



DEPARTMENT OF REVENUE  
MINISTRY OF FINANCE  
GOVERNMENT OF INDIA

**COMMERCIAL TAXES MISSION MODE PROGRAM  
(CT MMP)**

**VOLUME I:**

**I - ROADMAP FOR THE COMMERCIAL TAXES  
MISSION MODE PROGRAM**

**II – REPORT ON CURRENT STATE ASSESSMENT  
(AS – IS PROCESS DOCUMENTATION)**

**III - REPORT ON INTERNATIONAL BEST  
PRACTICES IN VAT ADMINISTRATION**

**DECEMBER 2006**



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**ROADMAP FOR THE  
COMMERCIAL TAXES MISSION  
MODE PROGRAM**

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## Table of Contents

<b>BACKGROUND TO COMMERCIAL TAXES MISSION MODE PROGRAM (CT-MMP).....</b>	<b>4</b>
<b>VISION OF CT-MMP.....</b>	<b>4</b>
<b>OBJECTIVES OF CT-MMP .....</b>	<b>5</b>
<b>APPROACH ADOPTED UNDER CT-MMP .....</b>	<b>5</b>
<b>PROPOSED CHANGE RECOMMENDATIONS AND E-GOVERNANCE INITIATIVES.....</b>	<b>6</b>
<b>CHALLENGES IN IMPLEMENTATION.....</b>	<b>10</b>
<b>CONCLUSION.....</b>	<b>11</b>
<b>REFERENCE DOCUMENTS .....</b>	<b>11</b>

## **Background to Commercial Taxes Mission Mode Program (CT-MMP)**

India is presently at a crucial stage in the introduction of Value Added Tax (VAT). The design of VAT in India reflects the principle of fiscal federalism. While the basic design principles for VAT were laid down in the White Paper on VAT published by the Empowered Committee of State Finance Ministers (EC), each of the States of the Indian Union have implemented VAT keeping in consideration various unique aspects of the State. Drawing on the basic design principles laid down in the White Paper on VAT, each State has drafted its own set of VAT Act, Rules and Business Procedures which define the mode of administration of VAT in each State.

Commercial Taxes form the most important revenue base for the States and Union Territories in India, often accounting for 60% - 70% of the total internal resources generated. The Commercial Taxes departments are entrusted with the administration and enforcement of Tax Legislations as might be applicable. As the department mainly interfaces with businesses, its functioning can directly affect the attractiveness of a State as a business destination.

The maturity of VAT implementation varies across various States and a need for streamlining various aspects of VAT administration has been strongly felt. The need for a Mission Mode Program (MMP) under Commercial Taxes was felt to establish a certain degree of standardization across states with respect to Commercial Tax administration and to come up with streamlined citizen-centric, service-oriented processes. It was in this context that the Commercial Taxes MMP (CT-MMP) was conceived by the Government of India under the National e-Governance Plan (NeGP). The initiative is spearheaded by the Department of Revenue, Ministry of Finance, Government of India.

### **Vision of CT-MMP**

At the outset, CT-MMP made a clear distinction between an ideal state tax administration and a future state which may be achieved in India given the various factors which influence any nation-wide program design like CT-MMP. Keeping in view an achievable future state of state administration in India, the vision of CT-MMP was articulated as stated below:

***“To create a modern state tax administration that is Efficient, Effective and Equitable and which is conducive to investment, economic growth and free flow of goods and services within the common market of India.”***

- § An Efficient Commercial Tax administration would mean lower costs of administration for the department and lower costs of compliance for the taxpayer.
- § An Effective Commercial Tax administration system would help improve revenue yield, maximization of voluntary compliance, reduced revenue leakages, reduction in disputes with taxpayers and timely resolution of objections and appeals.
- § An Equitable Commercial Tax administration system would bring about greater transparency in tax administration, uniformity/consistency in application of tax to taxpayers in similar circumstances and greater control over fraud and collusion.

During the visioning exercise, a view was taken that India should be treated as a common market while designing change recommendations and that efficient, effective and equitable

state tax administrations with uniform procedures would lead to an environment conducive to investment, economic growth and free flow of goods and services within the common market of India.

### **Objectives of CT-MMP**

CT-MMP aims at creation of a national infrastructure for facilitating inter-state trade, ensuring uniformity and standards in Commercial Tax administration and enabling free exchange of information. Technology has emerged as a key element of citizen service delivery and identification of various e-Governance initiatives that can alter the way services are delivered has been the cornerstone of CT-MMP. CT-MMP intends to transform key processes leading to improved service delivery and build capacities among all the stakeholders to enable people delivering the services to perform better.

