

BOARD  
OF  
DIRECTORS

**ASIAN DEVELOPMENT BANK**

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R342-03  
29 December 2003

**TECHNICAL ASSISTANCE TO INDIA  
FOR CAPACITY BUILDING FOR TAX ADMINISTRATION**  
(Cofinanced by the Government of the United Kingdom)

The attached Report is circulated for the information of the Board. The President approved the technical assistance on 16 December 2003.

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**ASIAN DEVELOPMENT BANK**

**TAR:IND 37098**

**TECHNICAL ASSISTANCE**

(Cofinanced by the Government of the United Kingdom)

**TO**

**INDIA**

**FOR**

**CAPACITY BUILDING FOR TAX ADMINISTRATION**

**December 2003**

## CURRENCY EQUIVALENTS

(as of 25 November 2003)

Currency Unit	–	Indian rupee (Re/Rs)
Re1.00	=	\$0.02
\$1.00	=	Rs46.00

## ABBREVIATIONS

ADB	–	Asian Development Bank
BPR	–	Business process re-engineering
CAAP	–	computer–assisted audit program
CSP	–	country strategy and program
CBDT	–	Central Board of Direct Taxes
CBEC	–	Central Board of Excise and Customs
CCRA	–	Canadian Customs and Revenue Agency
CIDA	–	Canadian International Development Agency
DG	–	director general
EA	–	executing agency
GDP	–	gross domestic product
IA	–	implementing agency
NACEN	–	National Academy of Customs, Excise, and Narcotics
NADT	–	National Academy of Direct Taxes
RA	–	risk assessment
TA	–	technical assistance
TOR	–	terms of reference
USAID	–	United States Agency for International Development
WG	–	working group

## NOTES

- (i) The fiscal year of the Government ends on 31 March.
- (ii) In this report, "\$" refers to US dollars.

This report was prepared by S. Mundle and S. Chakravarti.

## I. INTRODUCTION

1. During the Asian Development Bank's (ADB) Country Strategy and Program (CSP) Mission in January 2003, the Government of India, acting on the recommendation of the Task Force on Direct and Indirect Taxes (2002), requested assistance to modernize the administration of the Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs (CBEC). An advisory technical assistance (TA) to strengthen the capacity of India's tax administration was accordingly included in India's CSP for the period 2003–2006. The goals, outputs, activities, implementation, and financing arrangements of the TA are laid out in this report. The TA framework is in Appendix 1.<sup>1</sup>

## II. ISSUES

2. A high fiscal deficit continues to be a major challenge for economic management in India. The combined fiscal deficit of the central and state governments has remained over 9% of the gross domestic product (GDP) since 1998–1999. Despite significant rationalization and simplification of the direct and indirect tax structures over the 1990s, the overall tax-GDP ratio has actually fallen from 15.4% in 1990–1991 to around 14.4% in 2001–2002. Tax policy reforms can be effective only if they are accompanied by appropriate measures to strengthen tax administration. It is therefore, crucial to strengthen tax administration to keep pace with tax policy reforms, expand the tax base, and move to a system of voluntary compliance. This will improve the fiscal situation of the central Government and the state governments, which are highly dependent on the devolution of central taxes. In strengthening tax administration, the TA will help in fiscal consolidation which is a core objective under the governance component of the CSP, and establish a sound macroeconomic environment for absorbing a growing investment program financed by ADB and others.

3. Reforming tax administration in a federal country the size of India is a challenge. Since 1991, the Government, CBDT, and CBEC have undertaken many reform initiatives based on the recommendations of various expert groups.<sup>2</sup> ADB's past assistance in the area of tax policy and administration include the Improvement of State Sales Tax Structure and Administration (1995), Capacity Building of Income Tax Administration (1996), Capacity Building at the Post-Implementation Stage for VAT Reform (2002), and several other TAs and loans linked to public resource management in ADB's focal states.<sup>3</sup> Other bilateral and multilateral agencies such as the Canadian International Development Agency (CIDA), United States Agency for International Development (USAID), and World Bank have also supported the tax reforms of the central and state governments. CIDA's project, Capacity Development of Revenue Administration, which began in 1997–1998 and ends in early 2004, is the longest running externally funded initiative to strengthen tax administration in India. CBDT and CBEC have made significant progress in several areas under this project. CIDA however, will not be able to renew its project beyond March 2004 due to the Government's recent decision to discontinue direct assistance from small bilateral sources. Accordingly, this TA will build on the tax administration reforms initiated

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<sup>1</sup> The TA first appeared in *ADB Business Opportunities* (Internet Edition) on 21 July 2003.

