

Income Tax reforms – Transforming Tax administration through Faceless Assessment

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Abstract

For the last seventy years the assessment process under the Indian taxation system has been very painful and unlined for the assessee as well as the department. The assessments were based on geographical restrictions and requires the interface between the taxpayers and the authority leading to Inspector Raj. There was an uneven distribution of litigations under the jurisdiction of Appellate Authorities leading to an undue delay in disposal of litigations. Since liberalization Government of India is under a continuous process of managing the increasing size of database of taxpayers but due to lack of digitalization and trained IT professional there has always been failures with the result that the litigation trend was increasing. In order to ensure the simplification, transparency and efficiency in the Indian taxation system and the tax administration the government of India has introduced the scheme. The Faceless Assessment scheme was introduced through Finance Bill, 2019 as one of the landmark reforms in the Indian taxation system to facilitate electronic assessment in scrutiny and best judgement assessment processes. The scheme is not an instant initiative rather it is coupled with a lot of digital reforms since liberalization. Some of the major digital reforms are e-filing of income tax returns, CPC-TDS, refund banker, e payment of income tax.

The paper covers a comprehensive research of tax reforms undertaken before implementing the Faceless Assessment Scheme under the Income Tax. The study has covered all the phases of digitalization and the capacity building to make the journey successful.

Keywords: Faceless Assessment, Taxpayer, Department of Revenue, Reforms, Income Tax & Assessments.

1.1 Introduction

In order to improve the tax structure to reach at the desired level a number of committees has been set up. Still there is always a saying that still more is there to be systematized and we need further reforms towards the economic development. In ancient texts Manu Smriti said that it is the responsibility of the king of the state to ensure that the collection of tax must be made in such a manner that the people who are paying should not feel the pain.

Tax administration has always been a challenge since its inception for all the developing countries like India. An efficient taxation system not only requires the collection of taxes on timely basis but the ways of imposition of the same on different class of people based on their income without compromising the investment and economic objectives of the country.

Considering the large population of India where rich and poor both has different needs and standard of living there always arise a challenge before the Government while making any kind of tax reform like reduction in tax rates or increase in tax rates.

Under the modern tax administration to simplify the procedures & in making the law crystal litigation management is becoming a most inherent component. The major causes of litigation

under the Indian taxation system are basically continued rise in economic activities around the world, liberalization in international transactions, complexities in commercial transactions. Also the complexities under the tax administration are rising with the varied interpretation of the tax laws.

A taxpayer can have lot of vertical of transactions like purchase of goods, sale of goods, payment of wages, payment of insurance premium, Inter corporate loans or investments, investment in bank, mutual funds etc., with the economic developments the business grows and the result is complexity of transactions in these verticles which resulted in broadening of tax base. Due to digital constraints the integration of these transactions with the taxpayers income was just an imagination.

In order to manage the litigation system of Income tax, analysing the quantum of litigations and for speedy disposal of income tax cases CBDT has framed a committee and suggested various measures. Amongst the suggested few of them are:

- a) Focus on identification of issues which are repetitive in nature so that necessary circulars can be issued to vanish the repetitiveness.
- b) The CAG in its performance report 2009-10 has highlighted that the dimensions of tax litigation are enlarging at a wider pace which is difficult to monitor manually so it should be replaced with strong digital database, with the result that National Judicial Reference System for managing the tax litigation under the automated system has been set up which is acting as a repository of appeals filed before CIT(A), ITAT, HC & SC.
- c) To understand the importance of litigation management as a normal operational activity.
- d) To appraise the departmental officials and rewarding them for better litigation management.

One notable exception was the induction of information technology (IT) in administration. E-TDS return was introduced by CBDT in the FY 2004-05 by launching a scheme name Tax Deducted at Source Scheme, 2003. This was the time the data integration process has been initiated in the Income Tax department.

For the FY 2004-05, CBDT notified e-TDS return for salary and other payments which got extended by quarterly e-TDS return from the next FY. In September 2004, e-Income-tax return was also introduced on voluntary basis later on from July 2006 onwards this was made compulsory for all corporate assesses and later from AY 2012-13 for all individual assesses also.

1.2 Journey of Digitalization

This digital journey which started from e-returns in the Year 2004 got extended to e-assessments in September 2017 and further Faceless Assessment and Appeals in August 2020.

Gradually India reached at the scheme of following the different tax reform under different phases:

PHASE I: COMPUTERIZATION OF TAX ADMINISTRATION (1984-1989)

Although people use to say that the tax reforms are the invention of 21st century but in reality tax department stepped into the digitalization shoes in 1984-85 but the same didn't get the evolving path of technology. At this phase all the processes like filing of return, processing of return,

rectification of TDS, Tax payments, PAN allotment, selection of cases for scrutiny assessments were being done manually. The initial digital reform was on structuring the process of issuance of PAN application in a technology driven way as the ITD was unable to issue PANs to all the taxpayers in a timely manner and becomes the cause of significant backlog as well as deficiencies in the issuance of allotment process.

Initially 36 centers across the country according to the jurisdiction of commissioners were set up for PAN allotment and every center was having its own process to issue the PAN. Further the taxpayer's perception regarding the PAN was that this can lead to monitoring of their activities.

Without PAN the department was unable to match third party financial transactions resulted in gaps of income reporting.

Another module of computerization was on processing tax payment challans which used to be generated at the bank's branches itself and thereafter the copy of the same was affixed with the income tax return for submission with the ITD.

On the basis of those copies of challans the tax office verifies the challan after getting the confirmation of receipt of funds from designated banks. It was only after manual sorting of taxpayer's challans statement of tax credit was given and since it was a very time consuming process so department was always filled with backlog of challan copies.

In 1986 the first attempt was made to process the income tax return on digital platform but the system was not successful due to again manual entry of information of taxpayers and as the PAN allotment process was not central so accuracy of data was being compromised. Further the computer system was not as advanced to capture the errors and process the return on timely basis. The return forms were also not computer friendly.

Considering the abnormalities in this system another attempt was made in 1989 to launch friendly computer processing. The return sheet in computers made simple so that the same can be filled up by the ITD officers. The procedure manual for filling of data sheets of taxpayers was circulated amongst the ITD officials.

