

Annual Information Statement
Ushering in a new era of tax
administration

May 2024

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Complexity and innovation in business structures, new financial products, growing numbers of taxpayers, growth in international trade, the rapid expansion of e-commerce, complexities in tax legislations and compliances leading to possible opportunities for tax leakages and avoidance schemes are some factors leading to increased compliance risk for the tax administration. Addressing these risk factors through traditional tools based on manual verification and enforcement action alone is no longer possible.

Finance Minister Nirmala Sitharaman presented the Interim Budget 2024–25 on 1 February 2024. In her speech presented before the Parliament, taxpayers were apprised regarding the initiatives being undertaken to improve services as under:



In the last five years, our focus has been to improve taxpayer services. The age-old jurisdiction-based assessment system was transformed with the introduction of Faceless Assessment and Appeal, thereby imparting greater efficiency, transparency, and accountability. Introduction of updated income tax returns, a new Form 26AS and prefilling of tax returns have made filing of tax returns simpler and easier. Average processing time of returns has been reduced from 93 days in the year 2013-14 to a mere ten days this year, thereby making refunds faster.



In a post-budget interview,¹ Sanjay Malhotra, Revenue Secretary, further supported the statement, saying:



Improving taxpayer services is something which has been the focus of the government for the last five years and shall continue to be so, it is a continuing agenda because there is much to be done. Trust, technology, tax certainty, tax simplification and rationalization are going to be the core pillars on which we propose to improve taxpayer service.



India is observing a continuous increase in the number of taxpayers and tax filings, year-on-year. One of the reasons for the increase is the tax administration's strategies and interventions of the Indian Income Tax Department ("ITD") to promote voluntary compliance among taxpayers. Over the years, the ITD has adopted several strategies to increase taxpayer awareness of benefits relating to voluntary compliance, such as launching Tax Hubs in tier 2 and tier 3 cities, implementing tax literature programmes, engaging taxpayers through interactive videos, and introducing Samvaad sessions etc.

One of the ITD's innovative initiatives was the launch of board games,² 3-D puzzles, comic books, animated video series and android games. These were aimed at enhancing the tax literacy of the future taxpayers of India. The OECD even appreciated this initiative in its 2023 report³— "Tax Administration: Comparative Information on OECD and Other Advanced and Emerging Economies".

The tax authorities are increasingly adopting technology solutions to improve their core functions by using third party functions and digitizing the registration of taxpayers. A blog post⁴ titled "the promise and limitations of information technology for tax mobilisation," published on the World Bank's website, notes that:



Technology has the potential to improve tax collection in three areas: identifying the tax base, monitoring compliance and facilitating compliance.



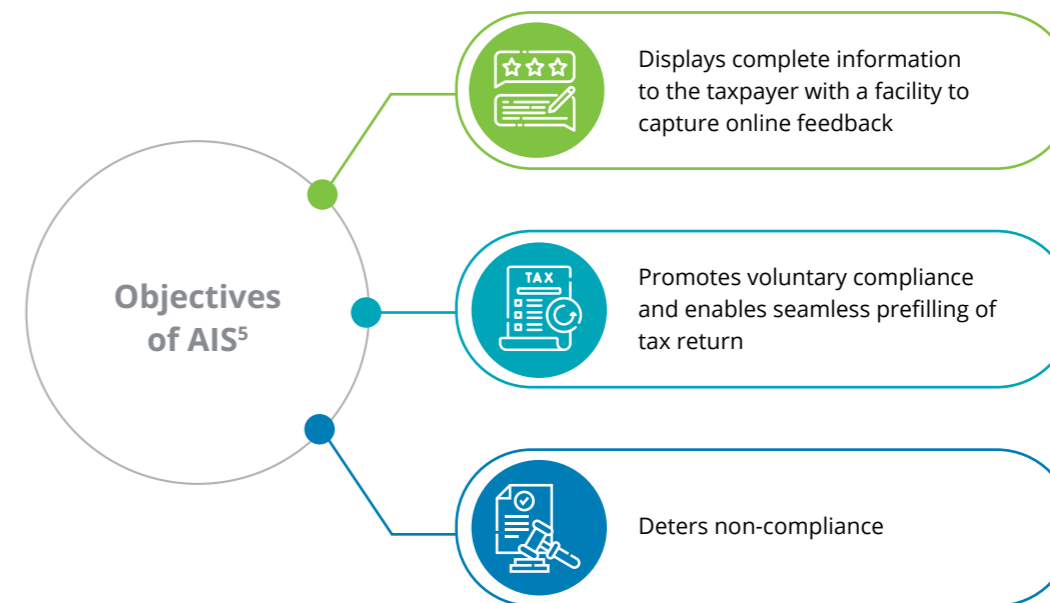
The ITD is poised to seize the opportunities and meet the challenges posed by accelerated globalization; changing business and legislative environment is progressively leveraging on new technologies to facilitate taxpayer service, encourage voluntary compliance, increase the tax base and reduce administrative burden. The automation levels adopted by the ITD have only grown over the years, making them reliant on information and technology to administer and collect various taxes. In this direction, the Government has taken several initiatives, such as e-filing 2.0, faster processing of tax returns and refunds, pre-filled tax returns enabled largely through information collated from taxes withheld/collected on various payments and the Annual Information Statement ("AIS"); mandatory linking of Permanent Account Number ("PAN") with Aadhaar, faceless assessment, and appeal.

The AIS is a comprehensive view of financial information for a taxpayer, made available by the ITD.

The ITD collects information on financial transactions from multiple sources. This information primarily includes tax

withheld/collected at source by various deductors/collectors, their corresponding income from the e-TDS/withholding tax returns, advance and self-assessment taxes paid and tax refunds received. This information is regularly shared with taxpayers in Form 26AS, also known as the annual tax credit statement, which can be downloaded from the taxpayer's account on the income tax portal.

However, with a view to effectively utilize the data collected from various sources and use data to drive voluntary compliance, with effect from 1 June 2020, an enlarged volume of financial information is displayed to the taxpayer through AIS. AIS is a logical extension of Form 26AS and provides much more comprehensive information about the taxpayer relating to specified financial transactions such as cash deposit/ withdrawal from bank accounts, sale / purchase of immovable property, time deposits, credit card payments, purchase of shares, debentures, foreign currency, mutual funds, buy back of shares, cash payment for goods and services etc.



This paper examines the effectiveness of AIS functionality, proposing specific additional disclosures or reporting features that could strengthen AIS, and exploring how AIS functionality can be further leveraged to expand the tax base and encourage voluntary compliance.