<sup>2</sup> These include the Tax Reform Committee headed by R.J. Chelliah, 1993; Advisory Group on Tax Policy and Tax Administration for the Tenth Plan headed by P. Shome, 1998; Expert Group on Service Tax headed by M. Govinda Rao (1999); and most recently, the Task Force on Direct and Indirect Taxes headed by V. L. Kelkar (2002).

<sup>3</sup> As the CSP notes, "In the past, ADB assistance for fiscal management mainly focused on the states. However, fiscal consolidation at the Center is equally important. ADB assistance for the Center should be targeted at low-cost, high-return interventions, and should primarily focus on TA for the revenue and expenditure departments in the Ministry of Finance for capacity building in line with best international practices."

by CBDT and CBEC with CIDA's assistance. The TA will also help the two Boards with the other critical initiatives they are currently undertaking.

### **III. THE TECHNICAL ASSISTANCE**

#### **A. Purpose and Output**

4. The overall goal of the TA is to help CBDT and CBEC strive toward the objectives set out in their Citizens' Charters and Vision Documents to be fair, judicious, transparent, efficient, and courteous. Its purpose is to strengthen functional capacity in CBDT and CBEC for a voluntary compliance-oriented tax administration by improving risk assessment (RA) based audit capacity and the quality of taxpayer services. The TA will assist in expanding the tax base by strengthening service tax administration and audit. To achieve these goals, tax officers will be trained in various tax reform initiatives and in the use of computerized work platforms. The capacity of the National Academy of Customs, Excise, and Narcotics (NACEN) and the National Academy of Direct Taxes (NADT) to provide quality training will be strengthened based on updated training manuals, audiovisual aids, and distance learning programs.

#### **B. Methodology and Key Activities**

5. The TA will work toward its goal by focusing on the activities listed here and in the TA framework (Appendix 1).

##### **1. Strengthen Audit Capacity Through Risk Assessment**

6. A comprehensive and reliable audit system can help encourage voluntary tax compliance. Building such a system is one of the challenges facing CBDT and CBEC today.

7. In the field of indirect taxes, CBEC has been undertaking business process re-engineering (BPR) projects together with large-scale computerization over the past few years. One of the areas it seeks to strengthen is RA-based audit capacity. Since reliable physical audit of a large number of units is not feasible, computer-based RA is essential for selecting high-risk units for audit.<sup>4</sup> With CIDA's assistance, CBEC has already prepared an Excise Audit manual, and is in the process of setting up a computer-assisted audit program (CAAP). The TA will help CBEC in continuing with the excise BPR initiative by strengthening the electronic filing of excise returns and other assessee-related information, and analysis of this data using RA. It will help develop appropriate risk parameters and the software necessary for undertaking RA.

8. As part of its BPR project, the Customs Department has also been trying to do away with pre-clearance scrutiny of import and export declarations and physical examination of goods, and to set up a post-clearance audit system for exporters and importers. Its aim is to move from discretionary to rules-based decision making, lower transaction costs, and facilitate trade and business. The TA will help the Customs Department to implement this BPR initiative.

9. In the field of direct taxes too, CBDT is moving away from a system of discretion-based selection of returns to scientific RA-based audit selection. The TA will support this initiative.

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<sup>4</sup> More than 70,000 manufacturing units contribute about \$16 billion in excise duties annually. Around 4,000 of these are large units that pay more than \$220,000 each. Together, these units account for about 86% of total excise revenue. There is mandatory audit of these large units. The remaining 66,000 small and medium units are audited periodically as per norms determined by the Board.

There is an urgent need to expand the direct tax base since it has remained stagnant at 3% of GDP since 1995–1996. A computerized audit selection system will bring more clients into the tax net and encourage voluntary compliance.

## **2. Expand the Tax Base by Strengthening Service Tax Administration and Audit**

10. The services sector is the largest sector in the economy with its share in GDP (around 50%) exceeding that of agriculture (23%) and industry (27%). It has also been growing faster than the other two sectors.<sup>5</sup> However, this sector is largely untaxed and was brought under the tax net only in 1994–1995. There is tremendous potential to expand the tax base by tapping services effectively and by bringing more services under the tax net over time. Further, since the Finance Act of 2001 has introduced self-assessment for service tax returns, building RA-based audit capacity is very important to ensure voluntary compliance.

11. CBEC has prepared a Service Tax Audit manual under the CIDA Project. The TA will help CBEC to adapt and operationalize this manual in the context of recent policy announcements such as increase in the coverage of services under the tax net. It will suitably replicate the excise BPR initiatives to strengthen service tax administration. Appropriate software will be developed for building up assessee profiles and carrying out RA.