The filled sheets are then forwarded to the computer centre for capture of data, and computation of tax, interest and computerized preparation of daily collection registers. Further the return processing launched on all India basis. This has saved the time of officers of ITD. But due to strong opposition from employee unions ensured that the manual processing of returns continued alongside computerized processing of returns. Despite recommendations of an independent committee of the Indian Institute of Public Administration (IIPA), which dispelled any apprehensions of retrenchment and supported computerized processing of returns, the employee unions continued with their resistance.

The departmental management was unable to negotiate successfully with the unions to dispense with the manual processing of returns.

Consequently, in the first phase of computerization the PAN allotment process, processing of challans and returns all these three processes witnessed limited or no success. The main hurdle in this phase was the resistance of staff to computerization, and their insistence on continuation of the manual processes in parallel with automated processes.

PHASE II: PAN SYSTEMATIZATION AND ONLINE PROCESSING OF BANK CHALLANS (1998-2004)

After looking at the failures at the first phase of digitalization, increasing the number of tax payer base, tax frauds and unable to meet the demand of Government of India in 1998 Chelliah Committee reported to introduce a 'Comprehensive Computerisation Program'.

At this stage all the ITD officials has been provided desktop at the work front with the linkage of LAN/WAN to 36 Regional computer centre and then linkage of regional computer centre to National Computer centre. As PAN is the only base which can identify a taxpayer and can link all the information of taxpayers.

Further processing of return was not possible with proper allocation of unique PAN on all India basis. Hence various application software was developed through TCS for processing of PAN applications and collection of taxpayer's information on PAN basis which can link the PAN with AO code of the assessing officer processing the returns under him.

During this phase the prime focus was on three digital modules which were considered to be the backbone of 1st phase of computerization in the department. These were:

- (i) Assessee information system **(AIS)** for allotment of unique PAN;
- (ii) Tax accounting system **(TAS)** for maintaining digital register of bank receipt of challans and
- (iii) Assessment system **(AST)** module for processing of income tax return was launched.

In 2002 there arise the need for outsourcing of non-core activities so that ITD officials can focus on their respective functions so it has been suggested to make TIN (Tax information network) outside the ITD as a repository for Tax data and this network has made it easy to interact with taxpayers in online filing and processing of information. Hence in July 2003 to increase the efficiency and to avoid the duplicacy of PAN allotment the Income Tax department has outsourced the PAN allotment activities to National Securities Depositories Ltd. (NSDL).

POSITION OF ALLOTMENT OF PAN THROUGH INCOME TAX DEPARTMENT

Table-1 (A) POSITION OF ALLOTMENT OF PAN THROUGH INCOME TAX DEPARTMENT

FY	Opening balance	Additio ns during the year	Core-field deficiency / duplicat ePAN Cases	Net applica tions for allotme nt (2+3-4)	PAN allotted During the year	Balance (includi ng core field deficiency cases)	Net Pendency(5-6)
1	2	3	4	5	6	7	8
2000-01	23,56,052	17,27,875	13,84,272	26,99,655	23,00,218	17,83,709	3,99,437
2001-02	17,83,709	28,47,61	13,02,7	33,28,52	26,78,764	19,52,555	6,49,760

		0	95	4			
2002-03	19,52,555	55,36,18 0	12,60,4 32	62,28,30 3	58,74,623	16,14,112	3,53,680
2003-04 (From 1.4.03 to 30.6.03)	16,14,112	10,59,24 0	16,10,6 83	10,62,66 9	10,62,669	-	-

(B) ALLOTMENT OF PAN FROM 1.7.2003 TO 31.3.2004 THROUGH NSDL							
2003-04 (From 1.7.03 to 31.3.04)	-	40,02,3 52	-	40,02,352	35,08.9 56	-	4,93,39 6

The table 1.1 depicts that after streamlining the process of PAN the duplicate processing of PAN application has been vanished.

This suggestion was the biggest reform on computerization at a large scale. In 2003 agency called NSDL has been selected to host TIN. With a view to map third party transactions with the taxpayers PAN systematization introduced in 2004, by creation of Tax information Network (TIN), simultaneously with TIN, CPC (Centralized Processing Centre) for online filing of Income Tax returns was also launched. In 2004 this was then followed by the creation of 'Taxnet' for the networking of all the offices of the ITD across the country, the Tax Information Network (TIN), the Centralized Processing Centre (CPC) for tax returns.

This major BPR has resulted in reduction of bank challan transmission data from 45 days to 2 days and also the cash revenue of government of India has been increased at a faster pace which is the result of computerized processing of returns all over the country. Not only the government revenue but the refund processing time has also started reducing. The processing of challans in computerized environment has been initiated in 1981 but due to digital constraints the same was not successful.

At this phase the following application software were developed for discharging the assessment functions of ITD:

- i. Manpower Management System (MMS)
- ii. Initial PAN Allotment System (IPAN)
- iii. Assessee Information System (AIS)
- iv. Tax Accounting System (TAS)
- v. Assessment Information System (AST)
- vi. Individual Running Ledger Account System (IRLA)

It was only after the dawn of the 21st century that IT began to get traction in the Department.

In this phase the use of computers were restricted to PAN allotment, assessment of tax liability, preparation of intimations, challans, demand & collection registers, and record management. In

this phase the entire emphasis is on increase in effectiveness, productivity and Induction of information technology.

The functions requiring discretion, e.g., the determination of the correctness of the total income reported by the taxpayers and of their tax payments and refunds, remained with the ITD officers, who continued to rely on manual processes for these functions. The results of computerization were not very encouraging even for the routine functions that were sought to be automated.

PHASE III: SCRUTINY ASSESSMENT STREAMLINED (2004)

Earlier the process of scrutiny assessment was very harsh on the assessee and there was substantial loss of man hours of the income tax department for defining the cases for scrutiny assessment.

