

**Press Information Bureau
Government of India**

SECOND REPORT OF TAX ADMINISTRATION REFORMS COMMISSION (TARC) SUBMITTED; RECOMMENDS CBEC SHOULD IMMEDIATELY COMMENCE WORK ON THE DEVELOPMENT OF A CUSTOMS VISION AND STRATEGIC PLAN, SETTING OUT THE STRATEGIC GOALS AND THE IMPLEMENTATION STRATEGY TO ENSURE ITS PLACE AMONG “BEST IN CLASS” CUSTOMS ADMINISTRATIONS; RECOMMENDS THAT THERE IS AN IMMINENT NEED TO INSTITUTE A ROBUST FRAMEWORK WHICH WILL ADDRESS DATA AND INFORMATION EXCHANGE.

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Tax Administration Reforms Commission (TARC) submitted its second report yesterday. TARC in its Second Report addresses two important aspects of tax administration i.e. capacity building of customs department and data and information exchange. In its First Report, TARC had addressed four terms of reference. These terms of reference were related to customer focus, structure and governance, people's function, dispute management and key internal processes and ICT.

In the face of the increasingly globalized world, customs today face multidimensional challenges. On the one hand, globalization, while affording opportunities for economic growth also provides opportunities for trans-border crimes. Customs, being at the frontline of the border have to play an important role in the country's physical as well as economic security. At the same time, they have to facilitate legitimate trade so as not to impair the country's competitiveness and attractiveness as an investment destination. The steady growth of international trade leading higher volumes and the emerging trends such as increase in regional trading arrangements etc., e-commerce, changing supply chain dynamics etc. are adding to the challenges faced by customs. These trends necessitate creation of new capacities in diverse areas without necessarily increasing the human resources. The demand on customs, therefore, is to do more with less.

To face this challenge, Indian customs would need to move away from their traditional administrative approach towards a more proactive and wholesome compliance management approach. They would need to transform their governance, change their control paradigm and become a highly technology driven organization with a robust and reliable risk management based approach to governance. They will have to move away from excessive revenue orientation to be able to fulfil their mandate in relation to areas such as supply chain security, effective implementation of their responsibilities in trade related areas, IPRs, OGA requirements etc. and play a much more proactive and prominent role in trade facilitation. Hence their compliance

philosophy needs to be oriented towards promotion of voluntary compliance based on a trust based approach towards the compliant trade coupled with very effective enforcement against noncompliance. This will require large investments in capacity building in human capital as well as physical and technological infrastructure. Trade facilitation in particular will need capacity building not only in customs but also in other regulatory agencies. By virtue of their strong background in cargo processing and high international alignment of customs processes, customs need to be given a lead role to achieve inter agency harmonisation and coordination in this area. To enable the transformative changes that are required, the government needs to empower and enable customs by according the CBEC functional and financial autonomy as recommended in the TARC's first report, subject, of course, to the restructuring and accountability as also recommended in that report.

In its Second Report, TARC makes following recommendations with regard to capacity building of Customs Department:

i) Governance:

- a) The CBEC should immediately commence work on the development of a customs vision and strategic plan, setting out the strategic goals and the implementation strategy that will ensure its place among “best in class” customs administrations. The strategy must enhance customer focus and proactively promote voluntary compliance and should include measures like customer guidance in the form of self-assessment check-lists, manuals containing standard operating procedures and fully updated, user friendly and reliable website. Active guidance should be provided to importers through lucid and detailed publications furnishing detailed guidance about the valuation regime. (Section VIII.4.a)
- b) The implementation will have to be backed by a robust performance management framework to enable the CBEC to measure the progress and benchmark itself with best international practices in the spirit of continuous improvement. (Section VIII.4.a)
- c) The CBEC should aim at developing systems, structures and processes that ensure a consistent and uniform response across the organisation whether in the area of customer services or enforcement. The strategy should reflect the changing role of customs beyond exclusive revenue orientation and focus on capacity building in emerging areas of importance. (Section VIII.4.a)
- d) The control paradigm must shift from high levels of pre-clearance interdictions to intelligence led, risk-based interventions by exception, supply chain management and post-clearance audit. (Section VIII.4.a)
- e) The CBEC needs to develop an enterprise wide risk management framework in the context of which tools like the RMS need to be operated. The spirit of the compliance management philosophy that underlies the principle of self-assessment needs to be internalised in the organisation. (Section VIII.4.a)
- f) The Risk Management Division should be strengthened. The risk management module for