¹<https://economictimes.indiatimes.com/news/economy/finance/relief-on-old-tax-demand-cant-exceed-rs-1-lakh-sanjay-malhotra-revenue-secretary/articleshow/107371044.cms>

²<https://www.oecd.org/tax/forum-on-tax-administration/database/b.2.3-india-educating-taxpayers-of-the-future.pdf>

³https://read.oecd-ilibrary.org/taxation/tax-administration-2023_900b6382-en#page35

⁴World Bank Blogs: The promise and limitations of information technology for tax mobilisation

⁵<https://www.incometax.gov.in/iec/foportal/ais-faq>

Evolution of the AIS

As a part of India's commitment⁶ to implement the Common Reporting Standard (CRS) on Automatic Exchange of Information (AEOI) and also the Inter-Governmental Agreement (IGA) with the US under the Foreign Account Tax Compliance Act (FATCA) and to provide necessary financial information to other countries, legislative changes were made to domestic tax laws, through Finance (No. 2) Act, 2014.⁷ These changes were made to provide a legal basis for Reporting Financial Institutions ("RFIs"), which maintained and reported the Reportable Accounts. These amendments cast responsibility on RFIs to furnish a statement regarding a specified financial transaction or reportable accounts to the prescribed income-tax authority within the prescribed time, along with penal implications for failure to comply with the prescribed requirements.

Vide the Finance (No. 2) Bill 2019, the legislative provisions (of section 285BA) were amended to widen the scope of reporting by mandating certain additional RFIs other than those who were initially designated to furnish the statement, along with the removal of certain thresholds on the value of transactions to be reported. This was done with a larger objective of enabling taxpayers to pre-fill the tax return using the information furnished by the RFIs with respect to a reportable account. In the Budget speech, taxpayers were apprised of the measures being taken to simplify the tax return filing process:

“

Pre-filing of Income-tax Returns

123. Pre-filled tax returns will be made available to taxpayers which will contain details of salary income, capital gains from securities, bank interests, and dividends etc. and tax deductions. Information regarding these incomes will be collected from the concerned sources such as Banks, Stock exchanges, mutual funds, EPFO, State Registration Departments etc. This will not only significantly reduce the time taken to file a tax return, but will also ensure accuracy of reporting of income and taxes.

”

The Finance Act, 2020 introduced the provisions of section 285BB. It paved the way for AIS whereby the prescribed income-tax authority was required to upload an annual information statement to the taxpayer's registered account, providing comprehensive financial information about the taxpayer which is in the possession of the income-tax authority in the prescribed manner. The Explanatory Memorandum to the Finance Bill, 2020 provided the rationale for the introduction of AIS as under:

“

The Form 26AS as prescribed in the Rules, inter-alia, contains the information about tax collected or deducted at source. However, with the advancement in technology and enhancement in the capacity of system, multiple information in respect of a person such as sale/purchase of immovable property, share transactions etc. are being captured or proposed to be captured.

In future, it is envisaged that in order to facilitate compliance, this information will be provided to the assessee by uploading the same in the registered account of the assessee on the designated portal of the Income-tax Department, so that the same can be used by the assessee for filing of the return of income and calculating his correct tax liability.

”

The Finance Minister has expanded pre-filled tax returns to include capital gains from listed securities, dividend income, and interest from banks and post offices. This will make filing tax returns more accessible, as previously, only salary income, tax payments, and TDS were included.

⁶<https://incometaxindia.gov.in/Pages/eoi/automatic-exchange-of-information.aspx>

⁷Obligation to furnish statement of financial transaction or reportable account (Prior to amendment the section heading read as 'Obligation to furnish annual information return']- amendment of section 285BA of the Income-tax Act, 1961 along with insertion of Rules 114F to 114H and Form 61B

⁸Annual information statement (AIS)

Mechanics of the AIS functionality

The AIS report can be viewed from the AIS portal after the taxpayer logs into his account using his username and password. On the AIS portal, the taxpayer can select the relevant financial year ("FY") to view the financial transactions for that year.

AIS encompasses 55 categories of income and 500 codes pertaining to various aspects such as the source of information and the nature of income. However, the ITD is consistently striving to identify additional information that can be sourced from various governmental and private sources. This information is then considered for integration into the AIS framework at a later stage, reflecting ongoing efforts to enhance the comprehensiveness of the system.

Presently, AIS provides the taxpayer with information relating to cash deposits, time deposits, interest, dividends, securities transactions, mutual fund transactions, foreign remittance information, etc., as reported by the RFIs. A taxpayer can download AIS information in PDF, JSON or CSV file formats.

The ITD processes the reported information to remove duplicate information. The AIS provides a facility for the taxpayer to object to any information if the RFI has misreported any such information. If the taxpayer feels the information is incorrect or relates to another person/year, duplicate, etc., a facility has been provided to submit feedback online/offline. Once the taxpayer submits the feedback, the reported value and modified value after feedback are shown separately in the AIS.

If a taxpayer modifies or denies the information provided, the ITD verifies the accuracy of the information with the RFI. If the RFI acknowledges an error, a correction statement is filed accordingly. However, if the RFI asserts that there is no mistake, the taxpayer is prompted to provide further explanation or evidence through the e-Verification Scheme. This process aids in determining the necessity for risk assessments. Subsequently, the prescribed authority conducting the e-Verification evaluates the explanation or evidence provided and takes necessary action based on their findings.

Additionally, a simplified Taxpayer Information Summary ("TIS") is generated for each taxpayer, displaying the aggregated value of transactions within similar categories. This summary aims to facilitate the taxpayer's filing process by providing an overview of their transactions, making it easier to complete their tax return. Thus, taxpayers have access to their information in both aggregate and individual transaction-wise formats, ensuring transparency and aiding in compliance.

The ITD has also launched a free-of-cost mobile application to provide enhanced taxpayer services and facilitate ease of compliance, namely "AIS for Taxpayers." This application will provide a comprehensive view of AIS and the ability to respond through mobile.



Success of the AIS functionality, coupled with other digitisation initiatives of the Indian government

The introduction of diverse data sources in the AIS, such as dividends, interest, details of shares and mutual funds, and information from GSTN, has led to a 12-fold jump in reported information, adding information about 3 crore people.

Similarly, introducing new TDS codes, which have almost doubled from 36 to 65 during the last eight years, increased reported transactions in 2021-22 to 144 crores as against 70 crores in 2015-16. This has also increased the number of unique deductees—almost doubled from 4.8 crore (FY 2015-16) to 9.2 crore (FY 2021-22). Personal Income Tax (PIT) to GDP ratio has steadily increased from 2.11 in FY 2014-15 to 2.94 in FY 2021-22.⁹

Apart from the specified financial transactions reported by RFIs and information from TDS reports, data is also collated by the ITD from various other sources. The Central Board of Direct Taxes ("CBDT") has entered a formal Memorandum of Understanding ("MOU") for data exchange with various Regulators and Government bodies, such as the Securities and Exchange Board of India ("SEBI"), Ministry of Micro, Small and Medium Enterprises, Government of India, the Central Board of Indirect Taxes and Customs ("CBIC"), the Ministry of Corporate Affairs ("MCA") etc.

Leveraging data analytics and artificial intelligence and armed with multifarious sources of information, the ITD is successfully identifying cases with high risk of tax evasion, prompting taxpayers about apparent mismatches in tax returns and transactions made, so that taxpayers may voluntarily comply with tax regulations and filings.

