

## **Representative Case Study from India**

### **AIS and updation of returns**

#### **Introduction**

In India, Form 26AS displayed the details of property purchases, high-value investments, and Tax Deduction/ Collection at Source (TDS/ TCS) transactions carried out during the financial year and did not cover whole gamut of transactions. Also, it was a mere display of information submitted by the third parties and certain financial institutions. The information so received could not be commented upon independently and rectification of mistakes in the data required a complex process. The need was felt to have more robust system in place capturing good deal of data sets now available along with some mechanism of interaction basis the info in the form of data.

Therefore, in order to promote transparency and simplifying the tax return filing process, the Indian Tax Administration (ITA) brought in necessary legislative changes in 2020 to revamp this and being in the new Form 26AS which is an Annual Information Statement (AIS) providing complete profile of the taxpayer for a particular year.

#### **What is AIS?**

Annual Information Statement (AIS) is comprehensive view of information for a taxpayer displayed in Form 26AS. Taxpayer can provide feedback on information displayed in AIS. AIS shows both reported value and modified value (i.e. value after considering taxpayer feedback) under each section (i.e. TDS, SFT, Other information). AIS is the extension of Form 26AS and additionally includes savings account interest, dividend, rent received, purchase and sale transactions of securities/ immovable properties, foreign remittances, interest on deposits, GST turnover etc. The reported information is processed to remove duplicate information. All taxpayers who can gauge their tax liabilities through transactions shown in the AIS.

#### **Objectives**

- Display complete information to the taxpayer with a facility to capture online feedback
- Promote voluntary compliance and enable seamless prefilling of return
- Deter non-compliance

For example: Earlier, savings bank account interest was not disclosed by many, primarily due to oversight. While the amount was small with respect to one taxpayer, it was significant as a whole for government revenue. Now with AIS, positive nudge is being given to ensure that the taxpayer has information about his/ her interest income available and he/ she is able to file return correctly.

### **Salient Features of AIS:**

- Inclusion of new information (interest, dividend, securities transactions, mutual fund transactions, foreign remittance information etc.)
- Use of Data Analytics to populate PAN in non-PAN data for inclusion in AIS.
- Deduplication of information and generation of a simplified Taxpayer Information Summary (TIS) for ease of filing return (pre-filing will be enabled in a phased manner).
- Taxpayer will be able to submit online feedback on the information displayed in AIS and also download information in PDF, JSON, CSV file formats.
- AIS Utility will enable taxpayer to view AIS and upload feedback in offline manner.
- AIS Mobile Application will enable taxpayer to view AIS and upload feedback on mobile.

### **Information Category**

Wide range of information over and above the already existing information in Form 26AS, like, information relating to interest, dividend, securities transactions, mutual fund transactions, foreign remittance information etc. is captured and displayed in the AIS.

### **How do users access it?**

The new AIS can be accessed by clicking on the link “Annual Information Statement (AIS)” under the “Services” tab on the new Income tax e-filing portal (<https://www.incometax.gov.in>) The display of Form 26AS on TRACES portal will also continue in parallel till the new AIS is validated and completely operational.

**(Step-by-step guide to AIS access is provided in Box 1 of Annexure)**

### **Parts in AIS**

Taxpayers’ details and Information is displayed in AIS in two parts, PART A and PART B.

**Part A:** It displays general information pertaining to the taxpayer including PAN, Masked Aadhaar Number, Name of the taxpayer, Date of Birth/ Incorporation/ Formation, mobile number, e-mail address and address of taxpayer.

**Part B:** It displays the following information with respect to your AIS as shown below:

- **TDS/ TCS Information:** Information related to tax deducted/collected at source will be displayed here. The Information code of the TDS/ TCS, Information description and Information value are visible to the user.
- **SFT Information:** Information received from reporting entities under Specified Financial Transaction (SFT) are displayed here. The SFT code, Information description and Information value are visible.
- **Payment of Taxes:** Information relating to payment of taxes from different heads like Advance Tax, Self-Assessment Tax paid through challan to Bank are displayed here.
- **Demand and Refund:** Details of the demand raised and refund initiated to them during a financial year can be viewed from here.
- **Other Information:** Certain other information is also displayed here. The detailed view of AIS, i.e., the descriptive information in PART B can also be viewed by the user.