container selection needs to be integrated with the CBEC's other operational systems. The CBEC should progressively move away from a local approach in risk management to a strong national approach and move towards setting up a national targeting facility such as the ones set up in the US, Australia and New Zealand. (Section VIII.4.d)

g) In critical areas, identified on the basis of analysis and other evidence, the CBEC needs to undertake compliance improvement plans, implement them effectively, measure and evaluate results as feedback and continue the process in a cyclical manner. (Section VIII.4.a)

h) The CBEC needs to build capacity for more meaningful contribution to trade policy, based on credible research and analysis. (Section VIII.4.c)

ii) Customs core clearance processes:

i) The CBEC should revamp its core clearance process and aim at aligning with the best international practices to ensure that cargo moves seamlessly through Indian ports and airports and build substantial capacities in the area of post-clearance audit. It should abandon the "gatekeeper" approach underlying the current control mechanism as it is ineffective and promotes rent seeking. (Section VIII.4.a)

j) The CBEC should move to a model of centralised assessment for compliance verification, adopting the centres of excellence concept. There needs to be a thrust on full digitisation of the processes, dematerialisation of the documents and documents management system. (Section VIII.4.c)

k) The regime of advance filing needs to be effectively implemented ensuring high data quality. (Section VIII.4.c)

l) Greater capacity in the form of adequate skilled and expert resources needs to be developed for the post-clearance audit. The results of audit need to be fed back into the risk management. Audit should also pay attention to data quality. (Section VIII.4.c)

m) Related party transactions should be handled as part of post-clearance audit and the Directorate of Valuation should be strengthened to become a centre of excellence in this area by building strong expertise. (Section VIII.4.c)

n) The automation of international express cargo and international post-offices should be expedited. (Section VIII.4.e)

o) Development of advanced passenger information system (APIS) incorporating modern identity management and entity analytics solutions should be fast-tracked. (Section VIII.4.f)

p) Capacity building through extensive training and close engagement with the industry is also needed in the area of IPR. (Section VIII.4.r)

iii) Enforcement and Anti-smuggling:

- q) Greater capacity needs to be built in customs to counter trade based money laundering by greater use of analytics and strong co-ordination among the DRI, RMD, FIU and Directorate of Enforcement. (Section VIII.4.c)
- r) To motivate officers in anti-smuggling operations in remote areas, a package of special facilities should be developed. (Section VIII.4.o)
- s) Specialised training facilities for anti-smuggling operations, tailored to specific requirements, should be created. (Section VIII.4.o)
- t) There is need for greater infusion technological and analytical capacities in enforcement functions. Stronger focus is required on prosecutions in cases of commercial frauds. (Section VIII.4.o)

iv) Technology and Logistics:

- u) The CBEC should commence work on building a new generation system to replace the current ICT systems. There should be extensive reliance on service oriented architecture in designing the new system and it should ensure interoperability of customs and other agencies involved in border management, a fully distributed, open, wireless and mobile operational environment and solutions for structured and unstructured data. The system must enhance the ability of customs and other entities to work together. (Section VIII.4.l)
- v) Customs should leverage the adoption of the emerging “internet of things” by the logistics industry to real-time tracking of movement of goods across the supply chain, including to CFSs, ICDs, SEZs etc. and eliminate dilatory, costly and unreliable paper based processes. (Section VIII.4.l)
- w) The process of induction of non-intrusive inspection technologies such as container scanners, X-Ray scanners, etc., needs to be expedited. (Section VIII.4.l)
- x) A strong capacity for an innovative adoption of latest technologies through experimentation and pilots needs to be created. (Section VIII.4.l)
- y) Recruitment of crew for the recent acquisition of 109 modern patrol craft needs to be expedited. Similarly, expedited action should be taken for operationalising the telecommunications set up. (Section VIII.4.l)
- z) The Directorate of Logistics needs to be strengthened and the required expertise in technology, procurement and contract management needs to be created and sustained in the directorate. It should regularly engage with industry and technical institutions to keep its knowledge current. (Section VIII.4.l)

