

# Enhancing Effectiveness and Efficiency of Tax Departments in India

## Abstract

In the competitive era concepts such as zero defect and sustainability are the secret mantras for success and goodwill. However while managing public administration departments not much effort has been made to attain Zero Defect or productivity and sustainability. This paper is a reflective paper focusing on the inefficient administration of tax departments in India and provides recommendations at a dyadic level to enhance the effectiveness and efficiency of the functioning of tax departments across the country.

**Keywords:** Tax Administration, Tax Policy, Voluntary Compliance, Zero Defect, Effectiveness, Efficiency

## Introduction

The Government of a country tries to establish economic stability and bring economic development by reforming its tax policies and reducing its fiscal deficits. However an inefficient administration of these reforms and compliances result into poor tax collection and increase the problems for tax payers. In order to promote tax payer compliance and tax payer responsibility and trust, it is inevitable to adopt certain innovative strategies. In India as against the population of 1.28 billion in 2015 the income tax payers are merely 2-3% of its population. The others pay no income tax at all. Thus it is needless to say that tax laws alone cannot guarantee good tax collection and compliance it needs the support of employees and other resources in effective implementation of the tax laws. Proper management is therefore necessary to enhance effectiveness and efficiency of tax departments functioning in India

Enhancing productivity by tapping the national resources, minimizing defects and targeting sustainability is a national agenda today. It includes enabling and motivating human resources realize their full potential by improving attitudes and developing capabilities to succeed in a dynamic environment through flexibility and creativity. Improving the effectiveness of public services and local bodies is also a key area. In this regard there is a need to restructure certain aspects of these sectors to improve the effectiveness and efficiency of these departments.

Following are the specific measures that are recommended to be adopted for the efficient and effective functioning of tax departments of India. These recommendations for improvements can be implemented at a dyadic level

- 1 Government level – Policy making
- 2 Department Level – Operationalising them

## Changes and Improvements needed at Government Level

At the Government level the realization of effectiveness and efficiency goals would require a top down approach which would include the following steps

- 1 Effective Tax Administration
- 2 Effective Tax Payer's Education and Assistance
- 3 Management Information system
- 4 Managing Human Resources

**Effective Tax Administration** would include that the tax laws framed must be consistent, well planned and well chalked out in order to avoid ambiguity and lack of trust from investing companies and tax payers. Conduct of prompt, impartial and courteous tax proceedings against defaulters can facilitate in instilling the responsibility of timely and appropriate payment of taxes by the people and companies. Another step could be to improve tax return formats and information technology design based on survey feedbacks from tax payers to make the system user friendly.

**Effective Tax Payer's Education and Assistance** would enable the majority illiterate people of the country to find ease in the procedures to comply for tax calculation and payment and a solution to exploitation by



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some professionals. Few initiatives to improve relationship between tax payers and tax officers like assistance in filing tax returns would make the process simple and friendly. Although a help desk is provided at the tax departments for the assistance of tax payers the awareness of this facility is debatable and can be enhanced. Educational programs by the Tax Departments to create awareness of the need and value of paying taxes would enhance the conviction of people to make necessary tax contributions. Steps to enhance voluntary compliance by addressing gatherings of businessmen, professionals, employees and students would motivate tax payers to fulfill their tax responsibilities. Disseminating information about regulations, rulings of court, judicial decisions would also foster increased level of compliance and minimize misinterpretation of the tax laws.

**MIS** is another support needed to make the revenue administration effective. A good database of Indian citizens and their banking transactions could be created through technological networking. This would improve the information availability with the officers of the departments. On the other hand a good technological support for integrating transactions with tax deductions by making the tax calculations for any type of transaction as per the Government policies and laws could be created in the form of a mobile application so that the ambiguity of tax payers could be eliminated and would enhance their awareness about their tax liability. The payment of tax could also be made easy through the same app made freely available at the Government level through an effective MIS.

**Managing Human Resources** is a step that is required at the Government Level as well as at the department level. It is ultimately the human resources who operationalise the dream of "Zero Defect, Zero Effect" in terms of the functioning of the revenue departments across India. To improve efficiency of human resources would directly lead to higher effectiveness in tax collection and the reliance that people place on the functioning of these departments. The strategy would be to involve best intentioned employees and provide appropriate tools and techniques to enhance efficiency. These strategies could be

- 1 Having strong systems to detect mistakes
- 2 Being proactive to resolve defects and flaws
- 3 Developing systems that support zero defect
- 4 Monitoring progress and provide feedback
- 5 Measure benefits of eliminating defects and taking quality efforts
- 6 Building quality expectations and rewarding employees taking efforts for quality
- 7 Creating quality improvement team and create a quality culture
- 8 Introducing newness using change management principles
- 9 Creating organizational climate to build employee engagement and enhance employee well being

All the above strategies require the involvement of policy makers and employees working

REMARKING : VOL-1 \* ISSUE-9\*February-2015 at the departmental level. Preparation of the human mind for enhancing effectiveness and efficiency can be attained through the blend of the following factors.