The tax administration has taken various measures on direct and indirect taxes to nudge higher compliance through technology and artificial intelligence.¹⁰ Several initiatives taken by the Government under its mission to push for a Digital India have laid the foundation for a modern, convenient, and

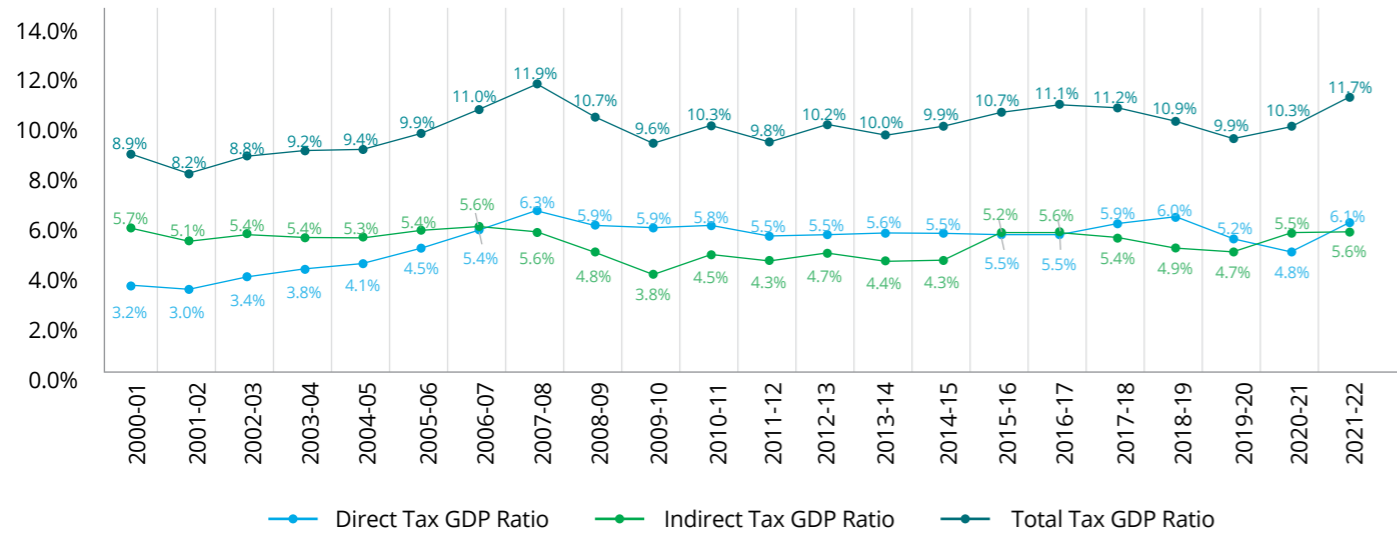
transparent taxation system. The surge in tax revenues has lifted India's tax-GDP ratio for the year **2021-22 to 11.7 percent**. This includes a **direct tax-to-GDP ratio of 6.1 percent** and an **indirect tax-to-GDP ratio of 5.6 percent**. The trend in the tax-to-GDP ratio, characterised by a marked rise in recent years, is illustrated in the figure below:¹¹



⁹Press release dated 25 April 2023 issued by the Ministry of Finance

¹⁰Press release dated 8 April 2023 issued by the Ministry of Finance

¹¹Press release dated 14 April 2022 issued by the Ministry of Finance



As part of the e-Verification Scheme-2021, the ITD has started campaigns¹² whereby communication(s) are sent to the taxpayers for the mismatch in information about interest, dividend income, etc., as reported by RFI and as reported in returns filed by taxpayers for earlier years. Vide the said communication, the ITD is nudging taxpayers, to view and update their AIS reports regularly and file updated tax returns (ITR-U), wherever necessary.

According to recent trends, e-campaigns and data sharing with taxpayers in AIS have done a much better job at urging voluntary compliance than post facto scrutiny assessments. Post launch of the platform, ITD has observed an increase in

voluntary compliance by taxpayers. The number of non-filers has substantially declined, and the filing of revised and updated tax returns has increased throughout the years. The ITD has garnered about INR 4,600 crore in taxes till January 2024 from 56 lakh updated tax returns filed by taxpayers in the past two years.¹³

As per the latest Press Release dated 1 August 2023 on statistics on tax return filing for Assessment Year ("AY") 2023-24 (till July 2023) and for AY 2022-23, the total number of tax returns for AY 2023-24 filed till 31 July 2023 are more than 6.77 crore, which is 16.1 percent more than the total ITRs for AY 2022-23 (5.83 crore) filed till 31 July 2022.



¹²<https://economictimes.indiatimes.com/news/economy/finance/68000-cases-picked-up-for-e-verification-for-income-mismatch-in-ais-itr-for-fy-2019-20/articleshow/98604269.cms?from=mdr>

¹³As per a statement made by Nitin Gupta, Chairman - Central Board of Direct Taxes

The introduction of AIS has benefitted taxpayers as well as the ITD in several ways:

Benefits to taxpayers

Prefilled tax returns

As of 2021, more than 45 countries, including Germany, Japan and the UK, at least partially pre-populate personal tax returns.¹⁴ Some countries use "tax agency reconciliation" where residents can elect to have tax authorities auto-complete the data before filers approve the tax return. Others may use an "exact withholding system" where deductors are required to set aside precisely what a deductee owes.

India with the help of technology, wide coverage of withholding provisions and the recent endeavor of using 'Third Party Information Reports' through AIS has assisted taxpayers, individual, corporations and others, in meeting their tax return filing obligations, promoting voluntary compliance, enabling seamless filings and reduced

instances of non-compliance. E-filing 2.0 (prefilled tax returns, AIS / TIS info) has been well received by taxpayers across the board as pre-filled tax returns and AIS/TIS information have reduced the time spent in data collation.

Further, information collated by ITD is also used to suggest the correct tax return form to be filled in by the taxpayer and available deductions based on qualifying investments made during the year, thus substantially reducing the compliance burden for taxpayers.

It also provides greater certainty to taxpayers that they have fully reported their income and correctly claimed their deductions or entitlements.

Mechanism to provide feedback and correct data reported and, thereby, reduce unnecessary litigation

The AIS functionality allows the taxpayer to object to any information if the source has misreported it. This enables the taxpayer to explain the financial transaction with evidence and avoid unnecessary inquiries, assessments, and prolonged litigation. It also helps in data correction or cleansing at an initial stage, preventing the initiation of audit proceedings and prolonged litigation based on misreported information.

As information pertaining to financial transactions is shared with taxpayers, it also allows taxpayers to update details of income that may not have been appropriately reported in the tax returns filed. It makes taxpayers aware of risks and nudges them towards voluntary compliance.

¹⁴<https://www.cnbc.com/2023/05/18/pre-populated-tax-returns-may-be-possible-research-shows.html>

Taxpayer Service

Voluntary compliance is enhanced when taxpayers find it easier to comply with tax laws. The proactive steps taken by ITD revamping the technology to collate necessary financial information, provide pre-filled tax returns to taxpayers, helping taxpayers to identify the applicable tax return form and providing a world class e-filing portal 2.0 is exemplary.