v) SAFE framework and Trade facilitation:

aa) There should be clear ownership on the part of the CBEC of the facilitation programmes undertaken by it. It should undertake immediate steps to achieve the facilitation targets set out in its own circular dated September 2, 2011. (Section VIII.4.j)

bb) The CBEC needs to take a robust and pragmatic view in relation to the denial of ACP status to clients on account of show-cause notices and should not deny such status to other wise compliant clients where there is no wilful fraud or evasion. (Section VIII.4.k)

cc) The CBEC should follow best international practice by regularly undertaking and publishing time release studies. (Section VIII.4.g)

dd) The CBEC should be enabled, through appropriate administrative and legal empowerment, to play a leadership role among the various border agencies to ensure proper co-ordination at the border. ensure trade facilitation, allow greater participation of all agencies in a common risk management framework and enable the development and implementation of a single window (Section VIII.4.h)

ee) The SAFE and AEO programme need greater visible commitment from the CBEC and there needs to be much greater communication of the benefits of the programme among stakeholders to induce them to join the programme. (Section VIII.4.j)

ff) The CBEC needs to revisit the AEO programme to align it better with different needs of different players in the supply chain and create better incentives for improving compliance. (Section VIII.4.k)

gg) The CBEC needs to create institutional mechanism for direct engagement with senior management in trade and industry. (Section VIII.4.g)

hh) The CBEC needs to undertake review of key business processes in the spirit of continuous improvement to simplify and streamline them. (Section VIII.4.c)

vi) RTAs and Trade remedies:

ii) A Directorate of Origin should be set up in the CBEC to handle RTA related issues. It should develop specialised expertise on rules of origin and related areas. (Section VIII.4.p)

jj) Posting of customs officers in the Directorate General of Anti-dumping will ensure enhanced co-ordination and better management of anti-dumping measures. (Section VIII.4.q)

kk) The Directorate of Safeguard needs to be strengthened and should be enabled to play a more proactive role in the propagation of safeguard measures in industry, particularly among SMEs. (Section VIII.4.q)

ll) There is need to develop non-preferential rules of origin to ensure proper application of antidumping and safeguard measures. (Section VIII.4.q)

vii) International Co-operation:

mm) Directorate of International Co-operation should be created and adequately staffed in view of the high importance of international co-operation in customs functioning. A clear framework needs to be created for international data exchange and dedicated resources assigned. (Sections VIII.4.s and VIII.4.t)

nn) In consultation with the relevant ministries, the CBEC should initiate a programme for cross border co-operation with India's neighbours, which can lead to joint border control as envisaged in the Revised Kyoto Convention. This can begin with an institutionalised arrangement for regular border meetings between designated customs officials to deal with day-to-day operational issues that create difficulties for trade. (Section VIII.4.i)

viii) Capacity building:

oo) The CBEC needs to revisit its transfer policies that presently prevents specialisation, dilutes accountability and affects its performance. It needs to address the issue of people development in a properly constructed competency framework. (Section VIII.4.u)

pp) Urgent steps are required for bridging the skill gap of Groups B and C officials through effective training and competency building. (Section VIII.4.u)

qq) NACEN needs to substantially upgrade its curricula and training methodology with greater infusion of technology and widening of its training coverage. It will also have to build capacity for delivery of training to all levels in emerging areas of customs administration. (Section VIII.4.u)

rr) NACEN should embark on e-training, virtual classes, webinars, etc so that the training coverage is enlarged and delivered at the place of work. Adequate infrastructure and allocation of financial resources will be part of this capacity building. (Section VIII.4.u)

ss) The CBEC should consider undertaking capacity building by joining the WCO's Columbus programme, which is specifically tailored for customs capacity building. (Section VIII.4.v)

