

A Journey Towards a Trust-based System - A Case of Profession Tax Digitization in West Bengal

Introduction

Every state government in India is entitled to levy a Profession Tax on Professions, Trades, Callings and Employments. A total of 14 Indian states viz. Andhra Pradesh, Assam, Chhattisgarh, Gujarat, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Meghalaya, Orissa, Tamil Nadu, Telangana, Tripura and West Bengal have imposed this tax. In most cases, the Commercial Tax Department is responsible for collecting this tax across the state. However, in some states like Gujarat and Maharashtra, it is the responsibility of the respective municipalities to collect the tax. Incidentally, eight out of these fourteen states are also among the top ten states in terms of projected collection of total tax revenues¹. In 2012-13, the total Commercial Tax collection by the state of West Bengal was INR 22,185.59 Crore. The Profession Tax contribution to this figure was around two percent (INR 447.4 Crore)².

Digitization in various tax departments in India has started gaining traction since early 2000. The Profession Tax Department of West Bengal was no exception to this digitization wave. The legacy application that was developed in 2002 lasted for a decade. This application was a replica of the manual process of that time. Recently, the Commercial Tax Department has taken an initiative that aims to make the Profession Tax unit lean and paperless in the true sense. The core of this dream rests on the belief that "People are essentially not tax-evaders. The lack of compliance is mainly because of the cumbersome process of tax payment system." This belief, viz., trust in taxpayers and accompanying need for process simplification, defines the focus of the change in the system. This eGovernance initiative is distinct in terms of achieving success in these two focus areas.

¹ Projections Furnished by State Governments for 201015 from Annex 7.1 of Thirteenth Finance Commission Report available at <http://finmin.nic.in/TFC/tfc.asp>

² http://wbcomtax.nic.in/Publication/Admin_Report_2012-13.pdf

In this article, we compare the two states of the system before and after the change and also discuss the enablers for a radical change. This article also covers the goal of this project and the potential pitfalls in this journey.

About the Profession Tax (PT) project

Profession Tax was introduced in India in 1949. It was optional for states to impose the Profession Tax within their jurisdiction. West Bengal adopted this system in the year 1979. The maximum limit of annual Profession Tax as imposed by the central government act is INR 2500 per person per year. Every state is free to design its taxation rules within these limits. In West Bengal, the last revision of this legislation was passed in 2014, which simplified the earlier schedule of Profession Tax rates.

There are two types of persons (entities) who are required to pay Profession Tax according to the law. The first type relates to individuals who are not employees but are involved in certain professions such as medical practitioners, legal practitioners, consultants, etc. These sets of people, along with some organizations as defined in the Profession Tax Schedule, are required to enroll in the profession tax department and pay the annual tax. The second type of persons are employers who are required to deduct profession tax from the salaries of their employees and deposit the same with the tax department monthly or as per requirements of the law. A person falling under this category is required to register with the department, pay monthly tax and file annual return as required by the law. It can be seen from the above that there are five basic services involved in this system, viz., enrollment, registration, payment of tax, filing of return and issuance of compliance certificate. We will discuss these services in more details when we discuss the changes associated with them.

Profession Tax System in West Bengal has always been at the forefront of adopting information technologies. In 1979, this was the first system in the Directorate of Commercial Taxes to start using rudiments of an IT system. A significant adoption of ICT for all profession tax services was forced in the year 2002. Today, it is going through its second major revamp in terms of use of ICT for service delivery. ICT has enabled replacement of the existing manual citizens' interface with a fully digital

online version for all transactions related to Profession Tax. The change also involves a major reduction in workforce and a shift towards a paperless system. In a subsequent section, we discuss the enablers for such radical change.

The change

The five major changes in the Profession Tax system are a change in the compliance process, a journey towards the paperless system, development of trust in technology and trust in end users and an efficient grievance redressal mechanism. In the following paragraph, we discuss each of these changes in greater details.

