

GOOD STEPS ON TAX

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Public Finance, Taxation & Black Money incl. Government Budgeting

On Tuesday, Prime Minister [Narendra Modi](#) launched the “Transparent Taxation — Honouring the Honest” platform, unveiling a raft of measures that aim to ease the compliance burden and reward honest taxpayers. Broadly, the three pillars of the platform are faceless assessment and appeal, to eliminate the physical interface between the tax department and the taxpayer, and a Taxpayers’ Charter that delineates the rights as well as obligations of the taxpayer. In a country with a high degree of complexity of the tax system, which often comes in the way of compliance, the attempt to make it “seamless, painless and faceless” is welcome.

The income tax department is often accused of being overzealous in its pursuit of meeting the budgeted tax collection targets. This often translates to assessing officers raising unreasonable demands which leads to tax disputes and long drawn out litigation. As the Comptroller and Auditor General of India (CAG) noted in the compliance audit of the Department of Revenue-Direct Taxes of the Union Government in 2019, “assessing Officers (AOs) committed errors in the assessments ignoring clear provisions in the Act”, adding that “the existing scrutiny assessment procedure is opaque”. The extent of the problem is quite severe. According to the Union [budget](#) 2020-21, Rs 8.02 lakh crore of “amounts under dispute” relate to direct taxes. Of these, around 40 per cent have been pending for more than two years. As per the data, 3.41 lakh cases related to direct taxes were pending before commissioner (appeal), while 92,205 cases were pending before the Income Tax Appellate Tribunal (ITAT) as on March 31, 2019. What is even more striking is that the success rate of the tax department in these cases is very low. According to the Economic Survey 2017-18, the success rate of the tax department in tax cases at all levels of appeal — the appellate tribunals, the high court and the Supreme Court — is less than 30 per cent. Thus, shifting to a framework of faceless assessment and appeal — some of these steps have been in the works for some time — is a step in the right direction. Measures like automated random allocation of cases, randomly allotting appeals to any officer in the country, and ensuring the officer’s anonymity, could help reduce litigation and end taxpayer harassment.

The prime minister also launched a Taxpayers’ Charter, signalling an attempt to bridge the trust deficit between the tax payer and the tax department. However, there will be challenges with enforceability. The rights of taxpayers will need to be clearly defined, and be binding on the tax department. But at a broader level, there is a need to reassess and reconfigure the working of the tax department by building capabilities to check tax evasion, and widen the tax base, while at the same time discouraging unreasonable tax demands, and curbing litigation.

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