The information collated and verified through third party sources has enabled the ITD in faster processing of taxpayers' tax returns and in providing quicker refunds of overpaid taxes to taxpayers at least for taxpayers who are individuals.

A survey by Deloitte on "income-tax digitalisation in India"¹⁵ revealed that e-filing 2.0 has been well received by

taxpayers as pre-filled ITRs and AIS/TIS information have reduced the time spent in data collation and errors. Respondents have also appreciated the improved income-tax portal's user-friendly interface and e-documentation trail maintenance and welcomed the speedy processing of tax returns and refunds.

Other benefits include convenience in filing tax returns, enhanced transparency between ITD and taxpayers, better accessibility to real-time tax information, and enhanced taxpayer experience.

These measures have not only enhanced the image of the revenue authorities but also led to more personalized services for taxpayers.

Benefits to ITD

Information-driven tax audits

The ITD uses the information received through the AIS functionality and from other law enforcement agencies to verify the information declared by a taxpayer in the tax return and to detect non-filers or those who have not disclosed the correct amount of total income.

In cases where discrepancies are found between the data reported by RFI and the taxpayer, the ITD conducts further evaluation to determine appropriate actions.

The ITD also uses machine learning, algorithms, and artificial intelligence to detect tax evasion cases based on the collated information.

This information is also used to determine whether compulsory scrutiny will be conducted.

Therefore, assessment or reassessment or re-computation of income escaping assessment, to a large extent, today, is information-driven. A seamless flow of information combined with advanced technologies has greatly aided the ITD in making informed decisions and audits.

Increase in tax base and tax revenue and reduced administrative burden

AIS has helped to improve voluntary compliance and identify tax evasion cases by applying automated tools and algorithms to collate information. These methods have been highly influential in detecting unreported income and have collected substantial additional tax revenue.

The adoption of AIS has paved the way for e-assessments or faceless assessments, where automated systems

help drive audits through verification of information and computation of taxes, thus largely replacing manual post-assessment checking programmes and paper-based traditional audit approaches. New data sources, increased cooperation in enforcing compliance, and e-campaigns targeting tax evasion have helped to reduce administrative and cost burdens and increase tax collections.



¹⁵<https://www2.deloitte.com/content/dam/Deloitte/in/Documents/tax/in-tax-survey-on-income-tax-digitalisation-in-India-noexp.pdf>

Recommendations on the opportunity for enhancing AIS functionality

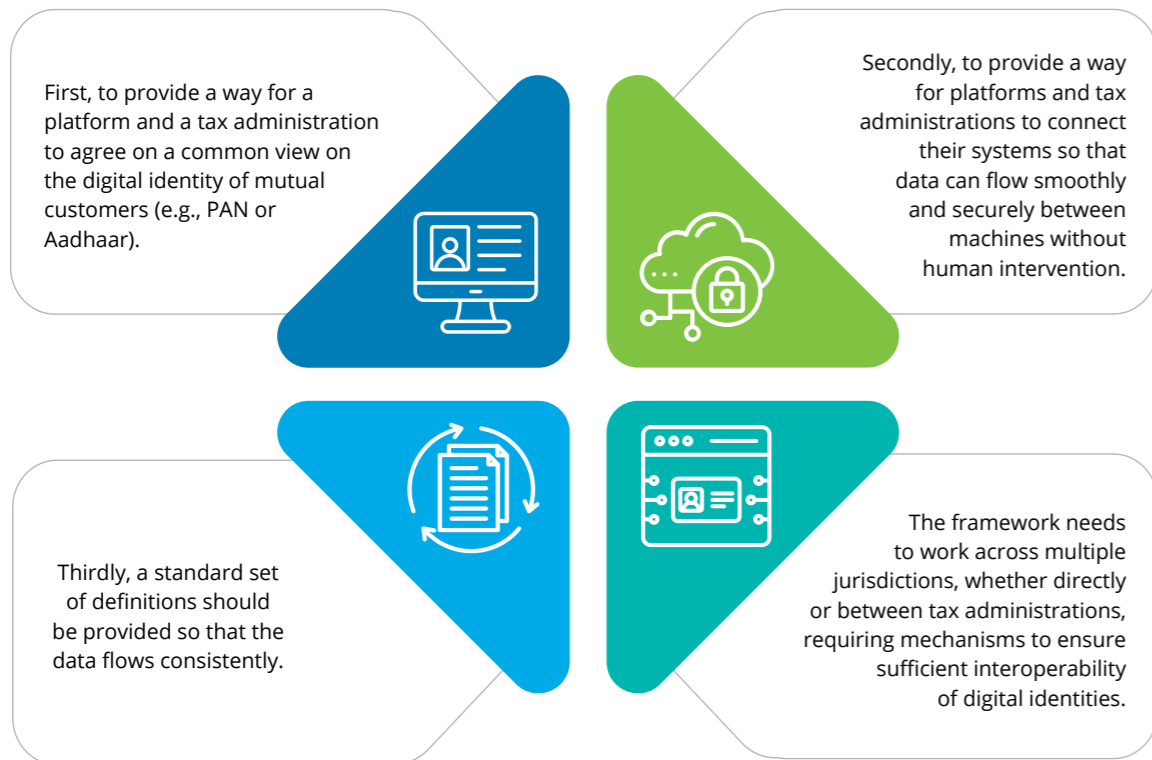
Exchange of information through connected data systems

A critical building block in the digital transformation of tax administration is ensuring that the systems of tax administrations, taxpayers, and businesses are connected so that the relevant data can flow seamlessly among parties.