A significant attempt has been made to simplify the process of compliance and Profession Tax rules. The Profession Tax Schedule (part of the act with operational details like classification of persons and their tax liability) has been simplified (number of classes reduced to 4 from 23). The frequency of filing of return has been changed from quarterly to annual. The list of documents which were earlier required to be attached along with the registration/enrollment application is no longer required in the current system (refer to Appendix 1 for details of the previous process). The process of registration and enrollment is now online and requires no submission of any physical document. The online process requires a valid Permanent Account Number (PAN) but does not require scans of any documents. The PAN data is automatically verified from the National Securities Depository Limited (NSDL) website. Payment of taxes is allowed only through Government Receipt Portal System (GRIPS) portal. GRIPS is an initiative of Ministry of Finance, West Bengal. It allows online payment using internet banking, credit card, debit card and counter payment in banks. In case of counter payment, the banks use the GRIPS link to update the payment in the system. All payments are thus centrally managed on a real time basis. In the old system, there was a provision to issue compliance certificate on request. The same process is now being made available online. The manual process would then be discontinued. Each of the processes has been redesigned to make it paperless in the real sense. Any help in using the online system is available over email and phone calls.

A paperless system is difficult to implement without trust in end-users and trust in technology on part of the concerned government department. Department's trust in technology is demonstrated by their willingness to accept automated verification. The use of only computer records for storing and accessing registration, enrollment and payment data is further manifestation of department's trust in ICT. The taxpayer's preference to online mode of payment as against counter based payment system is a display of their trust in technology.

This application is also a demonstration of the department's trust in the end users (taxpayers). As per the new system, information filled in the enrollment or registration form is accepted at face value. An investigation is initiated only in case of complaints or for defaulters. There is a future plan to use data analytics extensively for such fraud detection. However, in normal cases, the system works on the basis of mutual trust. Since the amount of payment involved is very small, the leadership team believes that there would be very few intentional defaulters. Simple reminders on mail and message would be a strong enough deterrent for noncompliance.

In the previous system, there was a practice of preparing an annual list of selected taxpayers for assessment. This practice was based on the assumption that taxpayers would tend to conceal information in order to save taxes. Today, the same assumption has been revised by the senior department leadership. The current strategy is to trust the taxpayers and accept the self-assessment on face value. The list of defaulters and frauds would come from analytics. Hence, the practice of creating a Selective Assessment List has been discontinued.

An effective grievance redressal mechanism is an essential component of any successful e-Governance project. In the Profession Tax project, grievances can be registered online. The grievance registration process requires an identification number and a mobile number. Since inception, a total of 218 grievances were registered as on March 27, 2015. 81 percent of these grievances were resolved, and the rest are pending. When a person registers a grievance, (s)he receives a Grievance ID, that can be later used for tracking the status of the complaint. The current process is in sharp contrast with the previous one where the aggrieved

person was expected to visit the office and submit an application for registering a complaint. There was no easy provision of tracking the complaint and follow up was a tiring exercise.

The enablers

There are five major enablers for such a radical change in the Profession Tax (PT) system. These are a decade-old legacy system, the project leadership, availability of GRIPS, the technology partner - National Informatics Centre (NIC) and integration of the PT system with the NSDL system.

The familiarity with ICT and experience of the decade-old legacy system had an important role to play in the implementation success of the new system. It acted as a facilitator in the capacity building exercise. It prepared the employees in the use of ICT technologies. The basic three-tier architecture was already in place, and the stakeholders were comfortable with the technology. The old system had its limitations in terms of process effectiveness and efficiency. At the same time, the legacy system had also collected a significant amount of digital data. The learning experiences in using this system and its shortcomings acted as a building block for the new application.

A major reengineering of any government process is impossible without the active support of senior leadership. In this project, the Commissioner of Commercial Taxes played an important role in crafting a radical dream for the existing system. The target included citizen-centricity of the services, active use of technology for increasing compliance and changing the nature of job roles of officers from clerical to analytical in nature. He was responsible for the integration of PT system with the NSDL, arguably the first such integration in India. His responsiveness to needs of different stakeholders has acted as a catalyst for their involvement with the project.