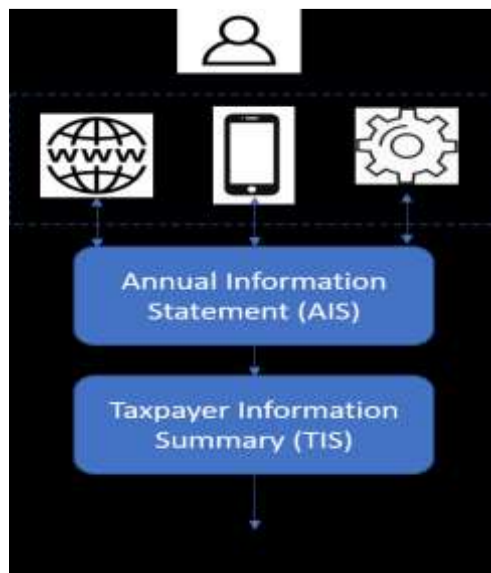
### **Feedback**

User can provide feedback on the active information displayed under TDS/ TCS Information, SFT Information or Other information parts. Option to submit feedback on a single information, submit feedback in bulk mode, modify the feedback, view feedback history and download the consolidated feedback is available to the user. **Detailed feedback options in Box 2 of Annexure.**

### **TIS**

A simplified Taxpayer Information Summary (TIS) is also been generated for each taxpayer which shows aggregated value for the taxpayer for ease of filing return. TIS shows the processed value (i.e. the value generated after deduplication of information based on pre-defined rules) and derived value (i.e. the value derived after considering the taxpayer feedback and processed value). If the taxpayer submits feedback on AIS, the derived information in TIS will be automatically updated in real time. The derived information in TIS will be used for pre-filing of Return.

The schematic flow of information is as under



### Role of the taxpayers:

The taxpayers are requested to view the information shown in AIS and provide feedback if the information needs modification. The value shown in TIS may be considered while filing the ITR. In case the ITR has already been filed and some information has not been included in the ITR, the return may be revised to reflect the correct information. And this is where the newly launched “updated return” facility has been brought in.

Building upon the utility of AIS, the tax laws have been amended in 2022 to, *inter alia*, provide for filing of ‘**Updated Return**’ by the taxpayers.

### Updated Return

It is a tool to promote voluntary tax compliance. While tax enforcement is needed to collect revenue, 100% scrutiny of taxpayers presents a resource challenge, particularly so in emerging economies. Recognising this need, the government of India has sought to promote voluntary compliance and taxpayer facilitation through a slew of measures, such as the “Transparent Taxation – Honouring the Honest” campaign.

### Meaning, need and use for updated return

Updated return is an opportunity given to taxpayer to modify his/ her return after the due date within two years subject to payment of additional taxes. The need for this arises from the fact that

often the taxpayer omits certain information from his/ her tax return inadvertently or fails to file a return, and is unable to correct it due to the passing of the last date of filing return. Earlier, there was no recourse for voluntary compliance by the taxpayer in such a situation. The idea of updated return seeks to rectify that.

### **Other details**

Non-intrusive voluntary compliance through this approach is devised to enable access to a taxpayer of information available and to nudge him to correct omissions/ errors/ oversights allowing updating of this return of income.

The taxpayers who have not filed return of income previously may also avail of this, thus incentivizing them to disclose true and accurate particulars of their income by paying an additional tax of 25% or 50% over and above the applicable taxes and interest payable.

The updation of return or filing of return beyond due date is subject to certain exceptions (*like cases of search & seizure action already initiated, economic offences etc*) so as to prevent its misuse and that this can be availed of only once in a year.

### **Conclusion**

The above discussion describes India's journey towards increasing taxpayer facilitation and voluntary compliance, the AIS and the 'updation of returns' being such initiatives which aims at building mutual trust, and is sure to be a step in achieving a tax compliant society.

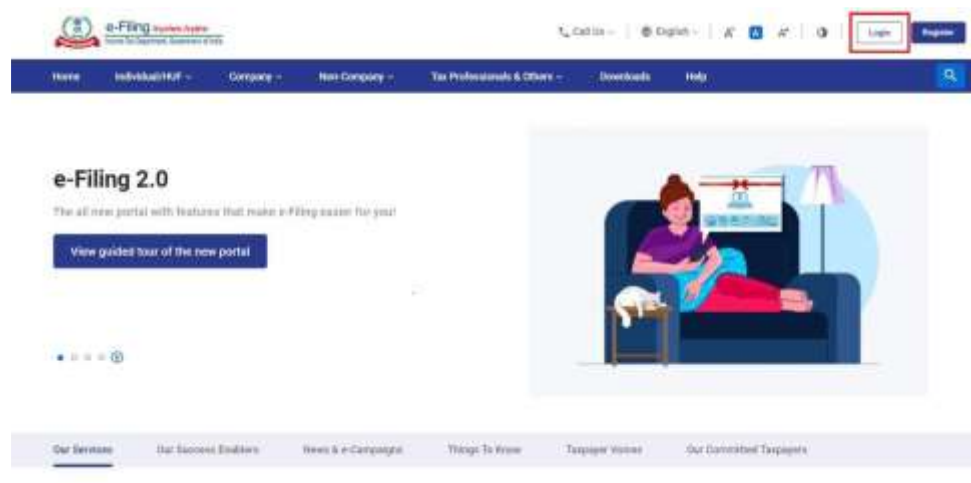
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**Box 1: Step-by-step guide to AIS access**