### **Approach adopted under CT-MMP**

In order to define change recommendations in line with the vision enunciated, CT-MMP adopted a service oriented approach to process re-engineering. CT-MMP started with an identification of various citizen facing services rendered by State Commercial Tax Departments.

<b>Comprehensive List of Commercial Tax Services to Internal and External Stakeholders</b>	
<b>Taxpayer facing services targeted in CT-MMP</b>	
<ol style="list-style-type: none"> <li>1. Registration of dealers</li> <li>2. Collection of returns</li> <li>3. Collection of taxes</li> <li>4. Provision of refunds</li> <li>5. Tax accounting services</li> <li>6. Issue of forms pertaining to inter-state trade</li> <li>7. Information services, taxpayer education and guidance</li> </ol>	
<b>Services to internal stakeholders excluded from coverage of CT-MMP</b>	
<ol style="list-style-type: none"> <li>8. Appeals, dispute settlement and quasi-judicial services</li> <li>9. Taxpayer Audit services</li> <li>10. Intelligence and Investigation</li> <li>11. Coercive recovery</li> <li>12. Vigilance</li> <li>13. Internal audit</li> <li>14. HRD services</li> <li>15. Training of employees</li> <li>16. Research</li> <li>17. Policy formulation</li> <li>18. General accounts</li> <li>19. Public relations</li> </ol>	

The existing administration structure, legislations and procedures across various states of India were studied to understand the nature and complexity of Commercial Tax

administration. Through a collaborative process involving tax department officials as well as taxpayers key change recommendations were identified.

## Proposed change recommendations and e-Governance initiatives

### Snapshot of recommendations

- § Enhance taxpayer services to promote self-assessment and taxpayer compliance
- § Implement e-Governance initiatives to enhance service delivery
- § Re-organize tax departments along functional lines
- § Develop revenue forecasting capabilities
- § Industry based classification of dealers
- § Faster processing of VAT refunds using a risk-based approach
- § Provide visibility to dealer ledger
- § Enhance TINXSYS for online tracking of inter-state trade

### Enhance taxpayer services to promote self-assessment and taxpayer compliance

Tax administration in India has formally adopted the approach of self-assessment across all revenues. **The concept is based on the understanding that taxpayers are, because of the information known only to them, best placed to assess their tax liabilities and that the tax authorities' efforts are best directed to identifying those taxpayers most likely to understate their tax liabilities, and focusing their scarce resources on the greatest areas of risk.**

As a practical matter, this means that the tax administration pays little or no attention to the returns and declarations of most taxpayers are simply accepted. Therefore, VAT administration design recommendations made as part of CT-MMP rely heavily upon development of *risk-assessment* tools to determine which taxpayers' matters must be examined very closely, not merely at the audit level, but at all stages of the tax process, from registration to collection.

The promotion of voluntary compliance is the primary objective of a good VAT administration. In order to achieve high levels of voluntary compliance, taxpayers and their representatives must have a **good standard of services**, which help them determine their obligations under the laws and to complete the steps required to acquit those obligations. It is relevant to mention here that voluntary compliance is promoted by an awareness of rights and expectations of a fair and efficient treatment and the existence of clear, simple and "user-friendly" administrative system and procedures. In other words, voluntary compliance is enhanced when it is easier for taxpayer to do so.

### Implement e-Governance initiatives to enhance service delivery

In order to improve the efficiency of VAT administration, it is important that administrative procedures are simplified and processing timelines are reduced by usage of computerized systems. Faster grant of registration and electronic processing of VAT returns would be important. CT-MMP has provided various change recommendations to facilitate these. Key e-Governance initiatives that have been recommended as part of CT-MMP are:

**Key e-Governance Initiatives under CT-MMP**

- § Online application for registration
- § Online filing of returns
- § Electronic clearance of refunds
- § Online payment of tax
- § Online dealer ledger
- § Online dealer verification
- § Online issuance of CST statutory forms through TINXSYS
- § Facility to dealer to obtain various online information services

Following service levels have been proposed for the various Taxpayer Services

<b>Service Levels - Dealer Registration</b>	
<b>Process metric</b>	<b>Service Level</b>
Time taken for processing of application and generation of TIN	24 hours from the time of receipt of application
Time taken for conduct of advisory visit to dealer's premises after grant of registration	30 days from the date of generation of TIN
Time taken for telephonic intimation to dealer in case a pre-verification visit has been planned	24 hours from the time of receipt of application
Time taken for conduct of pre-verification visit after receipt of application for registration	7 days from the time of receipt of application of registration