### **Changes and Improvements Needed at Department Level**

#### **Employee Commitment**

There is a significant relationship between perception of organizational justice and effectiveness. Employee's organizational commitment depends upon the employee's perception of fairness of treatment. It has a direct impact on behavior, productivity and withdrawal behavior of an employee.

There is a perceived feeling of injustice with respect to workload distribution and is called distributive justice. It is one of the major causes for lack of organizational commitment. Through proper distribution of workload, providing opportunities for career development and proper working conditions, organizational commitment can be enhanced

Most often employees experience procedural injustice where they feel that they are not consulted while decision making and their problems go unheard. Such an attitude can be modified through participative management and effective communication

Interactional justice occurs when employees feel that they are not treated equally and with respect. They feel their seniors are not supportive. This attitude needs to be resolved through fair and equal treatment to all employees, respect for all employees and open feedback mechanism.

#### **Employee Satisfaction**

A positive attitude which is subject to psychological well being of an employee arises from a positive attitude towards self and by giving autonomy to employees along with accountability. It enhances the satisfaction of self as well as from the job. Decentralization of authority with delegation and team work also has the potential to enhance job satisfaction and thereby effectiveness and efficiency of employees in the revenue departments.

#### **Employee Motivation**

This is another factor that ignites the zeal to zero defects. Intrinsic motivation has a key role to play in improving effectiveness. The problems of motivation could be related to competence, autonomy or sense of relatedness

In many cases it has been observed that promotions of officers and commissioners take place without adequate trainings offered to them. This results into a situation where there is lack of information/ awareness on the side of the officers, lack of confidence in them, illegitimate decisions and treatment to tax payers which becomes the reason for the tax payers to lose trust in the revenue administration system

Autonomy with accountability is good to enhance motivation of employees. It enables them to evolve innovative ways of resolving the problems of tax payers. On the contrary the officers and administrators in the Indian tax departments are fearful of taking risks or innovative steps in handling assessments due to the personal liability created on the officer taking such decisions. The need to create individual responsibility and provide adequate

autonomy for the same would enable in better functioning of the tax departments.

Another area concern is the sense of relatedness of employees. The key to effective team work and benefits of synergy can be attained only by creating an environment of mutual respect for others and reliance on each other as employees of the Government.

#### **Organisational Citizenship**

An attitude that needs to be built in employees to make the departments effective as well as efficient. This quality can be instilled by enforcing disciplinary rules relating to punctuality, following rules and regulations for good human resource management. Creating conscientiousness of the responsibilities by role modeling by senior officers would also help in enhancing organizational citizenship. Promoting altruism where officers voluntarily lend a helping hand to tax payers, professionals, masses and senior citizens. It would build a good relationship between the Government and tax payers as a community. Endorsing good sportsmanship whereby employees work without complaining or looking at lacunas. They need to be conditioned to develop a positive outlook towards their work and available resources in order to attain the objectives of the department. Developing civic virtues such as cleanliness in work place and being ethical while acting as the representative of the department, being empathetic towards the tax payers are few other ways to build organizational citizenship in employees.

#### **Emotional Involvement of employees with their jobs and departments**

It would lead to a different scenario in the functioning of the tax departments and a sense of belongingness would develop result orientation as well as service orientation in employees.

#### **Organisational Climate characterized by service orientation**

This is no longer an option but a necessity. Conducting educational programs for tax payers at local level by delivering lectures in colleges, universities and companies, convening competitions for students to evolve innovative ways of creating awareness and responsibility for voluntary compliance could improve the awareness of many Indians with respect to their tax liabilities.

Creating a positive climate of providing recognition to employees by training them, providing incentives not only based on tax collections but also service orientation or participative contributions for improving department's functioning, providing technological knowhow to enhance employee productivity, objectivity in performance appraisals, and related transfers and promotions, welfare programs to demotivate corruption activities and helping officers to relocate themselves without difficulties could be few steps to create service oriented work climate

#### **Occupational Role Stress and locus of control**

These variables are directly related to the performance of an employee. To ensure sustainability of employees it is necessary to ensure that employees do not feel frustrated, detached from the job. Employees can be exposed to daily stress management activities such as gym, yoga or any other programs aimed at enhancing physical, mental and emotional wellness.

Their belief in personal ability leading to positive outcomes would make them more efficient and productive and will ensure that things are done right in the first time itself.

#### **Instituting Impact Index of People for various activities**

It would help to measure the ratio of positive outcomes of situations handled to the total number of situations handled. This would enable in identifying the appropriateness of placement decisions as well as the level of employee engagement in job. It is an important indicator of efficiency and effectiveness of an employee for the tasks handled by them.

#### **Conclusion**

A judicious mix of the above strategies and its effective implementation would result into improvement of tax administration in India as well as lead to visible and tangible results through the diverse taxpaying groups in India. It would provide benefits to tax payers as well as tax administration departments in India.

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