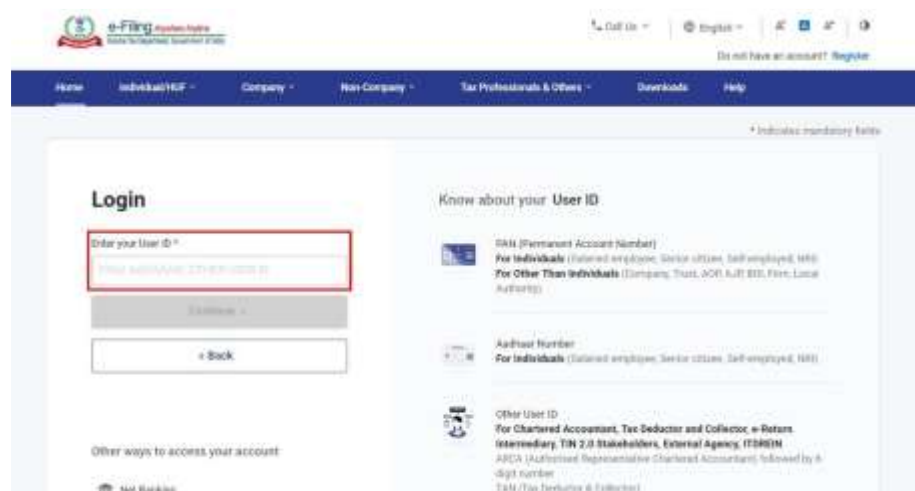
Taxpayers can access their AIS by navigating through the e-filing portal and log in through relevant user ID (PAN/ Aadhaar):

**Step 1:** Visit the e-filing portal by using the URL <https://www.incometax.gov.in/>.

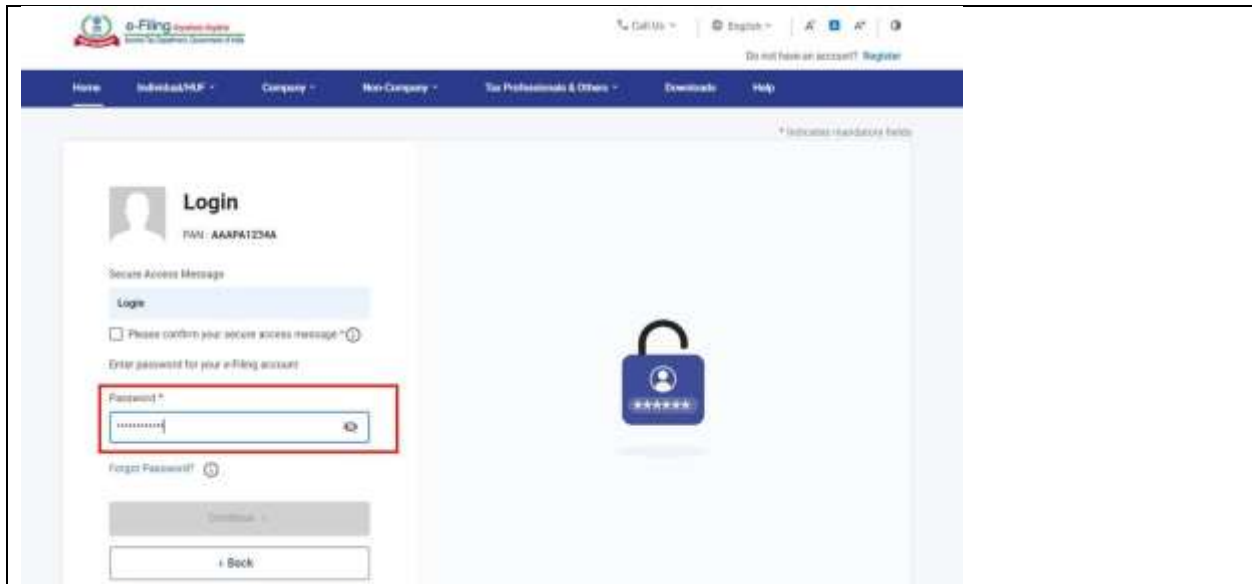
**Step 2:** On top-right of the homepage, click on “**Login**” button.