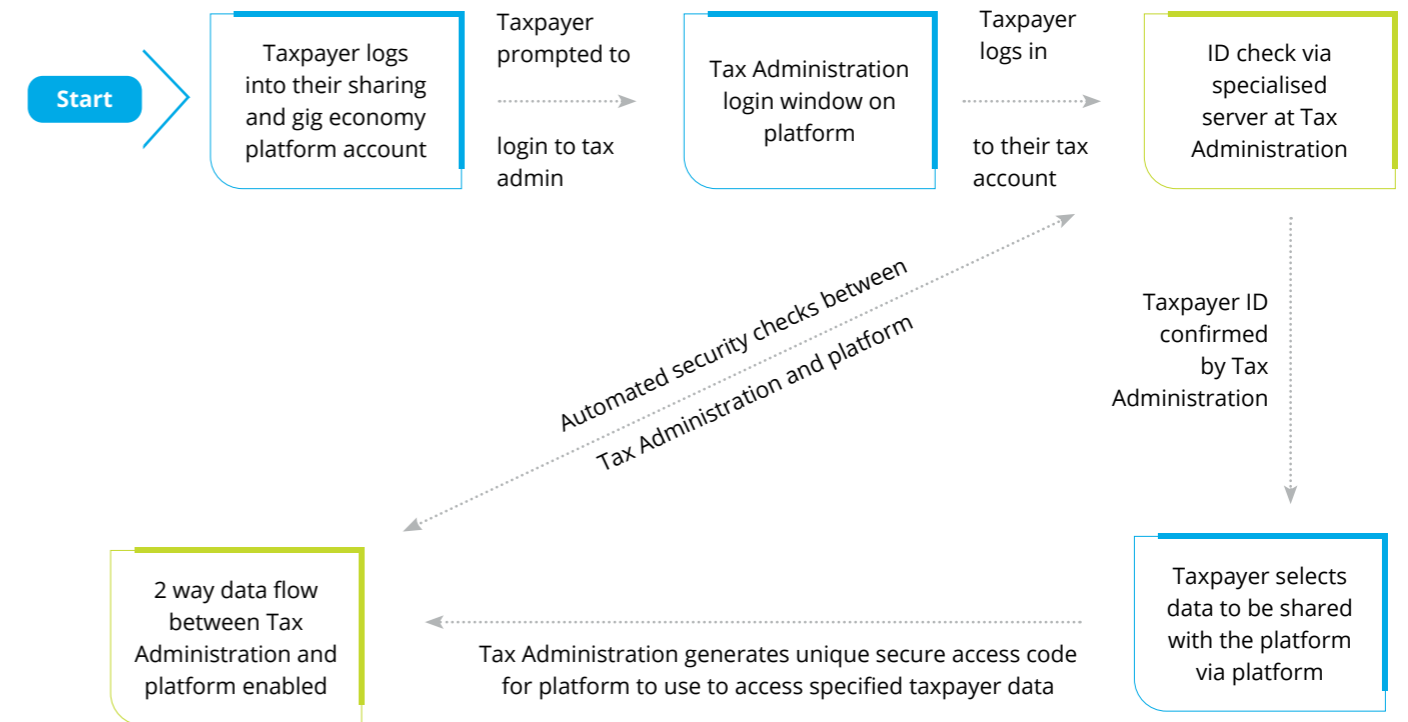
Denmark has built a system that connects accounting software to the VAT return system, meaning information flows between the tax administration and businesses, automating much of the VAT return process. Several jurisdictions have introduced real-time invoice reporting, requiring businesses to report sales transactions electronically to their tax authority as transactions occur. Occasionally, software is relied upon to integrate the business' ERP or accounting system with the tax administration, resulting in faster and more accurate compliance.

The OECD's 2022 report¹⁶ "Tax Administration 3.0 and Connecting with Natural Systems" has highlighted the issues and challenges related to moving towards connected data systems, primarily from a direct tax perspective. The report explores the issues that stem from managing the availability, quality, and accuracy of data drawn remotely from taxpayers' natural systems and where international cooperation can help move this agenda forward.

The report explores a possible technical architecture for implementing data exchange between platforms (businesses), tax administration and taxpayers broken down into three main tasks:



A visualisation of the framework identified in a sharing and gig economy, depicted in the report above, that could form the basis for this engagement is set out below:



The ITD may consider the feasibility of implementing the above-mentioned technical framework across all taxpayers. Information gathered through different sources using this framework would assist in generating pre-filled tax returns at a much more efficient scale.

The collated information can also be used for reporting/filings under various regulations, reducing the burden on businesses to collate and re-enter the same or similar information for multiple reporting obligations.

¹⁶https://www.oecd-ilibrary.org/taxation/tax-administration-3-0-and-connecting-with-natural-systems_53b8dade-en

High degree of automation among information suppliers

Third-party reporting bodies extensively use IT systems and automate the reporting of information to revenue bodies to facilitate the processing of third-party reports. Processing of third-party reports is greatly facilitated by extensive use of information technology (“IT”) systems by third-party reporting bodies and the automated reporting of third-party information reports to the revenue body. Standard Business Reporting (“SBR”) is an Australian Government initiative that simplifies business-to-government reporting. It enables businesses to submit information to government agencies via their accounting software. SBR is built into business/accounting software and allows businesses to significantly reduce the time spent collating information, filling in forms and submitting reports to the government.

ITD can consider implementing direct reporting through standardised accounting software modules deployed at RFI and business levels.

Once ITD implements such direct reporting, the information received from RFIs can be directly mapped with that obtained from businesses, reducing RFIs and taxpayers’ time and cost to collate, report, confirm, and reconcile the data. Direct reporting will help ensure complete, accurate, and timely reporting and reconciliations.

If the ITD possesses data obtained from third-party sources (e.g., details of remittances outside India received from the Reserve Bank of India), they can include the data on AIS for confirmation, updating and reconciliation with information obtained from taxpayers’ systems rather than issuing notices to seek clarifications, analysing responses, and initiating necessary actions only where there is a mismatch. The administration would then have qualitative data for analysis and action and save time collating and reconciling such data through separate filings by RFI and taxpayers.

Similarly, another potential avenue for consolidating tax obligations, encompassing both direct and indirect taxes, may lie in adopting the Standard Audit File for Tax (“SAF-T”).

SAF-T represents an internationally recognised XML standard designed for the electronic transmission of tax-related data from entities to national tax authorities or external auditors.

SAF-T has been designed to capture data from several areas in a typical accounting system, such as general ledger, accounts receivables, accounts payable, fixed assets, and inventory.

Countries that effectively use the SAF-T in VAT compliances and other electronic accounting data are Hungary, Lithuania, Norway, Portugal, Poland, Romania, etc.

The tax authorities will be able to perform unprecedented data analysis during tax audits. An XML-based data transmission allows sophisticated and pre-defined controls for testing, thus increasing the probability of detecting misstatements.

The OECD has provided guidance via its 2010 report “[Guidance Note: Guidance for the Standard Audit File—Tax Version 2.0](#),” which provides guidance to revenue bodies and software developers on its design, application, and implementation. It encourages the production of a data file containing business accounting transactions in a visualisation format.

It also suggests how SAF-T can be applied to tax audit processes to enable them to be carried out more efficiently and to regularise costs to revenue bodies and businesses.

Therefore, in the long term, centralised information management facilitated by SAF-T and similar initiatives could alleviate the reporting burden on businesses. Relevant data from the data pack shared by taxpayers can be pulled out. The business transactions captured through such a centralised system can be used to prepare reports for prefilling with various participating government/regulatory agencies and reconciliations across laws. This will significantly reduce the reporting burden on businesses and the time spent collating information, filling in forms and submitting reports to participating government agencies.