An intelligence team of around 300 verticals has been set up to select the cases for scrutiny assessment which involves numerous anomalies. In this year a new provision under section 285BA has been inserted w.e.f. 01-04-2004 for the purpose of widening the tax base and utilization of relevant information for the proper assessment of income which was later on substituted by the Finance (No.2) Act, 2004 w.e.f. 1-4-2005. The reason behind introduction section 285BA is to make an obligation on specified persons to furnish Annual Information Statement to the Income tax authority. Now based the information received from the specified persons u/s 285BA the cases has been selected for scrutiny assessment.

While streamlining the process of scrutiny assessment CBDT has issued certain directions that the case can be selected for scrutiny if the Assessing officer considers it necessary or ensure that:-

- (a) The income has not been understated or excessive losses has not been claimed for the financial year and,
- (b) the taxes have not been underpaid.

Usually, in practice it seems that the Assessing officer considered the amount of turnover, rate of gross profit, total income, quantum of loans taken, quantum of advances given, investments made during the year etc. for selecting a case for scrutiny.

Sometimes, on the basis of report of survey and other information available with the income tax department, the case may be selected for scrutiny under section 143(2). However, the selection is done from time to time as per guidelines framed by the CBDT. The Following are the broad CBDT parameters or yardsticks for selection of cases for scrutiny assessment Selection for scrutiny is generally made at 2 levels:

- [1] Centrally through CASS
- [2] Manual Selection by the Assessing Officers.

Every year, CBDT issues guidelines for selection of cases, which are to be scrutinized. These all guideline has been kept confidentially by the department. However, on the basis of media reports and information from reliable sources, the broad guideline contains the following broad parameters. These guidelines has been classified in two parts –

1. The guidelines is applicable for all assesseees and

2. The guideline for different class of assessee, depending upon the income tax return form submitted by them.

Central Board of Direct Taxes (CBDT) has issued instructions on time to time basis to make the scrutiny assessments process an ease for the assessing officers to remain specific while making enquires of tax payers whose returns are under scrutiny.

The CBDT has directed all its officers to mention e-mail address and phone numbers in all communications to facilitate electronic interface of the taxpayer with the Department.

PHASE IV E-FILING OF TDS RETURNS (2004)

Before 2004 TDS returns were filed in paper form by the deductors, this phase has really demonstrated meritorious in the history of tax administration reforms. E filing of TDS returns enhanced the voluntary filing of TDS compliances and instant update of deductee's financial information in the online portal. The e filing of TDS returns resulted into an ease in compiling the taxpayer's database process and government revenue.

PHASE V: E-FILING OF INCOME TAX RETURN (2006)

The need for BPR in income tax department made at a faster pace after the budget speech of Hon'ble Finance Minister in 2006 wherein the objective was to enable the Income tax department to deal with the challenges emerging from new environment.

As the time for computerisation and Information technology has led to the concept of technological advancement and the rising use of internet over the global, there arise the need for e-filing of Income tax return. In September, 2004 E-filing of Income Tax return on voluntary basis has been introduced. E-filing of income tax returns has been mandated in different assessment years for different class of persons. At the initial stage this was introduced on voluntary basis for all taxpayers but later on from July, 2006 all the corporate sectors were required to the income tax return on online basis. Thereafter from AY 2013-14 the same has been made mandatory for the following persons to file the income tax return online:

- (a) Every person (not being a co. or a person filing return in ITR 7) whose total income exceeds Rs. 5,00,000.
- (b) An individual or a Hindu undivided family, being a resident, whose assets are located outside India or signing authority in any account located outside India
- (c) Every person claiming tax relief under Section 90, 90A or 91.
- (d) Persons required to get their Accounts audited under Section 44AB
- (e) A firm required to furnish the return in Form ITR-5 or an individual or Hindu Undivided Family (HUF) required to furnish the return in Form ITR-4 and to whom provisions of section 44AB are applicable.
- (f) A company required to furnish the return in Form ITR-6.

During this phase department has entered into a technology driven environment undertaking a comprehensive Business process re-engineering and has enabled to provide following e-services with the launch of different computer modules:

- (i) E-Payment of taxes
- (ii) E-filing of TDS statements
- (iii) E-Processing of TDS statements
- (iv) E-view of tax credits
- (v) E-filing of Income Tax Returns
- (vi) E-Processing of Income Tax Returns
- (vii) E-Matching of tax Credits
- (viii) E-tracking of processing of the Income Tax Returns
- (ix) Computer assisted selection of cases for scrutiny (CASS)
- (x) Refund Banker

PHASE VI: Central Processing Center for efficient administration (2008)

After making the online ITR mandatory the digitalization speed of ITD has been taken at a faster speed. Now in 2008 when e-filing of Income tax return has been popularized and the number of return filing has increased then in order to process the returns at faster rate the same has been done through establishing Centralized Processing Centre at Bangalore in 2008 and all the activities relating to processing of returns has been outsourced to CPC Bangalore.

Simultaneously to clear back log of refunds all the issues of refunds has been outsourced to SBI under the refund Banker scheme so that refunds can be transferred to taxpayers on timely basis. These measures has turned down the return processing time to 90 days from existing period of years which is now reduced to a day. The average processing time of return has been reduced to 47 days from an existing time of 6 months. This huge reform in timely computerized processing of returns has resulted in greater transparency in tax administration, timely issue of refunds to tax payers, removing human interface between the tax payer and the Income tax department officials. The refunds are now directly credited to the bank account of the payer, obviating the need for visit to the tax office or receiving refunds through post which at times led to delays and loss to the tax payers. This has also resulted in to enhance the confidence of taxpayer with the tax office leading step in to timely compliance.

PHASE VII: TRACES A GAME CHANGER(2012)

In our tax regime the tax deductee get the TDS credit on the basis of manual TDS certificates which are issued by the tax deductors. Before the computerization it was very tedious task for the ITD officials to get verification of TDS from the deductors so the verification process was restricted.