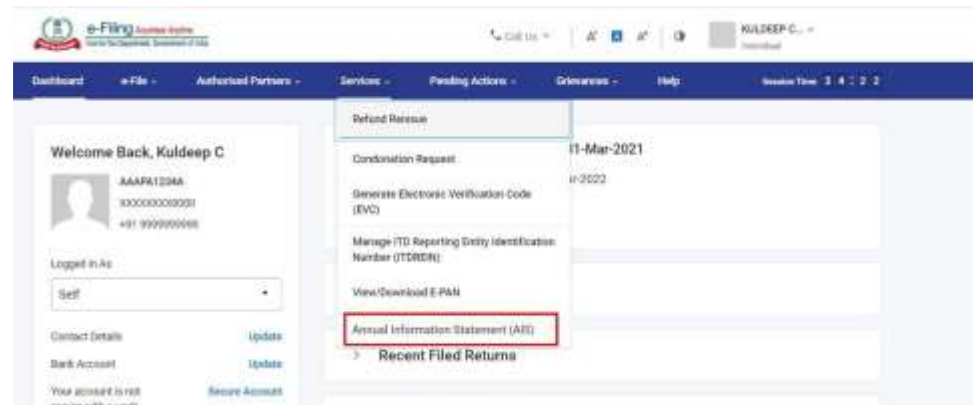
**Step 3:** Enter user ID and click on “**Continue**”



**Step 4:** Fill in the password and click on “**Continue**” to navigate to e-filing portal homepage



**Step 5:** Click the “Annual Information Statement (AIS)” available under “Services” tab to navigate to AIS Homepage.



**Step 6:** On AIS Homepage, access the functions available on AIS homepage.

### AIS - Annual Information Statement

FA 2020-21 AAAR123AA (Building C)

Request Information Summary (RIS)

Annual Information Statement (AIS)





## **Box 2: Detailed feedback options available to taxpayers**

- Information is correct
- Information is not fully correct - If the information belongs to taxpayer, but all the attributes of the Information are not correct. Upon selecting this option, relevant information fields will be displayed, and user will be able to update correct information details. e.g.- Account number, information value, etc.
- The Information relates to other PAN/ year - If the taxpayer is aware of the Information, but it belongs to other PAN or other year, e.g., joint ownership of property or receiving of amount mentioned in another year.
- Information is duplicate/ included in other information - If the information displayed is already included in any other information or it may be a duplicate information.
- Information is denied - If the taxpayer completely denies the information displayed.
- Customized feedback - The feedback option will be displayed based on the information category.

Other than providing single feedback, the user can also provide feedback on multiple L1 Level Information visible on expanding any L2 Level Information and submit the feedback in bulk mode.

## A Case Study from India No 2

### **Faceless Assessment of Income**

#### **Introduction**

The traditional process of Direct tax audit in India was based on territorial jurisdiction through face-to-face interaction. Over the years, certain challenges relating to effective administration of this mechanism were identified.

The Direct Tax Administration in India has been proactively working on using technology solutions to transform taxpayer services. Ease of compliance has been ensured by rolling out web-based solutions for e-filing of Income Tax Returns. As a next step to ensure Transparency, Efficiency and Accountability in Income tax Assessment procedures the government transitioned the Income tax assessment (scrutiny) process to a completely electronic, anonymized and team-based assessment system known as Faceless Assessment.

#### The Case

- **Facts**

A taxpayer X living in the Indian state of Kerala is in the business of trading of goods. For the year 2020-21 he has filed his Income tax return declaring an Income of INR 10 million showing a total turnover of INR 500 million. The Income Tax department on receipt of the Income tax return electronically matched the information provided in the Income tax return with the information available with it. The matching revealed some unresolved issues with clear risk to revenue.

- **Issue**

The Risk Management algorithm has flagged the case and a detailed scrutiny (tax audit) needs to be conducted in this case to determine the correct income and the taxes payable.

- **Solution**

The statutory notice informing the taxpayer that his case has been selected for scrutiny is sent digitally through a centralized communication. The work item for the conduct of scrutiny proceedings is created in the digital workflow solution. The work item is assigned to a Faceless Assessment Unit (comprising of an officer and supervisor) in a

jurisdiction other than the territorial jurisdiction of taxpayer through an algorithm based Automated Allocation Tool.

