

# FACELESS PENALTY SCHEME TO HELP BOOST TRANSPARENCY, COMPLIANCE

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

In its endeavour to further digitize the interaction between the taxpayers and the income tax authorities, the government notified the "faceless penalty scheme" ([FPS](#)) last week. The government has already launched a faceless assessment and faceless appeal scheme. Under the faceless penalty scheme, all penalty-related proceedings will be conducted digitally without any human interface. Let's understand what this scheme is and how [taxpayers](#) can benefit from it.

## Multi-layered

The tax department can levy penalties on a taxpayer under various provisions of the Income-tax Act, 1961. Under FPS, the penalty orders issued will be reviewed and all the penalty-related proceedings will be handled digitally.

"Under the said scheme, various aspects of the penalty proceedings, pertaining to the exchange of communication, including issuing the show-cause or initiating the penalty proceedings, obtaining any information or evidence from the assessee taxpayer or tax department or any other person and conducting verification of the same, etc., would be only via electronic mode," said Suresh Surana, founder, RSM India, a tax firm.

The scheme will be centrally managed through the National Faceless Penalty Center (NFPC). The scheme has been structured in such a way that NFPC would have the power to disagree with the proposal of the National Faceless Assessment Centre to initiate penalty.

Under FPS, there will also be Regional Faceless Penalty Centers (RFPC).

NFPC will be the centralised unit. NFPC shall be the sole point of contact between the penalty unit or PU (where the penalty order will be drafted) and the penalty review unit or PRU (which will review the penalty order for arithmetic errors and check if all the facts are as per law) or the taxpayer or any other person, or the income tax authority or the National Faceless Assessment Centre (NFAC) with respect to the information or documents or evidence or any other details necessary for the purpose of imposing penalty under the scheme. For the time being, instead of RFPC, Regional Faceless Assessment Centers (RFAC) will coordinate with NFAC.

Drafting of the penalty orders by penalty units will include identification of points or issues for imposition of penalty under the Income-tax Act, seeking information or clarification on points or issues so identified, providing the opportunity of being heard to the assessee or any other person, analyzing the material furnished by the assessee or any other person, and other functions that may be required for the purposes of imposing a penalty.

## Digital interface

The taxpayer will not be required to appear either personally or through an authorized representative before the income tax authority at NFPC, RFAC, PU or PRU, in connection with any proceedings under the scheme.

However, the taxpayer may request for a personal hearing to make oral submissions or present his case before the PU under the scheme. The acceptance of a taxpayer's request for personal hearing will be at the discretion of the chief commissioner or director general in charge of RFPC.

Such hearing shall be conducted exclusively through video conferencing or video telephony, including use of any telecommunication application software which supports video conferencing or video telephony.

more transparency

FPS is expected to reduce the chances of error in the penalty orders and rule out any bias on the part of tax officers by reducing human interaction which may, at times, lead to harassment of taxpayers.

"The goal is that the cases are decided in a uniform and standardized way on their merits and without any subjectivity. In the past, the levy of penalty on the taxpayers was at the discretion of a tax officer. The outcome was different for different taxpayers in the past (for similar cases)," said Neeru Ahuja, partner, Deloitte India, a consultancy firm.

"The procedure for the penalty proceedings as laid down under the new scheme follows a 'Checker and Maker' approach with the PRU having the power to review the draft penalty order prepared by the penalty unit, wherever referred by NFPC. This would reduce the probability of mistakes and errors in the imposition of penalty on the taxpayer. The taxpayer may also benefit from the overall objective of fairness in the penalty orders due to the enhanced degree of transparency, efficiency and accountability in the final order," said Surana.

Bringing objectivity in the penalty proceedings may smoothen the experience of taxpayers and may help in achieving better compliance in the long term.

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