## **3. Build Capacity of NACEN and NADT and Train Officers**

12. The TA will provide for two broad types of training for officers of CBDT and CBEC. First, a core group of about 15 officers who are working on these capacity building activities will be given hands-on exposure to international best practices through a field trip abroad, e.g. to the Canadian Customs and Revenue Agency (CCRA), for about 3 weeks. These officers will in turn train more trainers back in India. They will also work with NACEN and NADT to design training courses for the new business processes with the help of consultants. Second, the TA will help upgrade the overall training facilities of NACEN and NADT. Some assistance to upgrade the training facilities of the regional centers of NACEN, NADT, and selected Commissionerates will also be provided.<sup>6</sup> It is essential to train as many officers as possible in BPR and other reform initiatives. Their computer skills have to be upgraded. Officers will be trained in using computerized RA programs and in conducting audits in a non-adversarial manner. Innovative audiovisual training courses, manuals, and distance learning packages will be developed to expand the reach of the training programs. Officers need to own the tax reforms. They should not see themselves as enforcers of punitive tax provisions, but as facilitators of voluntary compliance.

## **4. Improve and Expand Taxpayer Services**

13. Compliance with tax laws is the shared responsibility of the taxpayer and the tax collector. The TA will help CBDT and CBEC develop the quality of their taxpayer services further. Taxpayers will be educated about their rights and obligations. They will be kept informed about the reforms and simplified procedures through various means such as newsletters, pamphlets, interactive voice response system, CBDT and CBEC's web sites, and tax clinics.

<sup>5</sup> Between 1995–1996 and 2001–2002, the services sector grew at more than 8% on average per annum, whereas agriculture grew at around 2.5% and industry at around 6%.

<sup>6</sup> NACEN and NADT train tax officers of many Asian countries. By upgrading their training facilities to international standards as regional centers of excellence, ADB will promote regional cooperation on issues of international tax cooperation such as control of money laundering, narco-terrorism, and smuggling of arms.

Effective grievance redressal mechanisms will be set up to reduce the number of litigations and disputes, and to strengthen the faith of taxpayers in the tax system. Programs for groups with special needs will be designed. Taxpayers must be assured that CBDT and CBEC are undertaking reforms to make compliance easier. However, purposeful evaders will be dealt with strictly. Well-designed taxpayer services can be very effective in complementing the RA-based audit initiatives in lowering evasion and expanding the tax base. A taxpayer perception survey will be conducted to assess the awareness and views of taxpayers regarding the reform initiatives of CBDT and CBEC. Through the right mix of RA-based audit reforms, training, taxpayer education, and enforcement, the TA should help make tax compliance the norm, and evasion the exception.

## **5. Organize Conferences and Workshops**

14. Two international conferences will be organized in New Delhi under the TA. The first will be held in March–April 2004. It will assess against international benchmarks, the progress made in tax administration reforms to date, their impact on revenue, and the lessons learned. Representatives of chambers of commerce, different service providers, industries, small and medium-scale enterprises, and tax experts will be invited to provide feedback. International experts will also be invited to share international best practice and experience in tax administration. Such a conference will help to disseminate information on the reform initiatives of CBDT and CBEC to the public. It will also generate valuable feedback that will help in effectively implementing the TA. A similar conference will be held towards the end of the TA to take stock of its achievements and the lessons learned. Additional workshops may also be organized as required.

### **C. Cost and Financing**

15. The total cost of the TA is estimated at \$1,250,000 equivalent of which \$691,000 is the foreign exchange cost and \$559,000 equivalent is the local currency cost. The entire foreign exchange cost, and \$309,000 equivalent of the local currency cost will be financed from two sources. Grants of \$500,000 each will be provided from ADB's TA funding program and the Government of the United Kingdom. CBDT and CBEC will meet the local currency cost equivalent of \$250,000 in kind as the imputed value of staff time, office accommodation and supplies, local transportation, and cost of internal workshops. Detailed cost estimates and the financing plan are in Appendix 2.

### **D. Implementation Arrangements**

16. CBDT and CBEC will be the two executing agencies (EAs) for the TA. The two Boards will each appoint a TA coordinator who will oversee the overall implementation of the TA activities pertaining to them. The activities will be carried out through three implementing agencies (IAs) for CBEC – the offices of the Director General (Systems), DG (Audit), and NACEN – and the following IAs for CBDT – DG (Systems), DG (Audit), and NADT. Since the activities cut across IAs, interagency working groups (WGs) will be constituted as required for implementation. There will be a TA steering committee chaired by the Revenue Secretary, and comprising the Chairmen of CBDT and CBEC, the ADB project officer, and other members as nominated by the Government. The committee will review the progress of activities listed in the TA framework and make adjustments as required. Appendix 3 gives a schematic representation of the TA's implementation arrangements.