As regards, data and information exchange, TARC makes the following recommendations in its Second Report:

i) Common Framework:

a) There is an imminent need to institute a robust framework which will address data and information exchange. This framework should have elements such as provisions for process or making requests for data or information, time-bound responses to such requests, consequences for not sharing and for unauthorised uses, developing common standards, layered authorisations, feedback mechanism on exchange of data or information and strengthening provisions for data privacy and confidentiality. (Section IX.4.b)

- b) To enable inter-agency data and information sharing in a systemic manner, a specific legislation should be enacted, providing for general rules for exchange of data and information, with provisions for confidentiality, process of sharing, process of making requests, time bound responses to such requests, consequences for not sharing or unauthorised usage, authorised usage, safe storage, disposal, etc. (Section IX.6.b)
- c) While the adoption and use of a common framework may not be sufficient to solve all the present challenges facing data and information exchange by agencies in India, it will encourage agencies to develop a common, long-term vision for collection, use, storage, and disposal of data and information, thus getting rid of the silo structure. (Section IX.4.a)
- d) All collaborating organisations – the CBDT, CBEC, FIU, CEIB, RBI and SEBI – need to create a common catalogue of data or information. This will contain information on data, such as source of data, data structure, data definition, quality of data, frequency of update on the data, etc. (Section IX.5.a)
- e) The focus of all collaborating organisations must be on organising the data within its own inventory and thereafter having a common database. (Section IX.4.a)
- f) Openness and willingness to share must be made the cornerstone for building the catalogue. The catalogues will be shared between the collaborating organisations. A common framework would promote the practice of “*one data, many users*”. (Section IX.6.a)

ii) Common standards and Taxonomy:

- g) A consistent approach on data across agencies will allow better collation of data and information, making its use easy. A common taxonomy, based on such an approach, will standardise data description, data context and data sharing. Common standards and taxonomy facilitate data exchange between different organisations and enable better reporting and analysis. (Section IX.5.b)
- h) Key requirements for common taxonomy must include *de minimis* standardisation of data description, data context and data sharing. (Section IX.5.b)
- i) A common standard for data sharing/exchange with a third party is important. All stakeholders need to be brought on a common platform. A steering committee should be formed to provide the platform where all stakeholders bring their data catalogue, scoping of data, data availability, periodicity of data exchange, etc. (Section IX.5.b)
- j) A common identification number (CBIN), as recommended in the first report of the TARC, will create a common platform and standard. A robust regulatory mechanism will be required to oversee that the data collection is coherent and relatively accurate. Further, a periodic evaluation of the database must be carried out to see that CBIN continues to provide a common standard and platform. (Section IX.5.c)

iii) Third-party Exchange:

- k) All collaborating organisations must categorise the data or information into what can be granted general accessibility and what can be considered for limited sharing or for some what spontaneous sharing. The categorisation must be known *a priori* to the other organisations. (Section IX.5.g)
- l) This categorisation will help the organisations in being specific in their requests. These requests must be mutually respected. (Section IX.5.g)
- m) The data or information exchange with third parties must be on a digital platform in a seamless manner and exchange of data or information through physical media, i.e., through paper, compact disc, external drive, etc., should be avoided. (Section IX.5.c)
- n) SLAs/MoUs with third parties should be entered into to develop a common framework of data or information for exchange. (Section IX.5.c)
- o) Data or information exchange must necessarily be done through a common utility, tailored to the specific data availability or framework for data creation or collection by a particular organisation, so that data matching with the CBDT's and CBEC's existing data is seamless and the error percentage is minimal. (Section IX.5.c)
- p) For data or information exchange through SLAs/MoUs to be effective, each organisation will have to inform other stakeholders about its contact person. Any request to that organisation can be directed towards this person. If a change occurs in the contact person, this will have to be informed on a real-time basis so that stakeholders are not inconvenienced. (Section IX.5.c)
- q) Organisational difficulties in data or information exchange through this utility can be discussed in a Steering Committee, set up for the purpose, comprising all collaborating agencies. (Section IX.5.c)

iv) Data Storage:

- r) Algorithms must be developed to make sense of the amorphous data and information coming from various sources into structured data so as to execute and deliver the objectives and purpose of collecting the data. (Section IX.6.d)
- s) Key components for developing analytics and algorithms will include service oriented architecture to re-use processes and technology, thereby enforcing technology standards compliance. This architecture must be such as to allow organisations to seamlessly “plug in” additional technologies to meet future business needs. Other components of the technology will be master data management to provide a single source of reliable data to leverage across all business processes and business process management to build, test, deploy, and share workflows, as well as document and re-use across business processes. (Section IX.6.f)

t) There will be portal of the SPV for access to data or information. Access to the SPV portal can be granted only to persons who are authorised and the portal will have a log of all such accesses. The terms of usage of the SPV portal will govern aspects relating to disclosure and authorisation. (Section IX.6.c)

u) The SPV will also develop SLAs/MoUs for data or information exchange between different collaborating organisations. These SLAs/MoUs will be triggered when further information or data are required, in addition to what is accessible on the portal. SLAs/MoUs will normally contain procedures for making requests, response time for such requests, reasons for refusing data or information access, mechanisms for audit so as to assess data or information usage, safeguard mechanisms for access rights, storage and disposal, archiving of data or information to enable their re-use, frequency of requests and special provisions for time-critical responses to requests that have imminent bearing on national security, public safety, etc. (Section IX.6.e)

v) In line with the recommendations in the first report for the creation of an SPV, the SPV will facilitate sharing and utilisation of data or information from one portal with common standards and taxonomy so that the present disparate data assets can be leveraged. (Section IX.6.c)

w) The consolidation of multiple data warehouses and other operational data stores that consolidates and integrates multiple sets of data and information will be an optimal approach to provide a single view of the inflow and outflow of data or information. An integrated enterprise data warehouse will also enable cross functional analysis. (Section IX.6.k)

v) **Data Usage:**

x) The most critical aspect of establishing a data analytics infrastructure is to establish a mechanism to process and structure data so that it is ready for analysis. Therefore, it will be imperative for all collaborating agencies to evaluate the quality of data available for a meaningful analysis. (Section IX.5.e)

y) Information must be collected and managed in a way that promotes its re-use either by the same organisation or by some other organisation. This '*collect once, use many times*' approach helps save valuable time and cost and avoids duplication of efforts by multiple agencies. (Section IX.5.h)

z) For better re-use of data to be part of lifecycle management, all agencies must have an eye on the future use of data or information and not just on their immediate requirements. (Section IX.5.h)

aa) A joint Steering Committee, comprising officials of both the CBDT and CBEC and the Directorates of Systems of the two Boards, will have the mandate to work out details of the data life cycle – planning, collecting or creating, organising or storing, access, usage,

maintenance, and re-use and sharing with a common vision and purpose. (Section IX.5.a)

vi) Safeguard and Security:

bb) Safeguards must be instituted to ensure confidentiality of data or information exchanged and prevent unauthorised access or use of data or information. The agency receiving information and the agency providing information need to establish safeguard processes for evaluating the confidentiality and security related protocol of the data and information shared. This safeguard protocol will need to clearly articulate access rights and further sharing rights and be made available upfront to the other party. (Sections IX.5.d and IX.5.i)

cc) Data or information should not be open to everybody in the organisation. Access to data or information should be layered depending on the job role, responsibility and the nature of information. (Section IX.5.f)

dd) The agencies can enforce effective access control so that authorised personnel are equipped with the least privilege needed to perform their official duties. These access controls could be set up in the data warehouses based on personnel clearances and accordingly personnel can be given restricted or general access. (Section IX.5.f)

ee) There should be additional checks in the form of layered authorisations. The receiving party must share the extent of information security tools and processes established. (Section IX.5.d)

ff) Key features for security of data will include policies on user authentication, access and policy control. Integrity checks needs to be performed before and after use, transfer or backup of data. Data integrity can be verified through one-way cryptographic hash functions, digital signatures and cryptographic binding. Adopting and incorporating best practices around data security is imperative to maintain data integrity and privacy, prevent fraudulent use and allow easy and efficient use of data and information. (Section IX.6.1)

vii) Audit and Accountability:

gg) A robust audit and accountability policy must be developed to address the purpose and scope of information sharing, roles and responsibilities of dedicated teams, authorisation layers access to data, review of the safeguards put in place by an agency receiving information and the secure storage, disposal and confidentiality of the data and information. Along with the policy, sound processes are required to facilitate the implementation of the policy. These audits must be conducted by dedicated teams who should report the findings of the audit to the DG (Systems) of the two Boards for course correction. (Section IX.5.1)

hh) The Independent Evaluation Office will evaluate the performance of this activity and present its report and suggest course-correction, if required, to the Governing Council for the successful implementation of data and information exchange by collaborating organisations. (Section IX.6.j)

viii) Personnel Management:

ii) Specialised personnel must be engaged to manage data or information exchange. Their job will entail finding sources of data or information in a continuous manner to fulfil the ever increasing requirement for data or information, work out common standards, develop common taxonomy and develop sophisticated algorithms and software for analysis of the data. They will be part of the CIO/DG (Systems) in each Board. (Sections IX.5.k and IX.6.g)

jj) The CIO's role in data and information exchange will be central to provide an overarching, regulatory function and will focus on security aspects of data or information exchange. Towards that, he will co-ordinate, develop, implement, and maintain an agency-wide information security programme. The CIO thus will be the overall in-charge for developing "*thought-leadership*" so that data and information is well-managed both within the tax department and for interagency transfers. (Section IX.6.h)

kk) Specialised data scientists must be engaged to explore and examine previously hidden insights from data or information from disparate sources. They will also look at the data from many angles and help inter-agency data or information sharing. They will work in the Knowledge, Analysis and Intelligence Centre (KAIC), recommended for creation in the first TARC report. (Section IX.6.g)

ll) There should be a dedicated, full-time team for sharing data or information. The suitability of the personnel should be considered based on their ability, aptitude, competencies and past experience. Their skills should be continuously sharpened through training, seminars, and deputations to other collaborating agencies. (Section IX.5.k)

mm) The training needs of officials should be identified, training plans developed and an all-out effort made to train personnel. Thereafter, evaluations must be made to find out whether training helped in honing the skills required for data or information sharing. (Section IX.5.k)

nn) Training of officials of all collaborating organisations must be organised on roles and rules for access, disclosure guidelines, and confidentiality framework to usher in transparency, openness and trust. The CBDT and CBEC should take the lead in this effort and provide the technical know-how for the preparation of datasets, contribution of datasets, explanation of metadata and the entire workflow of data publishing, feedback management etc. Such training will help in fostering a culture of willingness to share. (Sections IX.5.k and IX.6.m)

oo) Training on the use of data, comprising visual analytical techniques to facilitate visual analysis of data across multiple domains, advanced pattern analysis, entity profiling, data mining, network analysis and simulation techniques is needed to widen the tax base and identify revenue leakages/cases of tax evasion. (Section IX.6.m)

ix) Revamping the FIU and CEIB:

pp) The CEIB will work under the Governing Council, recommended in the first report, to play a strategic oversight advisory role to the Governing Council on data or information exchange. The Governing Council would thus play a key role in data and information exchange between the CBDT, CBEC, FIU, CEIB, SEBI and banks, and develop strategies to reduce the incidence of non-compliance and reduce the tax gap. (Section IX.6.i)

qq) Since the CEIB is the only agency carrying out such an oversight role even under the present dispensation and there is no parallel agency functioning at the state level, the term “Central” should be done away with as it is considered superfluous. CEIB will then be known as Economic Intelligence Bureau (EIB). The role of EIB will be to act as the nodal agency collecting, collating and disseminating information and intelligence to relevant agencies and to be the national repository of information on economic offences. (Section IX.6.i)

rr) On the same lines, the FIU, while being placed under the CBDT as recommended in the first report of the TARC, will report for strategic purposes to the Governing Council through the CBDT. (Section IX.6.i)

ss) A common platform and scalable architecture with high availability should be developed as a first step and for that, the CBDT and CBEC will have to take the lead and persuade other agencies to come aboard. The CEIB will play a key role in this effort. (Section IX.6.m)

The full Second Report of TARC is attached herewith as well as can be seen on Finance Ministry website: www.finmin.nic.in.

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