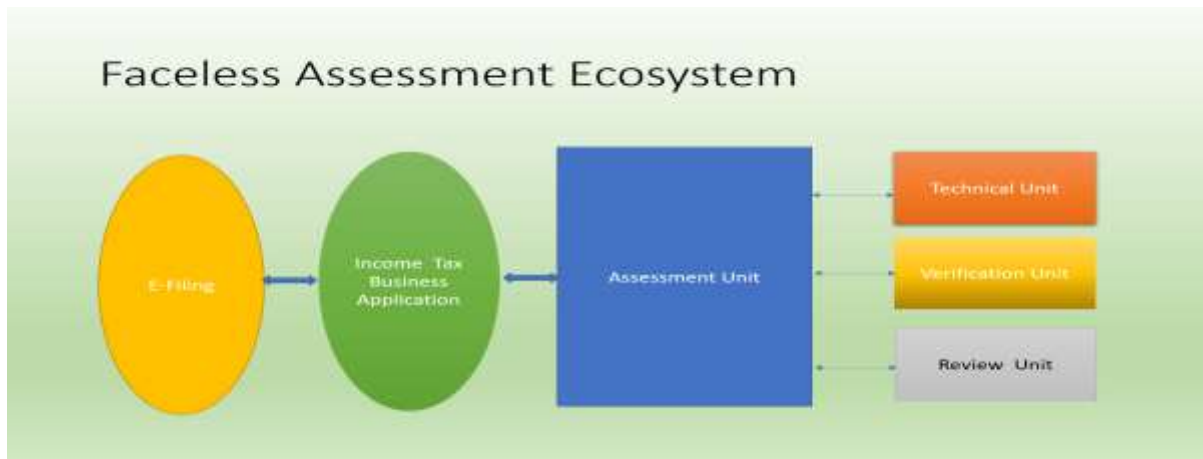
The Various Units conducting the proceedings remain unidentified throughout the proceedings as all the communication are digitally signed through institutional signatures and sent through a centralized server on the registered account of the taxpayer in the e-filing website as well as the taxpayers registered email ID.

The Assessment Unit prepares a focused questionnaire based on the information available and sends it to the taxpayer through email and the e-filing website of the Income tax department. The taxpayer is required to upload its response through the e-filing website only.

The response of the taxpayer is analysed by the Assessment Unit which after considering the reply may also refer the matter to a Verification Unit for any physical verification, valuation, and other specialized inputs. For any inputs related to Legal issues, Transfer pricing issues, language translation, forensics and other technical issues the Assessment Unit can make a reference to the Technical Units.

In case the Assessment Unit proposes to recast (variation/ enhancement) the Income declared/ tax payable by the taxpayer a detailed Show Cause Notice is required to be issued to the taxpayer by it. The taxpayer can upload its response through the e-filing website. At this stage the taxpayer can request for a personal hearing through Video Conference to explain the issue to the Assessment Unit. Even during the Video Conferencing, the identity of officers involved is masked.

After considering the replies of the taxpayer and the inputs from other Units, the Assessment Unit prepares an Income and Loss Determination Proposal (ILD). The ILD is run through a Risk Management System and based on the risk profile, cases are selected for Review by the Review Unit. The Review Unit gives its comments on the ILD, and the Assessment Unit takes into consideration such comments before passing the final assessment order.



### Challenges Addressed:

Standard Operating Procedures were laid down for each step of the assessment process. In coordination with the technology partner, the core functionalities were fast-tracked, and administrative instructions were issued for handling exceptions without compromising the legal basis of the scheme.

To help the employees, adapt to the new system, peer to peer learning systems were strengthened. Multiple knowledge sharing platforms for collaborative learning were created on the official websites.

To ensure onboarding and buy-in by all the stakeholders extensive awareness programs and outreach programs were conducted. The benefits of the scheme were shared, and misgivings addressed by means of carefully crafted communications through multiple channels.

82,072 assessment cases completed in faceless manner till 10<sup>th</sup> March 2021. Thereafter, 2 more cycles of the faceless assessments have been completed and a large number of assessment orders have been passed. Leveraging the approach evolved for Faceless Assessment, the Appeal and Penalty proceedings under the Income-tax Act, 1961 of India have also been transitioned to Faceless mechanism.

### The Message

The e-enabled Faceless Income Tax Assessment system marks a paradigm shift in the tax administration of India. It reflects the commitment of the Indian Government to provide better taxpayer services, ensuring ease of doing business and bringing transparency in the tax processes. The process has been designed to ensure that the adequate opportunity is provided to the taxpayer to put forth his perspective efficiently.

The analysis of data before selection of cases ensures more accuracy and helps optimize the utilization of resources for tax assessment. The team-based approach to assessment of Income brings more objectivity into the assessment processes and will reduce litigation in the long run.

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