17. USAID is considering a complementary TA under which Indian tax officials will be trained in the United States in applying RA techniques and in designing effective taxpayer services. This project is being developed in close coordination with the ADB TA, which provides for training of CBDT and CBEC officers on tax audit and taxpayer services in Canada. Exposure to two of the most advanced tax systems of the world will give CBDT and CBEC officers the opportunity to make optimal choices to suit Indian conditions from a menu of international best practice.<sup>7</sup>

18. The Government and ADB have agreed that to implement the TA effectively, all officers undertaking foreign missions for training will be directly responsible for the relevant functions e.g., audit and RA, BPR, training, and distance learning in their current postings. The concerned EA and IA will retain the officers in their current postings until their respective TA activities are completed. The Government will provide the required facilities to the WG members to pursue the TA activities. Given the urgent need to strengthen RA-based audit capacity, the Government will provide the necessary infrastructure, staff, and resources to the office of the Director General (Audit). The TA is expected to start in March 2004 and will be implemented over a period of 18 months, ending in September 2005.

19. A team of international and domestic consultants will be engaged for 24 person-months and 46 person-months respectively, to help in implementing the TA. The consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants*, and other arrangements satisfactory to ADB for the engagement of domestic consultants. The international consultants will be individual consultants, and will include RA-based audit experts for excise and service tax, customs, and direct taxes; and experts in tax administration, training (with experience of developing distance learning programs), and taxpayer services. Since the terms of reference (TOR) of international consultants require highly specialized skills, all the relevant experts will not be available in-house in a single firm, reducing flexibility in selecting the best team. Also, a firm's own margins will significantly increase costs of hiring the same consultants who could be recruited individually. Therefore, individual consultants will be engaged for cost-effective and efficient implementation of the TA within the available budget. However, domestic consultants will be recruited through a firm which will be better suited to coordinate the TA activities, assist in software design and development, and strengthen taxpayer services. The biodata technical proposal and quality-and cost-based selection will be used to select the consultants. Outline terms of reference for the consultants are in Appendix 4. Some necessary equipment will be procured in line with ADB's *Guidelines for Procurement*.<sup>8</sup>

#### IV. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved (i) ADB administering a portion of technical assistance not exceeding the equivalent of \$500,000 to be financed on a grant basis by the Government of the United Kingdom, and (ii) ADB providing the balance not exceeding the equivalent of \$500,000 on a grant basis, to the Government of India for Capacity Building for Tax Administration, and hereby reports this action to the Board.

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<sup>7</sup> The USAID project is being planned for \$250,000. Savings in travel costs through back-to-back missions to North America under the ADB and USAID projects will be used to train more officers under the ADB TA.

<sup>8</sup> Details of the equipment procured will be determined during implementation of the TA. It will consist mainly of some computers, audiovisual equipment, and related accessories.

### TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Targets	Monitoring Mechanisms	Assumptions and Risks
<p><b>Goal</b> Help CBDT and CBEC to strive toward the goals set out in their Citizens' Charters and Vision Documents to be fair, judicious, transparent, efficient, and courteous.</p>	<p>Perceived improvement in quality of tax administration, taxpayer services, and reduction in tax evasion.</p>	<p>Taxpayer feedback survey.  Internal performance audit of CBDT and CBEC.</p>	<p><b>Assumption</b> Government of India, CBDT, and CBEC remain committed to tax administration reforms.</p>
<p><b>Purpose</b> Strengthen functional capacity in CBDT and CBEC for a voluntary compliance-oriented tax administration by strengthening risk assessment (RA) based audit, capacity and the quality of taxpayer services.</p>	<p>Increased number of taxpayers filing returns.  Enhanced capacity of CBDT and CBEC to handle and audit these returns electronically.</p>	<p>Computerized taxpayer and filing records.  Meetings of the TA steering committee.  Reports of the working groups (WGs) and consultants.</p>	<p><b>Assumption</b> Government of India, CBDT, and CBEC remain committed to tax administration reforms.</p>
<p><b>Outputs</b></p> <ol style="list-style-type: none"> <li>1. Strengthen RA-based audit capacity in CBDT and CBEC.</li> <li>2. Expand tax base by strengthening service tax administration and audit.</li> <li>3. Train CBDT and CBEC officers, and build capacity of NACEN and NADT to provide effective training.</li> <li>4. Improve and expand taxpayer services.</li> <li>5. Organize two international conferences.</li> </ol>	<p>Accomplish activities 1, 2, 3, 4, and 5 by the second quarter of 2005.  Accomplish activity 4 by the second quarter of 2005.  Accomplish activity 6 by the second quarter of 2005.  Accomplish activity 7 by the second quarter of 2005.  Organize the first international conference in March-April of 2004, and the second international conference around July-August of 2005.</p>	<p>Meetings of the steering committee and the WGs.  Meetings of the WGs and consultants.  Periodic meetings between the ADB project officer, consultants, and WG members.</p>	<p><b>Assumptions</b> WG members are retained in their positions for the duration of the project to ensure continuity.  Consultants are competent. Committed counterpart staff is available and is given necessary resources and support to work on the TA.  <b>Risk</b> There may not be necessary coordination within CBDT and CBEC to carry the reforms forward, especially with respect to computerization and integration of the databases.</p>