The Government Receipt Portal System (GRIPS) which manages the payment of taxes has been made mandatory for all kinds of payments to the government of West Bengal. Profession Tax is no exception to this rule. All payments are now routed through the GRIPS portal, records of which are diligently maintained. A

payment through GRIPS has not only reduced the scope of leakage but has also enabled the scope of identification of defaulters using simple analytics. The GRIPS team is responsible for coordinating with different banks for their inclusion in the system.

Integration of the PT system with the NSDL system is the backbone of making PT system paperless. The only verification performed while enrollment/registration is the cross-checking against records maintained by the NSDL. The verification process is now automatic because of this system integration. The PAN of the applicant is automatically verified with the details available with the NSDL. The other details entered by the applicants are accepted as given, based on trust in the end-users. Any mismatch in the automated process is alerted to the user and the respective officer, who can then resolve it as the standard operating procedures in such cases.

Finally, the fifth major enabler in this transformation process is the technology partner NIC. The legacy application, as well as the current application, has been designed and developed by the local NIC team. A small development team that is responsible for the development of this application has been stationed in the profession tax office. The requirements are identified in an iterative fashion and accordingly developed by the NIC team. The PT team on its part is also responsive to the limitations of the technology. A change in the actual process to accommodate such limitations is not unheard of. A similar development model with any of the private software development company would have been much more costly and difficult in terms of coordination.

The target

The Profession Tax department has two broad objectives. Any new system must cater to these two objectives. Firstly, it aims to widen tax collection and tax net every year. This can be regarded as the effectiveness of Profession Tax system in terms of contributing to the state finances. The new system in place must demonstrate its capability in terms of performance on these measures. The second objective of the department is to make the PT system more efficient. Efficiency should be measured

in terms of efforts that the taxpayers have to invest in transacting with the PT system and efforts required by the PT employees to process all the required transactions. The taxpayer is now required to complete the whole process online. This online process requires around 10 minutes of user time. There are no requirements of physical papers or personal interactions. The strength of officers employed in PT department is around 200. Once the system is implemented, the target is to bring this number to around five. The remaining excess employees would be transferred to the other units of Commercial Tax Department.

The success and sustainability of performance of PT system would be measured according to the above two broad objectives.

Conclusion

A radical change in government processes is possible only if there is trust in the citizens and trust in the technology. The government transactions must involve a bare minimum human interaction. Human interactions could be encouraged only under exceptional scenarios. Such exceptions could be due to complexity of a transaction or failure of a normal transaction. Grievance redressal mechanisms should be considered as one of the essential components of all systems. All technology implementation projects must be complemented by appropriate process reengineering and necessary legal changes. In government, technology implementation can be considered as an opportunity for process redesign. Continuity and project ownership of the senior leadership is an important criterion for project success.

The success of the PT project has the following risks. The performance of the PT project must sustain for a long duration. The tax collection and the number of taxpayers should increase year-on-year. In addition, relieved employees of the Profession Tax department must be productively engaged in other areas of Commercial Tax Directorate.

Appendixes

Appendix 1 - The manual registration process

The manual registration process required the applicant to manually fill a form, attach relevant documents and submit it in the local Profession Tax office. This local office would be a range office or a unit falling under a range office. Each office would only entertain applications falling under its jurisdiction. (There are ten ranges and twenty four units. The headquarter range and the five ranges in Kolkata do not have any units attached to them.) Applicants were required to visit these offices with their application form and submit it to the concerned officer. The officer could demand some additional documents to ensure the authenticity of application details. The officer had discretionary power to demand such additional documents. The tax liability was calculated by the tax officer. Personal interactions were required due to manual nature of the application process. At times, this resulted in a need for multiple visits to the Profession Tax office.

Appendix 2 - List of physical forms/certificates

Following physical forms/certificates have been discontinued since implementation of the new PT system.

1. Form 1 - For application for certificate of registration/amendment of certificate of registration
2. Form 2 - For enrolment or amendment of certificate of enrolment
3. Form 3 - Return of tax payable by registered employers
4. Certificate of registration
5. Certificate of enrolment
6. Receipt of taxes paid
7. Compliance certificate