<b>Service Levels - Refund Processing</b>	
<b>Process metric</b>	<b>Service Level</b>
Time taken for processing of refund application	24 hours from the time of receipt of application
Time taken for conduct of refund audit	15 days from the date of receipt of refund application
Time taken for closure of refund case	30 days from the date of receipt of application

<b>Service Levels - Tax collection and credit of refunds</b>	
<b>Process metric</b>	<b>Service Level</b>
Time taken for reporting collection information to CTD officials	24 hours from the time of receipt of payment
Time taken to update Challan Identification Number (CIN) verification system	24 hours from the time of tax receipt
Time taken to report refund credit to taxpayer	24 hours from the time of refund credit

**Re-organize tax departments along functional lines**

In order for a self-assessment system to be effective, the apparent freedom granted to taxpayers must be backed up with a supportive legislative framework and a comprehensive and integrated set of administrative processes. International experience has shown that this extensive reliance on self-assessment is the basic strategy that permits tax agencies to achieve high rates of voluntary compliance with ratios of 500 to 1000 or more taxpayers per tax official. CT-MMP considered this as the primary input for organizational restructuring.

Commercial tax departments in India have traditionally been organized along geographical lines and characterized by strong one-dealer-one-officer linkages. Today technology makes it possible to reduce the levels of personal interaction required between officials and taxpayers. Further, VAT is based on the principle of self-assessment by a dealer in contrast to the earlier sales tax regime where each dealer was individually assessed every year. Therefore, organizational systems which existed in the erstwhile sales tax regime are no longer relevant.

VAT is best administered by an organization which is organized along functional lines with each official focusing on carrying out one function instead of delivering all functions to a taxpayer. A functional design permits greater standardization of identical work processes, facilitates simplification of procedures for taxpayers, reduces taxpayer costs and enhances compliance and enables greater productivity.

**Develop revenue forecasting capabilities**

Revenue forecasting is a critical element of a good tax administration. A good model of revenue forecasting which aggregates various macroeconomic factors and information about taxpayers would be a valuable tool to State Finance Ministers to forecast tax collection and seasonal variations and also to identify potential avenues for raising additional VAT revenues. As a function, revenue forecasting capabilities are a key area of development for VAT administrations in India and CT-MMP places lot of emphasis on development of this function as an integrated part of the VAT organization.

**Industry based classification of dealers**

Leading VAT administrations across the world have classified dealers according to industry to categorize dealers and to conduct focused industry-oriented studies. For the purpose of

revenue forecasting, studying patterns of tax collection and also to facilitate easy exchange of information across various Governmental agencies, categorization of dealers at the time of registration according to industry is necessary. ***This classification would be complementary to the HSN system of commodity classification already being implemented.***

#### **Faster processing of VAT refunds using a risk-based approach**

Experience with VAT implementation in many countries shows that refund of credits has been the “Achilles heel” of the VAT. A key feature of the invoice-credit form of VAT is that some businesses will pay more VAT on their purchases than they collect on the taxable sales they make, and so should be able to reclaim the difference from the tax authorities. This is particularly true of exporters whose export sales are zero-rated. It is also true of businesses—particularly new enterprises—that make large purchases relative to current sales. Refunds can be substantial. In many countries, VAT refund levels exceed 40 percent of gross VAT collections.

In theory, VAT refunds should be paid promptly following receipt by the tax authority of a VAT return giving rise to an excess credit. The prevalence of fraudulent claims is often cited by tax officials as a major reason for delaying payment of refunds. In India, administrations pursue time consuming and labor-intensive processes to verify claims before approving refunds, resulting in backlogs of refund requests and considerable disquiet among business taxpayers who have been deprived of their working capital. For exporters, such practices can seriously undermine their competitiveness. CT-MMP has recommended various risk-based systems which can be adopted for verification of refund claims.

#### **Provide visibility to dealer ledger**

Providing visibility to the tax ledger of a dealer is an important step towards achieving transparency in VAT administration. Implementation of such a facility is considered the hallmark of a good VAT administration as it requires streamlining of all internal tax accounting and revenue management procedures of a tax department. CT-MMP places lot of emphasis on streamlining of tax collection and accounting procedures and providing visibility to dealers of the tax ledger.

#### **Enhance TINXSYS for online tracking of inter-state trade**

Monitoring of inter-state trade continues to be a focus area for both the States and the Central Governments in India. Prevention of frauds related to inter-state trade has been one of the prime concerns of tax administration in India. The Tax Information Exchange System (TINXSYS) implemented under the aegis of the Empowered Committee of State Finance Ministers today provides a unique platform for exchange of information across the various Commercial Tax administrations of the Indian Union. However, the true benefits of such a tax information exchange system can be derived only in the presence of digitized information on inter-state transactions.