<b>Design Summary</b>	<b>Performance Targets</b>	<b>Monitoring Mechanisms</b>	<b>Assumption and Risks</b>
<p><b>Activities</b></p> <ol style="list-style-type: none"> <li>1. Help CBEC to continue with the excise BPR project by strengthening further, the electronic filing of excise returns data and other assessee-related information, and analysis based on appropriate risk parameters.</li> <li>2. Help the Customs Department to set up an audit-based post-clearance system for exports and imports, and to move ahead with its BPR project.</li> <li>3. Help CBDT in setting up an RA-based audit selection system.</li> <li>4. Help CBEC in operationalizing the Service Tax Audit manual, and in replicating excise BPR initiatives to strengthen service tax administration.</li> <li>5. Provide exposure to selected officers to the working of advanced tax systems. These officers and the training consultant would train further trainers.</li> <li>6. Upgrade the training capacity of NACEN and NADT, develop innovative training courses and distance learning programs.</li> <li>7. Improve and expand taxpayer services.</li> <li>8. Two international conferences.</li> </ol>	<p>(Broad timelines for the following are indicated in the previous section ("Performance Targets for Outputs.")</p> <p>Progress in operationalizing a computerized RA-based audit system in CBDT and CBEC.</p> <p>Courses developed by NACEN and NADT pertaining to TA activities.</p> <p>Development of distance learning programs.</p> <p>Progress in training CBDT and CBEC officers.</p> <p>Detailed reports on the two international conferences.</p>	<p>Inception reports prepared by consultants (in collaboration with the WGs) within 4 weeks from the start of consulting services.</p> <p>Interim reports prepared by consultants on progress made under different activities within 6 months from inception.</p> <p>Final reports prepared by consultants 2 weeks before the TA is completed.</p> <p>Six monthly reviews by the steering committee.</p> <p>Joint monitoring of the TA by the ADB project officer and the steering committee.</p> <p>Periodic meetings between the ADB project officer, consultants, and WG members as required.</p>	<p><b>Risks</b></p> <p>Government approval of budget for developing necessary software and hardware may not be as required.</p> <p>Technical problems with software and hardware during validation and checking.</p> <p>Executing agencies fail to provide adequate resources and support to the WGs and the different offices, especially to the office of the Director General (Audit).</p>
<p><b>Inputs</b></p> <p>TA resources (\$1,000,000)</p> <p>Consultants (24 person-months international consultants; 46 person-months domestic consultants)</p> <p>Equipment (\$25,000)</p> <p>Conferences/Seminars (\$20,000)</p> <p>Contingency (\$100,000)</p>			