One Taxpayer One Government View

While various steps of consolidation of information and data of a taxpayer at a given platform are being taken in silos by Government revenue bodies, reformative ways with respect to moving towards a “One taxpayer, One Government view” could be:

- To consider unification and simplification of various compliance and audit processes for various taxes across CBDT and CBIC to the extent possible, combined with the announcement in the last budget of having PAN as the Common Business Number, can deliver great ease in terms of taxpayer services.
- To consider consolidation of technology infrastructure for all Government revenue applications into a common Government and managed secure cloud, such as a Government “RevTech/ FinTech” cloud. The advantage that can be drawn from this would be huge savings on IT expenditures across projects at the Centre and States, where a large amount of infrastructure is to be procured to manage the peak loads in various projects. For instance, the infrastructure required in July and September for tax return filing is tremendously high compared with other months. If the infrastructure is shared across projects, this requirement can be managed from the overall cloud. This would also provide many savings in having shared investments in building platform capabilities, such as Data Warehouses, Analytics, and Artificial Intelligence/Machine Learning, which currently is being done individually by most of the Finance/Revenue bodies in the country.
- Having a consolidated view will also help in using filings under other regulations. It will reduce multiple reporting and the need for reconciliation of data; some examples include:
 - a. financial data (balance sheet and profit and loss statement) can be sourced directly from filings under company law;
 - b. GST data in clause 44 of Form 3CD (Tax Audit Report) can be sourced from GST returns
- As a result, a taxpayer’s AIS being generated on a shared IT landscape could then provide an end-to-end reportings and views without the need of duplicating and ingesting data from various sources. Also, it will reduce the burden on taxpayers who will then be able to provide reconciliations/ responses which will be visible to all the participating revenue bodies and will eliminate the need for responding to similar queries from different revenue authorities.



Specific enhancements for taxpayers registered under GST

Modules to identify with and link with GST data

While the AIS captures important transactions (such as GST turnover and transactions reported through TDS/TCS), it is pertinent to note that TDS/TCS under the income-tax provisions applies only to specified payments. Accordingly, there may be cases of mismatch of turnover reported under GST returns by the taxpayer vis-à-vis the payments reported by the deductor/collector in TDS/TCS returns.

Currently, sales reported under GSTR-3B are captured in the AIS without any detailed bifurcation, such as outward taxable supplies; pertaining to zero rated supplies or other than zero rated supplies/inward supplies (liable to reverse charge) / non-GST outward supplies etc. There are instances where payment is made to non-resident for import of services wherein TDS is applicable under section 195 and GST is also applicable under reverse charge on such inward supplies. While the TDS will get reported in the AIS, a column may be added to capture the inward supplies (liable to reverse charge) as reported under GSTR-3B filed by the taxpayer for proper reconciliation.

Taxpayers have been receiving show-cause notices from the ITD proposing adjustments for differences in turnover reported in the GST returns vis-à-vis the turnover reported in the financial statements. While the details of turnover reported under GSTR-3B are already captured in the AIS, this information may not reconcile with the turnover shown in the financial statements/ tax return due to reasons such as inter-unit supplies, unbilled revenue, unadjusted advances, deemed supply, credit notes, trade discounts not permissible under GST. As a result, the ITD issues notices seeking reconciliation of such differences. To mitigate such instances, the following may be undertaken:

- Interstate and other deemed supplies can be filtered from the gross turnover based on data available in the taxpayer's GSTR-1. These can be identified if the supplier and the recipient's GSTIN contain the same PAN number.
- Other filters, such as bifurcation of Zero-rated, exempt/Nil rated supplies, can also be applied for granular reconciliation.
- A threshold limit (5% to 10%) for difference in turnover as per GST return and financial statements may be built into the system upto which notices should not be issued.

Additional sources of information can be used for enhancements in AIS data, such as:

- GSTR-5A return is filed by non-resident persons supplying digital services, defined as Online Information Database Access and Retrieval ("OIDAR") under GST, to unregistered persons in India (i.e., B2C transactions). Effective 1 October 2023, such OIDAR service providers must furnish the GSTIN of registered customers in India to whom services are supplied. This information can be used to furnish details of services procured by registered persons in India from non-residents.
- Effective 1 October 2023, e-commerce operators must report data of supplies made by unregistered persons and/ or composition dealers through their portal. While there will not be any GST on such supplies, data on the value of supplies made by such persons will be available on the GST portal through reporting by e-commerce operators. This can be useful for capturing data for transactions made through e-commerce portals, even if the supplier is not registered under GST laws. Such data is unavailable in GSTR 3B or any other return in GST.
- The ambit of e-invoicing under GST has expanded with registered persons having turnover more than INR 5 crores required to issue e-invoice for supplies made by them. HSN code is required to be mentioned on e-invoice which can be

used to segregate the supply of goods v/s services for supplies made by supplier and procurements made by recipients. This data can be helpful for reconciliation with the TDS deducted by the buyers based on value of goods/ services exchanged between two legal entities.

- Information reported by sellers in GSTR-1 and available to the buyers in GSTR-2A and GSTR-2B can be used to analyze and provide details of purchases to the buyers in their AIS, after applying the relevant filtering criteria mentioned above such as inter-branch supplies etc.

It is understood that income-tax and GST information is shared between direct and indirect tax administrators (for example, GST return filings are presented to taxpayers in AIS). Going forward, the ITD may compare GST return data with income-tax data and reconcile the data at its end. To the extent there is a mismatch, the mismatched data may be presented to taxpayers for analysis and reconciliation (instead of asking taxpayers to reconcile entire income-tax and GST data, by virtue of clause 44 of Tax Audit report (Form 3CD). Mismatches detected by the administration pursuant to data integration and comparison could be presented to taxpayers as part of AIS / TIS information for reconciliation (instead of asking taxpayers to submit the same/ similar data to multiple authorities or reconciling the data).

Crypto-Asset Reporting Framework (“CARF”) and amendments to the Common Reporting Standard (“CRS”)

In 2014, the OECD established the CRS as a single and common global requirement for financial institutions to share financial account information with tax authorities and then exchange that information with their foreign counterparts on an agreed annual basis. The CRS was designed to promote tax transparency with respect to financial accounts held abroad. Broadly, the CRS requires financial institutions to identify the tax residency of customers and, in most cases, report information on customers who are tax residents outside of the country/jurisdiction where they hold their accounts. CRS was adopted in 2014, and over 100 jurisdictions have implemented it. CRS has made information on offshore transfers and accounts available to tax authorities, which was previously unknown and not captured by legacy systems.

It is useful to note that India is a signatory to the Multilateral Competent Authority Agreement (MCAA) on Automatic Exchange of Financial Account Information and thus receives information from other jurisdictions. Also, in the Indian context, the annual tax return forms require disclosure of foreign assets, including foreign bank accounts, shares held outside India, etc., with respect to persons who are tax residents in India. **The data that is received by the Indian authorities under CRS can be populated in the AIS.** This will facilitate better reporting by taxpayers and easy availability of information with the field officers. Given that India is a signatory to the MCAA since 2017, the practices and procedures for sharing of information would likely be well established by now. Adequate safeguards should be in place to ensure confidentiality of this information. Moreover, it is crucial that the data presented in the AIS is aligned with the applicable AY to prevent any inaccuracies in the tax return and potential enquiries or litigation by tax authorities during their reconciliation process, as this could lead to hardship for taxpayers.

Another major development that the OECD has sought to address is the emergence of Crypto-Assets, which can be transferred and held without interacting with traditional financial intermediaries and without any central administrator having complete visibility on the transactions carried out or the location of Crypto-Asset holdings. The OECD, working with G20 countries, has developed the CARF. This dedicated global tax transparency framework provides for the automatic exchange of tax information on transactions in crypto assets in a standardised manner with the jurisdictions of taxpayers' residences annually.

