

## **Case study 1: Compliance Portal**

### **I. Title:**

A case study on the development of a dedicated Compliance Portal in India.

### **II. Authors:**

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### **III. Problem Statement:**

Challenges faced by the Indian tax administration, including taxpayer non-compliance and lack of transparency between tax administration and taxpayers, were sought to be addressed.

### **IV. Case analysis:**

A need was felt to address the problem by increasing voluntary tax compliance as well as facilitating a transparent and efficient interface between the taxpayer and the tax administration.

2. Drawing on the insights of the nudge theory in behavioural economics, propounded by Richard Thaler and Cass Sunstein, the Indian revenue authorities sought to introduce a mechanism whereby taxpayers are nudged towards voluntarily disclosing their true income, while providing them with enabling tools for the same.

3. The same entailed that taxpayers should have easy access to their communications with the tax department as well as real time update on their case, along with an option to submit feedback on the process. Moreover, the taxpayer trust on the tax administration was to be enforced.

### **V. Abstract:**

A dedicated Compliance Portal has been operationalised as part of Project Insight to execute targeted e-campaigns (customised SMS and e-mail) wherein taxpayer is also shown complete underlying information with a functionality to give feedback. It aims to deliver seamless communication and is part of the voluntary compliance management framework in India. It enables seamless two-way structured communication that can enhance the transparency and functional efficiency of the tax administration.

2. Thus, in order to facilitate the taxpayers in improving voluntary compliance and iron out any issues arising out of erroneous reporting of any information in case of taxpayers, the IT department has introduced AIS scheme in November, 2021.

3. Annual Information Statement (AIS) is comprehensive view of information for a taxpayer sourced from different sources. The AIS includes many new information types such as interest, dividend, securities transactions, mutual fund transactions, foreign remittance information etc. New Annual Information Statement has been developed to meet following objectives:

- Display the reported information to the taxpayer transparently
- Enable seamless prefilling of return
- Promote voluntary compliance

- Provide feedback for the information displayed
- Deter non-Compliance

4. AIS is a part of the voluntary compliance management framework of the Department for promoting voluntary compliance by the taxpayers and for enabling the taxpayers in ascertaining and taking necessary steps towards filling any potential compliance gaps.

5. TIS (Taxpayer Information Summary) has been prepared for ease of filing return, where the information of similar type reported by different sources are de-duplicated and summary values are displayed. The pre-filing of the return is being taken up in phased manner.

6. While earlier the information reported to the department were not available to the taxpayer other than in the case of formal proceedings, now AIS provides transparency, by displaying the information even before the information is utilized by the department and also provides functionality whereby the taxpayer can furnish the response on the correctness and completeness of the information. Taxpayer can know beforehand if there are any reporting errors or data related issues and can provide appropriate response accordingly.

7. A user-friendly interface to provide the response has been integrated with the Annual Information Statement (AIS) which provides a seamless functionality to provide a response. The option to provide the feedback is available against every information that is displayed in AIS. The taxpayer can submit the response on the correctness and completeness of information and also furnish correct attributes of information which have been reported. The response can be furnished under any of the following category for information displayed in AIS:

- Information is correct
- Information is not fully correct
- Information relates to other PAN/year
- Information is duplicate/included in other information
- Information is denied

8. In case where the information pertaining to a taxpayer is displayed in its AIS, following approach is envisioned in the AIS module and e-verification scheme (which has been launched in December, 2021):”

- a) If the taxpayer accepts the correctness of the information and revises its ITR on the basis of such information, no action is proposed.
- b) If the taxpayer contests the accuracy of AIS information, then the Reporting Entity (RE) which had filed such information is asked to check the reported information in its database and provide feedback regarding correctness of information reported.
  - RE confirms the contention of the taxpayer- No further proceedings
  - RE rejects the contention of the taxpayer - The taxpayer is communicated regarding the same. If the taxpayer revises its ITR, no further proceedings will be initiated. If the taxpayer still contests/does not comply within the given time-frame then the case is moved to e-verification module.

- c) Proceedings under e-verification: The cases where the information in AIS remains disputed then such information is undertaken for e-verification, wherein the veracity of the information will be ascertained. Depending on the information ascertained following scenarios may emerge:
- Contention of the taxpayer is accepted- No further proceedings will be initiated
  - Contention of the taxpayer is not tenable- Further proceedings including taking up of the case for assessment/reassessment proceedings will be initiated.

9. Continuous efforts are being undertaken to improve the response framework and include information specific response options where required.

10. Under Graded Compliance Management framework, AIS is utilized for transparently displaying the information and enabling the taxpayers in filling any potential compliance gaps, even before the information is used by the department for other purposes. The response submitted by the taxpayer on correctness and completeness of the information is considered before utilization of the information for subsequent proceedings. For the cases where apparent mismatch exists between the information furnished by taxpayer in returns and the information collected from third party sources, e-campaigns are executed to make the taxpayer aware of such mismatch and to enable him to provide a response on the same. E-Campaigns may also be executed in the case where information from third party sources is available but the taxpayer has not filed any return of income. By providing correct and timely response on such issues, taxpayer can avoid any formal and detailed proceedings and also helps the department in implementation of better risk assessment.

11. All the information received from various sources is fed into the AIS module, this gives better visualisation and holistic picture of all the transactions undertaken by a taxpayer in a particular reporting period. This helps in filing and declaring of her income in her returns and promote further voluntary compliance. Thus to summarise AIS module is :

- a) a measure of transparency
- b) first level of opportunity to the taxpayers before using information collected through third parties.
- c) Cleaner data with improved accuracy which to be further consumed in data analytics.
- d) *Voluntary and non-intrusive compliance* on part of the taxpayers to broaden as well as widen tax-base through principle of nudging
- e) False positives alerts generated from data analytics are minimized

## **VI. Key words:**

Compliance Portal; tax transparency; taxpayer services.

## **VII. Alternative solutions:**

Alternate solutions have been discussed, however of these various alternatives, the proposal of using technology to provide an integrated portal displaying taxpayer information through an Annual Information Statement (AIS), was deemed the best suitable due to its scalability, coverage, ease of implementation and cost effectiveness.

## **VIII. Evaluation and outcome**

The portal enables a seamless, secured two-way structured communication to enhance the transparency & functional efficiency of the income tax department. It further promoted voluntary compliance, which is evident from gradual increase in number of ITRs filed since the time AIS has been rolled out.

## **IX. Limitations and recommendations**

Since this is a relatively new initiative, its effectiveness will be measured over a longer period of time in the future. Therefore, this study is not able to use data analytics for measuring the impact of the study over a length of time. Moreover, though there has been a pervasive positive effect of the intervention, no direct correlation with revenue figures has been claimed, as the same does not subscribe to sound statistical principles.

2. The study should rather be seen as an example of positive intervention by tax administration by leveraging data and technology. This can be further built upon with integration of data models so as to analyse its impact in the long run.

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