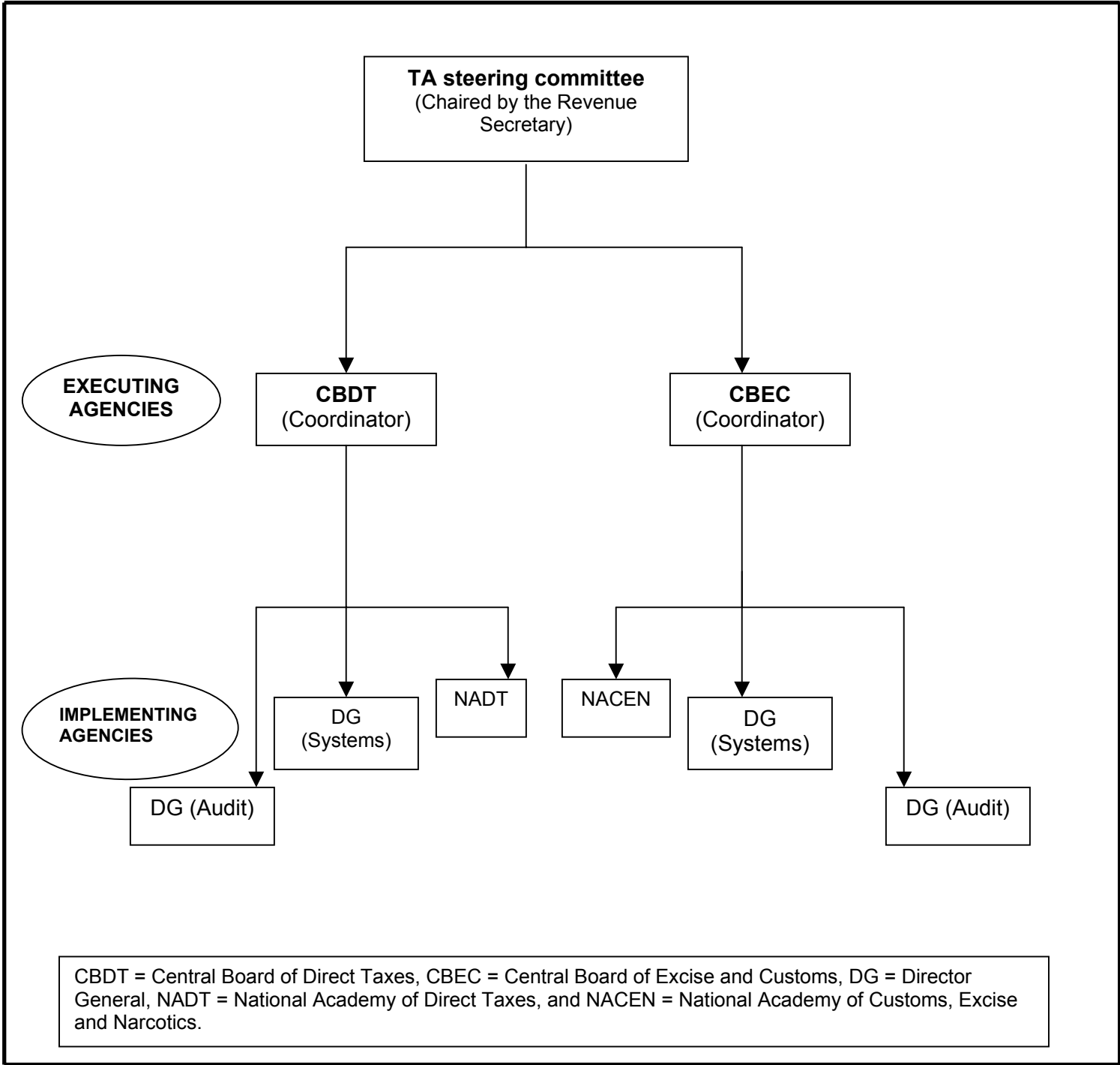
**COST ESTIMATE AND FINANCING PLAN**  
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Asian Development Bank Financing <sup>a</sup></b>			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	444.0	0.0	444.0
ii. Domestic Consultants	0.0	213.5	213.5
b. International and Local Travel	59.0	5.0	64.0
2. Training			
i. Travel	41.0	0.0	41.0
ii. Per Diem	33.0	0.0	33.0
iii. Cost of Foreign Training Services	45.0	0.0	45.0
3. Reports and Communications	0.0	2.5	2.5
4. Equipment	0.0	25.0	25.0
5. Conferences and Seminars	0.0	20.0	20.0
6. Miscellaneous	0.0	2.0	2.0
7. Taxpayer Perception Survey	0.0	10.0	10.0
8. Contingencies	69.0	31.0	100.0
<b>Subtotal (A)</b>	<b>691.0</b>	<b>309.0</b>	<b>1,000.0</b>
<b>B. Government Financing</b>			
1. Consultant and Counterpart Staff	0.0	125.0	125.0
2. Office Accommodation and Supplies	0.0	75.0	75.0
3. Local Transportation	0.0	5.0	5.0
4. Conferences and Training	0.0	10.0	10.0
5. Preparation of Reports	0.0	10.0	10.0
6. Contingencies	0.0	25.0	25.0
<b>Subtotal (B)</b>	<b>0.0</b>	<b>250.0</b>	<b>250.0</b>
<b>Total</b>	<b>691.0</b>	<b>559.0</b>	<b>1,250.0</b>

<sup>a</sup> Fifty percent of the funds provided by the Government of the United Kingdom and the remaining by the ADB-funded TA Program.

Source: Asian Development Bank Estimates.

**IMPLEMENTATION ARRANGEMENTS**



## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

### A. Individual International Consultants

1. All consultants will report to the ADB project officer and will work under the overall guidance of the TA steering committee.

**1. Expert in Excise and Service Tax Administration** (4 person-months intermittently)

2. The consultant will undertake the following tasks in collaboration with the working group (WG) on excise and service tax administration reforms:

- (i) Prepare an inception report based on a detailed examination of the progress made by CBEC on (a) the Excise Department's BPR exercise under the CIDA project, Capacity Development of Revenue Administration, and (b) the related computerization and training initiatives. Study reports of relevant expert groups on tax policy and administration issues and prepare the inception report within 4 weeks from the start of consulting services.
- (ii) Based on the inception report, prepare an action plan to (a) carry the Excise Department's BPR project forward, and (b) suitably replicate these measures in service tax administration. Specify the steps, time, and resources required. Assist the WG in implementing the action plan.
- (iii) Prepare an interim report within 6 months from inception detailing the progress made, bottlenecks, and further measures required to implement the action plan fully. Track the work being done by other WGs to tap potential areas of synergy across the activities of the TA.
- (iv) Prepare a draft final report 6 weeks before the TA is completed. Provide an assessment of the progress made, lessons learned, and reforms needed to strengthen excise and service tax administration further. Revise and finalize the report 2 weeks before the TA is completed.