Hence the traditional practice resulted into tax frauds. With the enormous volume of transactions it was getting difficult to verify the genuineness of manual certificates. With the result that the refunds were getting delayed and a lot of grievances and disputes were on the peak. When the BPR study was conducted by the department then following constraints were indentified in the system:

- i. The department did not have technology-driven capability to handle large volumes of TDS Statements received.
- ii. There was no mechanism to reconcile 'Tax Deducted' with the 'Tax Credit' claimed in the Income Tax Returns.
- iii. Annual Tax Credit Statement (Form 26AS) was not reliable and had to be overridden by manual TDS certificates.

- iv. There was no centralized accounting for either the deductors or the taxpayers.
- v. There was no integrated platform for the deductors, taxpayers, and Field Assessing Officers to interact.
- vi. Time lag between deduction of tax by the deductor and giving its actual credit to the taxpayer was inordinately long. In some cases, the delay was more than 2-3 years.
- vii. The business relationship had ended by the time such TDS mismatch was discovered. Thus, the taxpayer was not in a position to get the reporting of TDS rectified by the deductor

In order to control the same 2011, ITD selected Infosys as its managed services provider to facilitate central processing of TDS filings by business entities. With the help of TRACES the ITD officers are able to get the compiled reports of different taxpayers for policy decision making.

The new centralized system enabled:

- Reconciliation of TDS filings and refund claims on real time basis.
- Instant detection of erroneous claims and faster payment of verified claims
- Significant savings for the government by reducing the interest accumulation on delayed tax refunds
- Synchronization of cleaned & processed data with ITD database.
- Mapping of PAN with relevant TAN.
- Generation of TDS certificates online
- Bulk TDS statements processing started to generate the 'Annual Tax credit' of each taxpayer in 26AS.
- Identification of PAN errors, short payment, delayed payment and interest thereon.

PHASE VIII: E-ASSESSMENTS TO FACELESS ASSESSMENT (2017-2020)

The digital journey which has started in 2004 from e-filing of income tax return has got the e-assessment path in September 2017. For the purpose of making assessments so as to impart greater transparency and accountability, by eliminating the interface between the Assessing Officer and the assessee, optimal utilisation of the resources, and introduction of team-based assessment an E-assessment was introduced.

E-Assessment was initially introduced for the very first time on a pilot basis in five cities, inter-alia, Ahmedabad, Bangalore, Chennai, Delhi and Mumbai in 2015, which was extended to two more metros Kolkata and Pune in the year 2016.

In the year 2017, the Income-tax Dept. had developed an integrated platform, i.e., Income Tax Business Application (ITBA) to carry out various electronic functions/proceedings including assessments. Central Board of Direct Taxes (CBDT) has made it mandatory for the tax officers to take recourse of electronic communications for all limited and detailed scrutiny cases.

The scrutiny assessments to be carried out on or after 12-09-2019 are governed by this 'E-assessment Scheme, 2019. It is a well thought out plan, with structured procedures and a step

towards aiming to reduce red tape and a more transparent assessment system. Whether it will work as smoothly as it has been designed, only time will tell, but let's now understand its structure and the process.

E-Assessment was the first step towards making assessment procedure transparent, and cleansing the bureaucratic unnecessary layers and reducing litigation cost for both revenue and taxpayer.

W.e.f 13th August 2020, the e-assessment was renamed as the faceless assessment scheme.

1.3 Capacity Building A step to Faceless Assessment

In order to promote Digital India the Govt. of India has introduced the concept of faceless assessment under the Income tax Act which will eliminate the human interface with the department of Income Tax. The basic idea behind this is to enhance the transparency, accountability in assessment process. To promote efficiency and consistency in tax administration with the help of information and technology Government of India has launched several modules for processing of taxpayers information to reach at 360 degree view.

In order to make the compliance easier and user friendly the Government of India has contributed a lot of efforts towards e-governance. The journey of digital platform has been possible only with the building of technology strength which has led to launch of various IT applications and software to ensure fast processing of taxpayers information.

The journey was not always easy due to continuous increase in large database of taxpayers, concealment of income and misrepresentation of facts by taxpayers. After facing failures in many times and employees resistance from adopting the technology finally Government's dream towards digital governance has been at the pace of achievement.

With a view to protect the interest of tax authorities and for raising the confidence of taxpayers towards e-governance Government of India has not only launched the information processing modules but the other application software to resolve the grievances of taxpayers.

Since liberalization number of e-Projects has been launched by Directorate of Income tax in order to streamline the database of taxpayers, fastest processing of refund claims and processing of Income tax returns which are as follows:

A. Project PAN & Biometric PAN:

With a view to link all the specified transactions of a taxpayer with the database of income tax department and to avoid duplicate issuance of PAN the department has launched a software called "PHONIC MATCHING ALGORITHM". Further with the passage of time the project has been widened to and now PAN is considered as a Common Business Identification Number which is required for opening of bank account, demat account, for GST registration and further to the incorporation of a company at MCA. Now PAN is being allotted at the time of registration of a company at MCA site. A facility of download e-PAN has also been provided to the existing PAN

holders. The project also embedded itself Aadhaar address update facility which works through UIDAI hence IT department is also integrated with UIDAI.

B. Project e-filing of Income Tax returns:

The project requiring e-filing of Income Tax returns has been notified in 2006-07. At the initial stage the project has covered the corporate sectors from 2008-09, the same has been extended to taxpayers liable for tax audit u/s 44AB gradually e-filing made compulsory for taxpayers having income of Rs.10 lacs or more from FY 2011-12 but from AY 2017-18 e-filing has been made mandatorily for all the taxpayers. With the launch of online filing of income tax returns the income tax portal has provided following facilities to the tax payers:

- a. Pre-filled details in online forms of ITRs.
- b. Downloading of XML file to upload
- c. Online rectifications
- d. Online revision of ITR
- e. Online verification of ITRs without posting the paper return to CPC-Bangalore.
- f. Online request for intimation.
- g. 26AS view
- h. Online filing of audit reports.

With the extension of online utilities the number of users shown an increased use of income tax website thereby enabled voluntary compliances with the least compliance cost.