Additionally, the OECD, working together with G20 countries, recently conducted the first comprehensive review of the CRS in consultation with participating jurisdictions, financial institutions, and other stakeholders. This has resulted in amendments in two key areas.

Firstly, new digital financial products are included in the scope of the CRS, as they may constitute a credible alternative to holding money or financial assets in an account that is currently subject to CRS reporting. In this regard, the CRS now covers Specified Electronic Money Products and Central Bank Digital Currencies. Considering the development of the CARF, changes are also made to the definitions of Financial Asset and Investment Entity, to ensure that derivatives that reference Crypto-Assets and are held in Custodial Accounts and Investment Entities investing in Crypto-Assets are covered by the CRS. The CRS now also contains provisions to ensure an efficient interaction between the CRS and the CARF, in particular to limit instances of duplicative reporting, while maintaining a maximum amount of operational flexibility of RFIs that are also subject to obligations under the CARF.

Secondly, the amendments enhance the reporting outcomes under the CRS, including through the introduction of more detailed reporting requirements, the strengthening of the due diligence procedures, the introduction of a new, optional non-reporting Financial Institution category for Investment Entities that are genuine non-profit organisations and the creation of a new Excluded Account category for capital contribution accounts.

Indian regulators such as RBI and SEBI have been proactive in protecting the interest of investors and regulation of investments in crypto currencies. Several exchanges and investors have invested via foreign intermediaries. If the data above, once it is exchanged under CARF and CRS, is available to the Indian ITD, it would further enhance the utility of the AIS both for taxpayers as well as for tax administrators.

Further, the OECD has also developed an international legal framework,¹⁷ the Multilateral Competent Authority Agreement on Automatic Exchange of Information on income derived through digital platforms (“DPI MCAA”), to support the annual automatic exchange of information by the residence jurisdiction of the platform operator with the jurisdictions of residence of the sellers (and, with respect to transactions involving the rental of

immovable property, the jurisdictions in which such immovable property is located), as determined on the basis of the due diligence procedures.

Pertinent to note that India is not a signatory to DPI MCAA, however such agreement will enable the ITD to retrieve

information from other countries to collect information on the income realised by those offering accommodation, transport and personal services through digital platforms. Such information may then be incorporated in AIS to enable pre-filing of tax returns and timely reporting to tax authorities.

Measures to improve accuracy and completeness of data in AIS

AIS has significantly assisted in collation and pre-populating the sources of income for taxpayers, streamlining the process for filing tax returns, and eliminating the necessity of gathering and analyzing documents before filing tax returns. It's important to highlight that TIS offers a category wise aggregated information summary for a taxpayer for the primary income categories and transaction particulars captured in the AIS.

Continuous enhancements are being made to the AIS/TIS data system to enhance accuracy and incorporate new data sources, sections and information. This is evident in the recent AIS functionality updates, which include various specifics such as the cost of acquiring shares sold, rental income received (in cases where tenants have claimed House Rent Allowance exemption),

substantial cash deposits and withdrawals, and comprehensive information for properties bought or sold during the year.

Nonetheless, there have been multiple instances where discrepancies between income and details reported in the AIS and the summary presented in the TIS have been observed.

Moreover, there are several areas, as outlined below, where additional information can be incorporated, or the flow of information can be enhanced to transform the AIS into a definitive reference document, ultimately enhancing the **accuracy and completeness** of tax return reporting:

Correct value of Rental Income

A new initiative has been introduced starting from the AY 2023-24, which involves the inclusion of rental income received by individuals, particularly in cases where tenants claim House Rent Allowance (HRA) exemption. Previously, such income often went unreported, especially when the monthly rental income did not exceed INR 50,000, as these transactions were not subject to TDS. Additionally, this income did not appear in Form 26AS, even though the landlord's PAN was recorded in the TDS statements (Form 24Q submitted by the employer providing the landlord's PAN) provided by the employer.

Now, this rental income is being reported in the AIS. However, it's worth noting that the rental amount reflected is the exemption amount claimed by the tenant as an employee, which may differ from the actual rent paid. Therefore, it is essential to reflect the actual rent paid in the landlord's AIS to prevent discrepancies between the AIS and the tax return.

The ITD also possesses rental data, especially for cases where monthly rental income exceeds INR 50,000 as the tenant withholds taxes on such rent amount. Consequently, this data can be readily accessed without extra effort, ensuring data accuracy and compliance.

¹⁷<https://www.oecd.org/tax/exchange-of-tax-information/model-reporting-rules-for-digital-platforms-international-exchange-framework-and-optional-module-for-sale-of-goods.pdf>



Complete information on transactions related to capital gains

Despite the comprehensive information available in the AIS regarding the sale of shares or securities, several challenges are encountered:

- Currently, the AIS functionality does not include complete information regarding the purchase date of shares or securities. While the ITD is undertaking various steps to incorporate the acquisition cost of shares/securities, this information appears as NIL in certain instances. This imposes an additional burden on individuals who must gather this data despite most other details being readily available in the AIS. Therefore, enhancing the Statement of Financial Transactions ("SFT") system to encompass complete information on the acquisition cost is essential.

Details of the purchase of shares will be available from CDSL/NSDL in the case of listed securities. Similarly, the details of purchasing immovable properties for transactions are not covered under AIS¹⁸ by Regulatory, Stamp duty Authorities or banks. Including this information would enable taxpayers to verify and reconcile their transactions more effectively on a transaction-by-transaction basis, simplifying the income reporting in their tax returns.

- Furthermore, when it comes to reporting SFT, it is obligatory for stock exchanges, depositories, and share transfer agents to report transactions which exceed the

prescribed threshold. Nevertheless, the values recorded in the AIS for sale consideration and acquisition cost are determined based on the best available prices as of the sale/purchase date, which may not always align with the actual values. To ensure precise reporting, these details can be directly populated from the SFT or obtained from CDSL, NSDL, etc., to the possible extent.

- The debit date/date of sale reported in AIS is 2-3 days after the date reported in CG statements provided by brokers (depository participant). The date reported in AIS is the settlement date whereas the date reported by brokers is actual date of sale. Sometimes the settlement date can be after the FY while the sale has been done before which maybe missed while reporting capital gains while filing the tax return basis AIS.
- In case of sale / purchase of property by Joint Holders, AIS should display total value of such sale / purchase as well as sale / purchase value related to each taxpayer for ease of reference and reporting in the tax return.
- While there is a feedback mechanism accessible for modifying the AY for transactions in the AIS, it has been observed that the system occasionally associates transactions with a different AY under this category, potentially resulting in discrepancies during processing.



Complete information on transactions related to Income from Other Sources

Interest on tax refund – While the details of refund issued to the taxpayer is captured in the AIS, however, the same reported inclusive of interest under section 244A. In the absence of details of interest income, taxpayer has to arrange to procure and review the documents/ intimation for the refund issued to determine whether any interest has been received under section 244A of the Act and accordingly offer the same to tax. Details regarding interest payment would be available from ITD/ CPC records which can be documented within the AIS, or alternatively, a clear breakdown between the tax refund and the associated interest can be provided. This will reduce taxpayer's time and efforts in collation of data and offering the requisite income to tax.

