes, then, can it be obtained for all taxpayers or is it limited to certain class of taxpayers?
 - Kindly give an insight of your experience

Issues for discussion

8. Whether developing countries would be willing to introduce the concept of obtaining advance clearance from revenue authorities in respect of a particular transaction?
- If yes, then, would it be introduced for all classes of taxpayers considering that presently an advance ruling can be obtained from the Authority for Advance Rulings only in respect of a transaction entered into by/with a non-resident or a Public Sector Unit?

Issues for discussion

9. Whether enhanced relationship between taxpayers and revenue authorities (example obtaining Advance Ruling), would have helped in avoiding transfer pricing litigation amounting to an adjustment of USD 2.8 billion (approx.) in case of Shell India?

Issues for discussion

10. Do search and seizure operations on the premises of a taxpayer tantamount to infringing privacy of the taxpayer? Would this be opposed to enhanced relationship?
- If yes, what safeguards need to be taken by the revenue before carrying out search at the premises of the taxpayer.

Issues for discussion

11. What is your experience on enhanced relationship between 2 countries?

Issues for discussion

12. How would tax information exchange between two countries help in enhancing relationship?

Issues for discussion

13. Any other possible suggestions to improve enhanced relationship between taxpayer and revenue authorities?