C. Project CPC-Bangaluru, Centralized Processing center for Income tax returns (Excellence in Re-engineering of Government process)

CPC has proven a landmark reform in the digitalization journey of income tax department which was approved in February 2009 and commenced its operations for processing of returns in October 2009. At the initial stage CPC has processed on an average 1.8 lacs returns per day. The faster processing system of CPC has resulted into reduction of processing time of income tax returns on an average from 1 year to 1 day thereby reduction in interest on refunds. As compared with manual processing of returns the rectification requests under the CPC processing system has been fallen. Further the CPC processing has also led to saving in postage cost due to e-delivery of intimations. CPC TDS has made the department all most paper less due to paperless delivery of notices, intimations in the form of emails and SMS.

C. Project Refund Banker

The project was launched in January 2007 with an intermediary State Bank of India to issue taxpayer's refund on timely basis under the automated system. The project has reduced the refund processing time after processing of income tax return by the Assessing officer to 1 to 2 days which earlier used to be 8 to 12 days. Under the project the status of refunds is updated regularly on

department application system along with the reasons of failures. Below table depicts the achievements of refund banker:

Table -2

Refund Banker Project- Achievements

FY	Paper cheques	ECS	Total	% of ECS refunds
2006-07	20,220	6,480	26,700	24.27%
2007-08	2,45,673	1,41,536	3,87,209	36.55%
2008-09	4,09,223	4,56,916	8,66,139	52.75%
2009-10	7,95,681	5,76,346	13,72,027	42.01%
2010-11	4,83,526	3,91,599	8,75,125	44.75%
2011-12	3,71,158	1,01,74,550	1,05,45,708	96.48%
2012-13	66,733	81,48,839	82,15,572	99.19%
2013-14	41,501	1,03,06,814	1,03,48,315	99.60%
2014-15	22,517	1,35,56,088	1,35,78,605	99.83%
2015-16	13,162	2,10,08,960	2,10,22,122	99.94%
2016-17	10,617	1,76,59,245	1,76,69,862	99.94%

Source: Annual reports Department of economic affairs

From the above table it can be seen that the paper refunds are almost vanished. Further this process has ensured that the refunds

D. Project E-payment of tax

The project aimed at online payment of self assessment tax, TDS, Advance Tax for ease at any time, any where. The e payment has been mandated initially for corporate sector and persons liable for tax audit u/s 44AB in April 2008.

E. Project E-Sehyog

The project aimed at making the compliance easy for the taxpayers by sending SMS and e-mails if there is any mismatch as per the income tax return filed and information provided by the third

party to the income tax department. If there is any mismatch the taxpayer is required to submit online response to the mismatch and based on his response the issue is closed or taken forward for further action and the same is communicated to the taxpayer by SMS or e-mail.

F. Project CPC-TDS the process to arrive at the Faceless Assessment

In the era Pre-CPC TDS as the AO were unable to verify the genuineness of manual TDS certificates and the department was not having technology driven capability to cross check the same from deductor which has led to some malpractices on the return processing of taxpayers. The manual TDS certificates were overriding the 26AS statements and hence resulting in failure of matching the TDS deducted with the TDS credit claimed in the return of income of the taxpayer.

Due to absence of integrated platform and centralized accounting of the deductors, taxpayers there was always has been the time gap in the grating of tax credit to the taxpayers and resulting in delay in refunds. By the time department was able to get the mismatch and issues the notice to the taxpayers or deductors the business relation gets ended the TDS reports remained unrectified.

March,29, 2012 was a breakthrough in the history of tax department when the CPC TDS cell has demonstrated the first picture of TDS processing. CPC-TDS by passage of time has proven a robust compliance framework for processing of backend TDS processing and matching of deductor's information with the deductee. CPC-TDS is purely a digital initiative of the Government of India reconciliation tax deducted at source with 100% accuracy. It processes the data extensive scale within a very short span of time enabling the processing of income tax return in very short time even within one of filing of return of income.

In the journey of digital transformation of Income tax department CPC-TDS has played a vital role which couldn't be possible earlier as it synchronizes the cleaned and processed data with Income Tax department database without any manual involvement of Income tax department. After processing of data it shows short payment, PAN errors, and other inconsistencies which can be easily corrected by making a correction in TDS statement filed. The processing of information at CPC-TDS has made an indepth paradigm change in managing TDS collections. This has made an effective interface between the taxpayers and tax administration department.

One of the most popular module is TRACES (TDS Reconciliation Analysis and Correction Enabling System (1) which has contributed a lot to income tax authorities in gathering the information relating to taxpayer's income by way of reflecting all the incomes on which tax has been deducted by the deductor in 26AS. In the integration of taxpayers income at the income tax department TRACES and 26AS has played a key role as otherwise it is useless to think about the faceless assessment. TRACES has been proven a robust technology while implementing the concept of faceless assessment.

Before the launch of TRACES the taxpayers use to claim the TDS credit on the basis of manual TDS certificates issued the tax deductors. There has always been the mismatch between the tax deducted and the tax credit claimed by the tax payers as the TDS certificates were used to issued on manual basis which at many times leads to wrong availment of tax credit by the tax payer due