**2. Expert in Risk Assessment-Based Audit for Excise and Service Tax** (4 person-months intermittently)

3. The consultant will undertake the following tasks in collaboration with the WG on excise and service tax administration reforms:

- (i) Prepare an inception report based on (a) the progress made by CBEC in setting up a risk-assessment (RA)-based audit system for excise and service tax, (b) the related computerization and training initiatives, and (c) a review of the Excise Audit Manual and the recently drafted Service Tax Audit Manual. The report will be prepared within 4 weeks from the start of consulting services.
- (ii) Based on the inception report, prepare an action plan to increase the capacity of CBEC to computerize excise assessee profiles so that RA techniques can be used effectively for selecting high-risk units for audit. Specify the steps, time, and resources required.

- (iii) Develop an action plan for adapting the Service Tax Audit Manual to recent policy changes (e.g. an increase in the coverage of services under the tax net), and operationalizing it. Recommend measures to computerize the assessee-related information for individual services to begin effective RA-based audit.
- (iv) Assist the WG in implementing the action plans in (ii) and (iii). Prepare an interim report within 6 months from the beginning of inception detailing the progress made, bottlenecks, and further measures required to implement the action plans fully. Track the work being done by other WGs to tap potential areas of synergy across the activities of the TA.
- (v) Prepare a draft final report 6 weeks before the TA is completed. Provide an assessment of the progress made, the lessons learned, and reforms required to strengthen the RA-based audit capacity of excise and service tax administration further. Revise and finalize the report 2 weeks before the TA is completed.

**3. Expert in Customs Administration and RA-Based Post-Clearance Audit (4 person-months intermittently)**

4. The consultant will undertake the following tasks in collaboration with the WG on customs administration reforms:

- (i) Prepare an inception report based on a detailed examination of the progress made by CBEC on (a) the Customs Department's BPR exercise under the CIDA project, and (b) the related computerization initiatives. Study reports of relevant expert groups on tax policy and administration issues and prepare the inception report within 4 weeks from the start of consulting services.
- (ii) Based on the inception report, prepare an action plan to develop an RA-based post-clearance audit system. Specify the steps, time, and resources required. Assist the WG in implementing the action plan.
- (iii) Prepare an interim report within 6 months from the beginning of inception detailing the progress made, bottlenecks, and further measures required to implement the action plan fully. Track the work being done by other WGs to tap potential areas of synergy across the activities of the TA.
- (iv) Prepare a draft final report 6 weeks before the TA is completed. Provide an assessment of the progress made, lessons learned, and reforms needed to strengthen the post-clearance audit capacity of the Customs Department further. Revise and finalize the report 2 weeks before the TA is completed.

**4. Expert in Direct Tax Administration and RA-based Audit (5 person-months intermittently)**

5. The consultant will undertake the following tasks in collaboration with the WG on direct tax administration reforms:

- (i) Prepare an inception report based on a detailed examination of (a) the reforms initiated by the CBDT under the CIDA project, and (b) the related computerization

initiatives. Study reports of relevant expert groups on tax policy and administration issues and prepare the inception report within 4 weeks from the start of consulting services.

- (ii) Based on the inception report, prepare an action plan to develop an RA-based computerized audit system for CBDT and carry forward other reforms initiated by the Board to encourage voluntary compliance. Specify the steps, time, and resources required. Assist the WG in implementing the action plan.
- (iii) Prepare an interim report within 6 months from the beginning of inception detailing the progress made, bottlenecks, and further measures required to implement the action plan fully. Track the work being done by other WGs to tap potential areas of synergy across the activities of the TA.
- (iv) Prepare a draft final report 6 weeks before the TA is completed. Provide an assessment of the progress made, lessons learned, and reforms required to strengthen the RA-based audit capacity of CBDT further. Revise and finalize the report 2 weeks before the TA is completed.