Online tracking of inter-state trade by providing a facility for online logging of transaction details by dealers has been identified as the key means to overcome this problem. As part of CT-MMP, it is recommended that TINXSYS be enhanced to create a platform for

instantaneous exchange of inter-state trade information among states and to deliver inter-state trade related services to taxpayers. This is expected to be done through dematerialization of statutory forms prescribed under the CST Act and providing a digital signature based self-service facility to inter-state traders to declare their transaction information.

Through enabling of these e-Governance initiatives and implementation of various change initiatives, it is expected that certain minimum services levels could be achieved for the various services delivered to taxpayers as well as to CTD officials.

## **Challenges in implementation**

### **Sensitization of tax department employees and dealers**

VAT has brought about a paradigm shift in the tax administration environment when seen in relation with the erstwhile sales tax regime. Changes are imperative and the choice is only on the timeframes that States wish to adopt for implementation of these changes. Responsiveness of the State tax administration to emerging realities would have a direct correlation on the attractiveness of a State as a business destination. Extensive sensitization programmes targeted at dealers as well as employees of the CTDs is unavoidable to prepare administrations for change.

One of the key challenges that States would face would be organizational change. Migration to a functional structure along with computerization would imply reduced staff strength requirements due to improved operational efficiencies. There would also be significant changes in the power structures of the administration since critical functions such as granting of registration and audit of dealers would be distributed responsibilities under the new structure. It is essential to sensitize tax officials on the necessity of such changes and also re-define performance evaluation systems suitably. It would be pertinent to state here that migration to a complete functional architecture may not be possible without computerized systems for exchange of information between officials in various organizational units.

It is strongly recommended that a Transition Management Team be created involving key personnel of the State Commercial Tax Department to customize CT-MMP recommendations as well as to plan the change management strategy that the State intends to adopt. During the course of implementation, this team would monitor and evaluate the State level progress of implementation and its outcomes.

### **Rapid scaling up of tax organization's capabilities**

In an environment of self-assessment high levels of trust is placed on the taxpayer while at the same time critical capabilities such as risk-based audit selection need to be developed internally. This would imply significant investment on the part of tax administrations to develop such competencies and retain officials who have achieved a high level of expertise in such skills. Functions such as revenue forecasting and strategic planning require recruitment and development of highly skilled employees and also rapid development of information systems to support such activities.

One of the crucial elements of a risk based approach to dealer management is maintenance of an up-to-date database of dealers. At the outset, the CT-MMP recommendations imply an intense exercise on the part of State tax administrations to create an updated dealer database and capturing of critical elements of data such as the dealer's industry classification code as well as migration of manual records of VAT returns to electronic format to create a dealer profile for implementing risk-based refund and audit systems. Systems for online filing of VAT returns, refund processing and electronic tax payment would also need to be developed.

#### **Collaboration between various Government and private sector agencies**

Implementation of an effective tax collection and accounting system would require extensive collaboration and seamless information exchange with banking agencies and with the State treasuries. This is an unavoidable change and it may be highlighted as the single most important change recommendation of CT-MMP. The impact of reform of tax collection and accounting procedures are guaranteed to be striking and would result in dramatically improving transparency and responsiveness of the tax administration.

#### **Conclusion**

In conclusion, it may be stated that while CT-MMP provides a national level framework for enhancement of State Commercial Tax administration, implementation challenges will vary across States and therefore design elements must be suitably customized by each State to suit its unique local requirements. The change recommendations are based on the present policy framework and significant assumptions underlie the CT-MMP recommendations on the future of taxation policy and administrative procedures in India. States may espouse different implementation approaches and enhancements and improvements to CT-MMP recommendations are encouraged. Irrespective of the modes of implementation adopted and customizations carried out, the success of CT-MMP shall depend upon the extent to which the collective vision of CT-MMP to achieve an efficient, effective and equitable administration that creates an environment conducive to investment, economic growth and free trade of goods and services within the common market of India is achieved.

#### **Reference documents**

As part of the Mission Mode Program the following artefacts have been created and the present roadmap draws reference to the following:

##### **Key reference documents prepared as part of CT-MMP**

- § International / National Best Practices along with the applicability and usability context
- § Business Process Reengineering recommendations
- § Integrated and comprehensive Commercial Taxes MMP Model including Enterprise Architecture



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