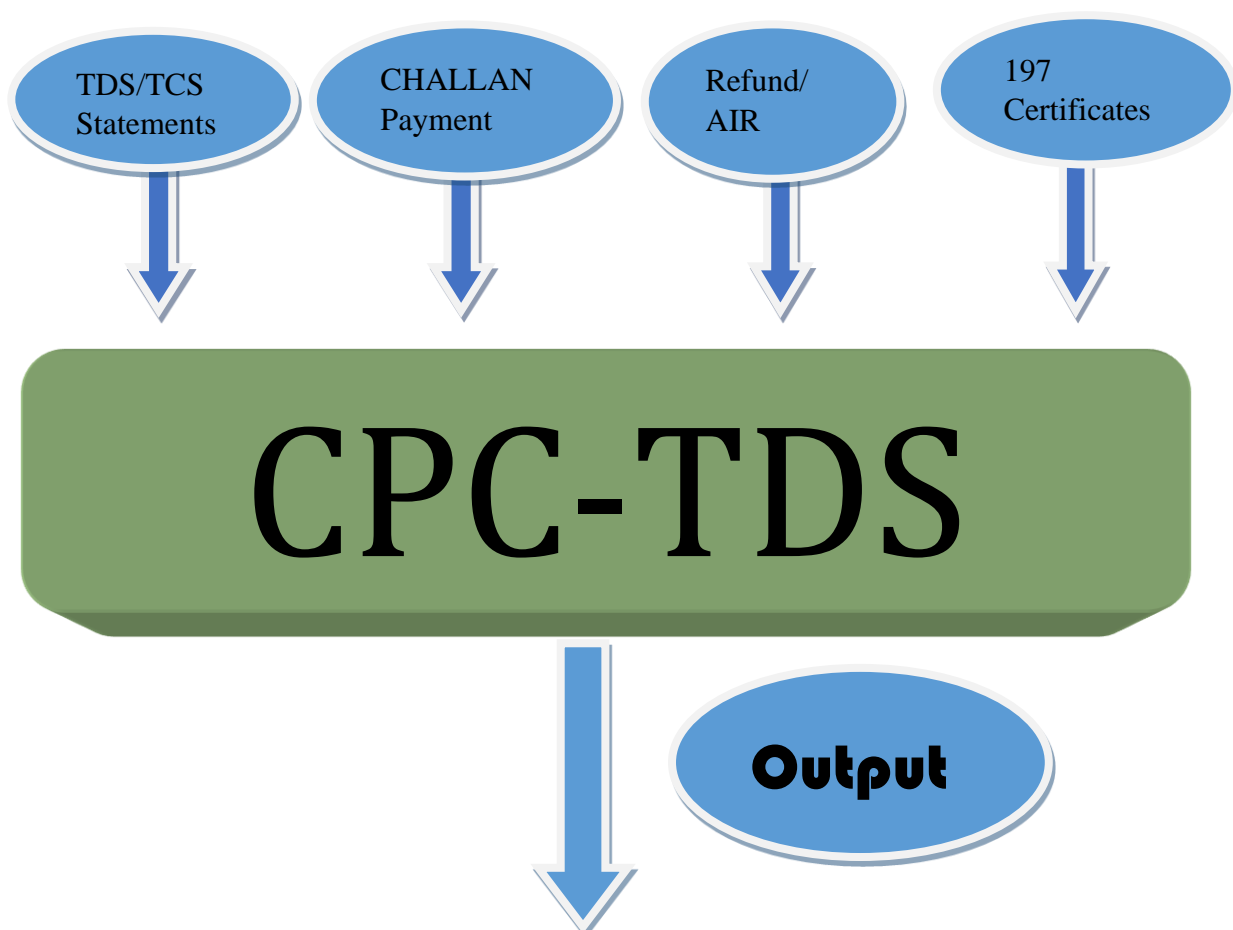
to its falsification. As the certificates were being generated manually so it was difficult for the Assessing officer to verify the genuineness of certificates.

TRACES has also build a confidence amongst the taxpayers that based on 26AS the tax administration will not deny the TDS credit and they will be getting the refund on timely basis. Not only the refund issues are getting cleared on timely basis but also assisted in concluding the assessment by the assessing officer within the limitation period.

While granting the TDS credit and other tax credits like advance tax, self assessment tax TRACES has played a key role in the journey of digitalization. TRACES which is the centre of CPC-TDS is web based application and an interface between the Income tax administration and tax payer. It received the input in the form of Challan payments, TDS/TCS statements, AIR/Refund, 197 certificates and then validates these input digitally for processing which gives the following results as an output:

- a) Defaults
- b) PAN Errors
- c) Form 16/16A,
- d) 26AS Statement
- e) Online correction
- f) Challan corrections

This process flow can be explained in the below diagram as:



1. TDS Matching with the help of 26AS and Form 16/16A
2. Online correction of TDS
3. Verification of Lower deduction certificates
4. TDS default view
5. Submission of refund requests online

G. Process of modification in 26AS – Income Tax Passbook

26AS generally known as Income Tax passbook has become an important document for verifying the financial transactions of a taxpayers which has made a much contribution to reach at the e-assessment. It is the document which is often used by the taxpayers and officers of Income tax department for verification of income and the amount of taxes paid or deducted.

With the launch of TRACES this form also include the details of financial transactions entered beyond a specified limit which are linked to the PAN of assessee. This has been made possible by making an amendment in Finance Act, 2014 under Section 285BA of Income Tax Act as an obligation to furnish the statement of financial transactions to facilitate the exchange of information of the taxpayers which has deepened the taxpayers base.

Under this to keep a watch on high value transactions entered into by the taxpayers with the third parties the importance of PAN has been increased. So Banks, Mutual fund companies, Companies issuing bonds/debentures are required to furnish the details of financial statements with the income tax department in a return called Annual Information Return. On the basis of AIR the tax authorities are able to collect the information on suspected transactions. The taxpayer can check this information in its 26AS statement under PART-E.

Part E - Details of SFT Transaction					
Sr. No.	Type of Transaction ⁴	Name of SFT Filer	Transaction Date	Amount (Rs.)	Remarks ^{**}
1	SFT-005 Time deposit	Axis bank Ltd., TRISHUL 3RD FLOOR OPPOSITE SAMARTHESHWAR TEMPLE NEAR LAW GARDEN ELISBRIDGE, AHMEDABAD, GUJARAT, INDIA, 380006	-	(-86178.00)	○
2	SFT-012 Purchase or Sale of Immovable Property	SUB REGISTRAR OFFICE ATHWA-SURAT-1, MULTYSTOREY BUILDING BLOCK-A NANPURA SURAT, SURAT, GUJARAT, INDIA, 395001	03-Feb-2020	3000000.00	○

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Notes for SFT: -

1. Amount shown for SFT-005 and SFT-010 is as per below formula: Aggregate gross amount received from the Person (-) Aggregate gross amount paid to the Person

The information in form 26AS is reflected after filing of TDS return by the tax deductor and the Specified financial transactions or Annual information has been furnished by the third parties. The TDS return contains all the information of TDS deductor like his name, PAN, amount paid, date of payment. Such return is processed on TRACES and after the processing the return the information relating to the tax payers is uploaded on the server of the income tax department in the statement called 26AS.