**5. Expert in Tax Training (4.5 persons-months intermittently)**

6. The consultant will undertake the following tasks in collaboration with the WG on training:

- (i) Prepare an inception report based on a detailed examination of the reforms initiated by NACEN and the NADT under the training component of the CIDA project. Prepare the inception report within four weeks from the start of consulting services.
- (ii) Based on the inception report, prepare an action plan to (a) develop appropriate training courses, manuals, instructor's guides, and distance learning packages for RA-based audit in excise, customs, service tax, and direct tax, and (b) assist NACEN and NADT in training trainers. Specify the steps, time, and resources required. Assist the WG in implementing the action plan.
- (iii) Prepare an interim report within 6 months from the beginning of inception detailing the progress made, lessons learned, bottlenecks, and further measures required to implement the action plan fully. Track the work being done by other WGs to tap potential areas of synergy across the activities of the TA.
- (iv) Prepare a draft final report 6 weeks before the TA is completed. Provide an assessment of the progress made, lessons learned, and reforms required to strengthen the training capacity of NACEN and NADT further. Revise and finalize the report 2 weeks before completion of the TA.

**6. Expert in Taxpayer Services (2.5 persons-months intermittently)**

7. The consultant will undertake the following tasks in collaboration with the WG on taxpayer services:

- (i) Prepare an inception report based on a detailed examination of (a) the coverage and quality of current taxpayer services provided by CBDT and CBEC, and (b) the recommendations of the Task Force on Direct and Indirect Taxes (2002), within four weeks from the start of consulting services.
- (ii) Based on the inception report, prepare an action plan to (a) improve the quality of taxpayer services currently provided such as newsletters, pamphlets, interactive voice response system, and tax clinics, (b) develop new services based on international best practice, (c) extend the coverage of these services to smaller cities, and (d) strengthen procedures for redressing taxpayer grievances. Specify the steps, time, and resources required. Assist the WG in implementing the action plan.
- (iii) Prepare an interim report within 6 months from the beginning of inception detailing the progress made, lessons learned, bottlenecks, and further measures required to implement the action plan fully. Track the work being done by other WGs to tap potential areas of synergy across the activities of the TA.
- (iv) Advise the WG and the relevant domestic consultants on conducting a taxpayer perception survey.
- (v) Prepare a draft final report 6 weeks before the TA is completed. Provide an assessment of the progress made, lessons learned, and reforms required to improve the quality and coverage of taxpayer services further. Revise and finalize the report 2 weeks before the TA is completed.

**B. Domestic Consultants**

**1. TA Coordination Experts (18 person-months)**

8. The consultants will undertake the following tasks:

- (i) Coordinate the work of the WGs and consultants under the broad guidance provided by the steering committee. Help the WGs and consultants in accomplishing the agreed project deliverables and results. Prepare a synthesis of the inception, interim, and final reports submitted by the international consultants for the different TA activities.
- (ii) Assist ADB in organizing two international conferences by coordinating with the consultants, WG members, and other CBEC and CBDT officers in preparing the necessary reports and presentations. Arrange invitations for representatives of chambers of commerce, different service providers, small and medium-scale enterprises, tax experts, and other relevant groups. Make necessary arrangements for the international experts who will be invited to share international best practice and experience in tax administration. Assist ADB in consolidating the papers presented in the conferences into a report.

- (iii) Assist ADB in making travel and other logistical arrangements in line with ADB rules and procedures, especially with respect to the foreign training tours.
- (iv) Keep the ADB project officer up-to-date with the progress being made on the different TA activities.

**2. Taxpayer Service Experts** (3 person-months intermittently)

9. The consultants will undertake the following tasks:

- (i) Work with the international consultant and the WG on taxpayer services, and assist in implementing the action plan outlined above in paragraph 7.
- (ii) Conduct a taxpayer perception survey to assess the awareness and views of taxpayers regarding the reform initiatives of CBDT and CBEC. Based on these findings, assist CBDT and CBEC in developing a public relations and publicity program to disseminate information on improvements in taxpayer services effectively. Assist in improving the quality of publications for the benefit of taxpayers.

**3. Software Experts** (25 person-months intermittently)

10. The consultants will undertake the following tasks:

- (i) Work closely with the WGs, international consultants, and the offices of the Director General (Systems), and Director General (Audit) to understand the software and hardware needs of the TA activities (RA-based audit, computerization of assessee-related information, distance learning training programs, taxpayer services). Prepare an inception report within four weeks from the start of consulting services.
- (ii) Prepare an action plan to help CBDT and CBEC design, test, and validate the necessary software. Implement the action plan in collaboration with the WGs, and the offices of the Director General (Systems) and Director General (Audit). Prepare an interim report within 6 months from the beginning of inception detailing the progress made in the design and validation of necessary software, and further steps required to implement the action plan fully.
- (iii) Prepare a final report 4 weeks before the TA is completed clearly listing the progress made, lessons learned, and reforms required to improve the computerization of relevant work processes within CBDT and CBEC further. Provide a blue-print of the hardware needed to operationalize the software effectively. Assess the potential of integrating some of the databases of CBDT and CBEC to improve the effectiveness of RA-based audit and the overall efficiency of tax administration.