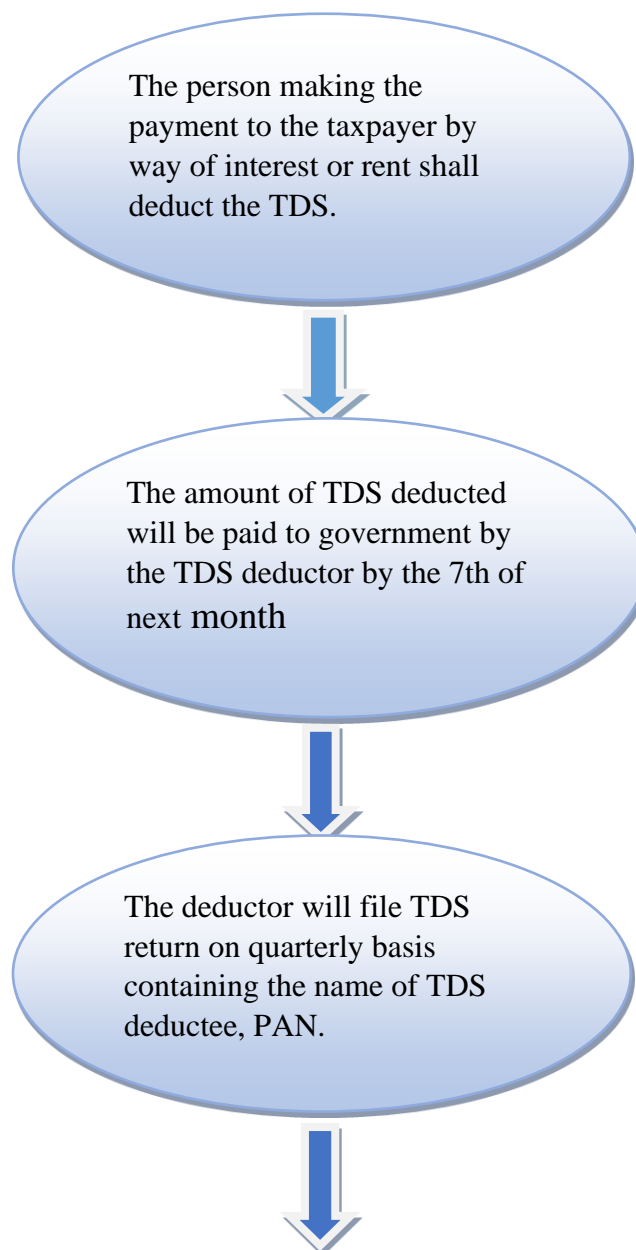
For Example Mr. A is having following incomes:

- | | |
|---|--|
| a. Interest on Fixed Deposits in SBI
RS.5,000) | Rs. 50,000 (TDS deducted |
| b. Rental income from house property
30,000) | Rs. 3,00,000 (TDS deducted Rs. |
| c. Income from salary | Rs. 10,00,000 (TDS deducted Rs.80,000) |

Once the payer has filed his TDS return, all his income on which TDS has been deducted will be reflected in his 26AS based on which the department would be able to process his return of income by integrating all the incomes.

Further in case there is a mistake in the TDS return filed the same can be rectified like income tax return and 26AS statement will get updated after making the necessary correction.

The process flow reflecting the income in 26AS with the help of TRACES can be shown as:



Based on TDS return filed by the deductor the details of TDS deducted will be reflected in the 26AS statement of deductee.

H. PROJECT INTEGRATION OF INCOME TAX E-FILING PORTAL WITH GST

Government revenue in the form of taxes whether direct or indirect is one of the crucial part of governing a country. In order to control the tax evasion and enhancing the transparency in reporting the turnover of taxpayers the two tax authorities of India i.e. CBDT & CBIC has signed a memorandum of understanding for exchange of information of taxpayer with each other with the result that now income tax portal is linked with GST portal.

The linkage of deductor and deductee was not enough for smooth flow of centralized digitalization as 26AS could be able to reflect only those transactions which were covered under the provisions of TDS, SFT, Lower deduction certificate, refunds, taxes paid. If an assessee is involved in manufacturing/trading business the 26AS will reflect only those transactions on which the TDS provisions are applicable i.e. on which TDS has been deducted or lower deduction certificate is provided.

The result was that the assessee can easily manipulate its turnover in order to minimize his tax liability. In order to overcome such manipulations and tax evasion practices it became the necessity to integrate e-filing portal under Income Tax with the GST portal which has resulted in reflection of turnover as per GSTR-3B return in Form 26AS.

GST returns will reflect in your In x | View Form 26AS (Tax Credit) x | TRACES | Form 26AS x | +

services.tdscpc.gov.in/serv/tapn/view26AS.xhtml

Apps Gmail YouTube

TDS** (Rs.)

Gross Total Across Deductee(s)	0.00	0.00	0.00
--------------------------------	------	------	------

Page 0 of 0 No Transactions Present

** Total Amount Deposited other than TDS includes the Fees , Interest and Other ,etc

PART G - TDS Defaults* (Processing of Statements)

Sr. No.	Financial Year	Short Payment	Short Deduction	Interest on TDS Payments Default	Interest on TDS Deduction Default	Late Filing Fee u/s 234E	Interest u/s 220(2)	Total Default
Page 0 of 0 No Transactions Present								

*Defaults relate to processing of statements and donot include demand raised by the respective Assessing Officers

PART H - Details of Turnover as per GSTR-3B

Sr. No.	GSTIN	Application Reference Number (ARN)	Date of filing	Return Period	Taxable Turnover	Total Turnover
1	06AJDPT4218R1ZN	AA0608205111245	04-Oct-2020	August,2020	192,000.00	192,000.00
2	06AJDPT4218R1ZN	AA0606207707429	30-Sep-2020	June,2020	65,000.00	65,000.00
3	06AJDPT4218R1ZN	AA060420532482N	30-Sep-2020	April,2020	0.00	0.00
4	06AJDPT4218R1ZN	AA0605205526972	30-Sep-2020	May,2020	51,000.00	51,000.00
5	06AJDPT4218R1ZN	AA0607205466819	30-Sep-2020	July,2020	160,000.00	160,000.00
6	06AJDPT4218R1ZN	AA061120510818L	24-Dec-2020	November,2020	305,000.00	305,000.00
7	06AJDPT4218R1ZN	AA061020514356T	26-Nov-2020	October,2020	307,000.00	307,000.00
8	06AJDPT4218R1ZN	AA0609204942345	05-Nov-2020	September,2020	230,000.00	230,000.00

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Notes:-

- The GSTN data displayed above includes internal stock transfers as well

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This is the most welcome step in the digitalization for fair and transparent taxation system which is ultimately leading to the growth of the economy. Now assessee will have to report the correct turnover to the income tax authorities. Form 26AS will automatically capture month wise turnover details in Part-H from GSTR-3B filed by the registered person in GST portal. This sharing of portal has resulted into capturing of non-filers data under the Income Tax Act, 1961 and under GST Act,1961. If there is any mismatch in the turnover data the same will be auto populated in E-Campaign tab of compliance portal of Income tax.

I. Project Integration of CBDT with MCA21

The major BPR in the history of Income tax is now that apart from making the assessment/return on digital platform the PAN/TAN issuance process for newly incorporated companies has been integrated with MCA21. With the result that the PAN/TAN will be issued at the moment the company gets registration from MCA. With the emergence of this PAN/TAN are now issued along with the certificate of incorporation of a company¹.

J. Project_Non-Filers Monitoring System Pilot Project:

Technology has played an important role in the business process re-engineering of income tax department internal and external processes². The objective of digitalization is not attainable until the tax officials and tax payers both are equipped with IT infrastructure and facility. For promoting voluntary compliance and detecting the tax evasion & the availability of information in electronic

form has enabled the income tax department has developed a wide range of methodologies which amongst the others includes Non-filers monitoring system. This project is launched with a view to prioritize the action against the non-filers. The department has made a data analysis of non-filers with potential dues of tax liability with the database of AIR, CIB and TDS/TCS for taking an action against them. The non-filers will be communicated their non-compliance by E-mail, SMS.

The identified non-filers to whom email or SMS is sent by the department is required to submit the compliance by login to income tax department e-filing portal. The non-filers can check their respective non-compliance in the compliance tab of the portal. This system enables the non-filer to view the details of the Assessment Years for which it has not filed the income tax return or for which the income tax department has received the information from third parties.

It is an easy way to submit the voluntary compliance of taxpayer. If the income tax department is satisfied with the e-response submit on compliance portal the case shall be closed and it can be checked on the portal. But if the taxpayer do not file the compliance on the portal a further action can be taken by the officers in this regard.

So, this online submission has given the taxpayer an opportunity to submit its own compliance without under the fear of interaction with the Assessing officer which has encouraged the tax payers to accept the e-submissions.

K. Rolling out of Project Insight for to smooth the process of integration of income independently

In order to encourage the income tax administration to accept the challenges and overcome the difficulties in collating the details of taxpayer and for their verification the Government of India is planning to launch Project Insight that would be quite helpful for tax officials. This project insight is a digital platform that will capture the 360-degree profile of each tax payer including the financials of its family members or associated enterprises.

In the technology race India is approaching towards that platform of integration of taxpayer's profile for which even the taxpayer could not even have the thought. As this project is meant to capture all the financial information of taxpayers which assessee is required to report to the authorities so that voluntary compliances increase and in case there is any non-compliance that will be detected easily.

This project will have an exhaustive profile of the taxpayer so that the tax evasions will be restricted to minimum. This is definitely going to reduce the dependency of tax officials on banks, financial institutions and other third parties for collating the taxpayer's information. This project is evolved with an Income Tax Transaction Analysis Centre which carries the processing of data

integration, data quality surveillance, data processing, data analysis, data storage, compliance management, research reports for greater productivity and efficiency.

The Compliance Management Centralized Processing Centre (CMCPC) of this project will be managing the management of sending e-mails, SMS, reminders, letters to prop up the voluntary compliances and its resolution. The project is structured in a manner that all the compliance issues will be monitored and evaluated in an effective manner.

The data available with the government agencies, GST department, RBI records, social networks will associate for income tax department planning to track the high risk tax evaders.

Even if someone is posting his pictures on social medias with a luxury the department will be able to match that expenditure incurred on that luxury item with his income & if no sufficient evidence is found Under Project Insight, the Income-tax Department is planning to use the data available with it as well as other government organizations, such as Registrar of companies, [GST database](#), RBI records, Social network, etc. The motive behind it is to trace the assesseees who are high risk cases of tax evasion.

L. Project OLTAS (Online Tax Accounting System)

OLTAS is a major e-governance initiative in the digitalization journey of income tax department which is integrated closely with RBI for updation of payment of taxes on real time basis from any place. OLTAS maintains MIS report and prepares the report of high taxpayers with a comparative analysis.

Conclusion

The effectiveness of tax administration is based on success of capacity building programs launched by government. In fact today a better tax administration is a key symptom of an effective tax policy. Faceless assessment is one of the tax policy initiative to improve the efficiency of tax administration. Faceless Assessment is not a day reform in Indian Taxation system it is a journey of 20 years tax reforms. Although a lot of tax reforms since 1991 post liberalisation has been made before announcing the scheme. With the increase in tax payers and complexity of financial transactions the existing procedures failed to capture and link all the transactions. The taxpayers generally consider the process of return filing as an unnecessary and unpleasant activity. Though the intention of government has never been to make it complicated but the compliance in rush results in frustration, as the taxpayer reaches the deadline to tax payment or return filing. Further the reforms are necessary to meet the demand of government of India as it has been realised that the manual procedures are not the way forward so digitalisation thought has come into force for fast processing of taxpayer's data. The way forward now is to be on innovative path on continuous basis to make more effective enforcement and taxpayer compliance through the effective use of third-party transactions

using the reporting portal. This will not only improve the effectiveness of voluntary compliance but will also result in limited scrutiny assessment thereby leading to less litigations.

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