Interest from all Saving bank accounts – There are some bank accounts that do not appear in the AIS, resulting in the omission of interest income. This could be attributed to a variety of factors, including non-compliance by the banks, oversight when filing SFT, or the possibility that the associated accounts are not linked to PAN or Aadhaar. Further, in case of time deposits, RFI's are required to submit information only for deposits aggregating to ten lakh rupees or more in a financial year for a person. It is imperative to make the linking and verification of bank accounts mandatory for all accounts to ensure automatic inclusion in the AIS. Any necessary adjustments to the regulations should be considered to enhance compliance in this regard.



Details of taxes paid during the AY

AIS includes the details for taxes paid during the year according to the date of payment. However, taxes paid information does not reflect in the AIS of the AY to which it pertains as was the case in Form 26AS.

To ensure that the appropriate information is available to the taxpayer while filing the tax return, it is imperative to ensure that the tax paid information is appropriately reflected in the AIS of the AY to which it pertains.

Accuracy of information submitted by third parties

Comprehensiveness of the information that can be presented in each pre-populated return depends directly on the nature, scope and accuracy of information that is reported to the ITD by RFI's such as Banks, Forex Dealers, Sub-Registrars etc. As per the Press Release dated 30 June 2023, the ITD has carried out verification of reporting made by certain third parties and various defaults such as filing of inaccurate particulars, incomplete information were noticed. ITD should ensure accuracy of reportings made basis the trend of feedback received from taxpayers with respect to data reported by a particular RFI and by taking necessary action to prevent misreporting or inaccurate reportings. This will help to reduce the time spent by taxpayer in reconciling data and also build taxpayer's trust in the system. In case the taxpayer objects, the information submitted by third parties should not be used by Income-tax department until the same is verified adequately and after allowing the taxpayer an opportunity of being heard.

Timely reportings

AIS functionality continues to be updated even after taxpayer has filed tax returns for a particular year. Further, any mismatch detected during processing of ITR may invite notice from ITD. In many cases year-end data especially quarter ending March is not updated before the expiry of time to file tax return.

Since the objective is to help taxpayers to file tax returns accurately, all information should be made available before the tax return is filed by taxpayer.

This will prepone reconciliations and provide taxpayer with all necessary data for filing accurate tax return.

Compatible legislative framework

In addition to comprehensive information reporting, tax laws need to be simplified to provide limited scope for tax deductions, rebates, credits, and discretions that cannot be predicted by the revenue body using third party reports or some other approach (e.g. cost of acquisition of capital assets which is subject to various nuances and interpretations (refer section 49 and section 55) and cannot always be easily obtained for prefilling tax returns and verification. Complexities in tax laws are one of the major impediments to voluntary compliance. A lot of effort is being made to simplify the direct tax laws and provide clarity, these efforts need to be sustained going forward.

Preponing disputes and resolutions

The rising litigation with taxpayers and the quantum of pending appeals are serious concerns—protracted litigation results in wasteful expenditures of time and resources for taxpayers and the department. A systemic approach to resolving disputes would be an ideal situation for the ITD and the taxpayers.

To reduce unwarranted litigation with taxpayers, AIS can help highlight discrepancies and points of litigation early. Reconciliations should be sought even before the tax return is filed. This will help address tax disputes before they occur and prevent inaccurate income reporting at the tax return stage. This will result in a more open, transparent, and collaborative relationship between revenue authorities and businesses and encourage voluntary compliance.

¹⁸Refer transactions covered in Rule 114E

Pave a way to tackle black money in India through AIS

Black money is a term used in common parlance to refer to money that is not fully legitimate in the hands of the owner. This could be for two possible reasons:



The first is that the money may have been generated through illegitimate activities not permissible under the law, like crime, drug trade, terrorism, and corruption, all of which are punishable under the legal framework.



The second and perhaps more likely reason is that the wealth may have been generated and accumulated by failing to report the income so generated, comply with the tax requirements, or pay the dues to the government, leading to the generation of this wealth.

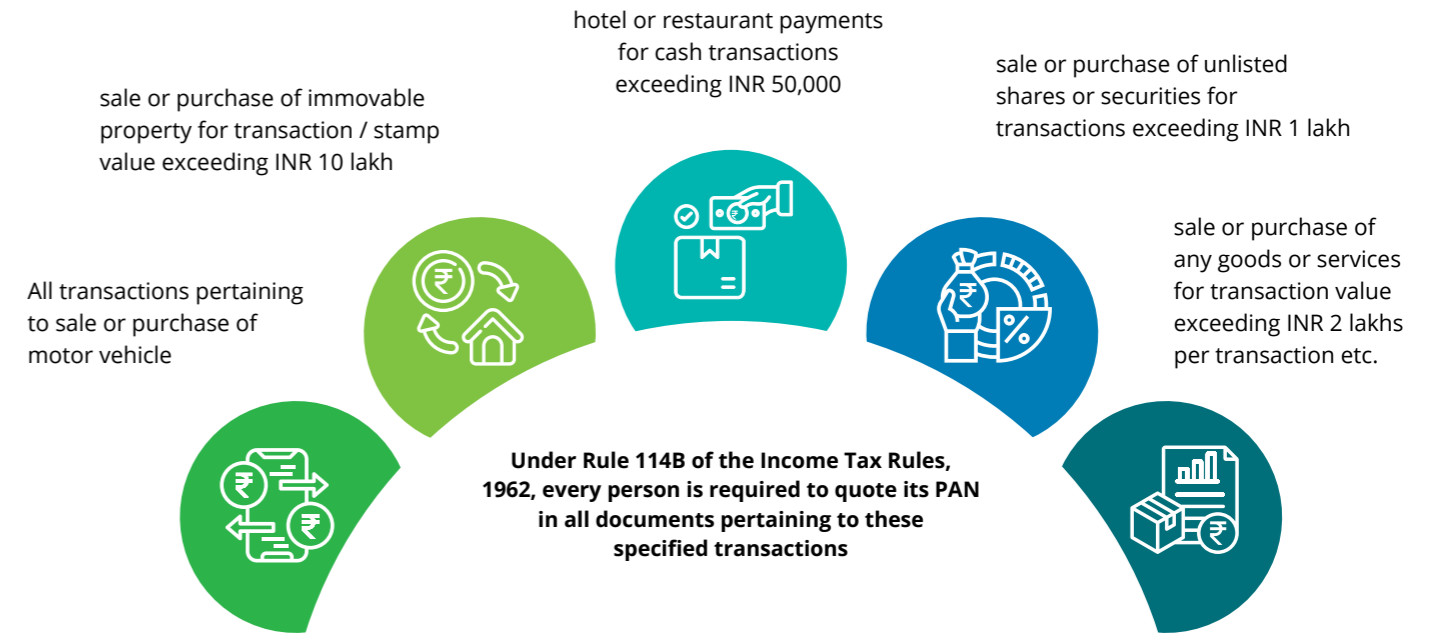
The Central Government with a view to promote cashless economy in India proposed the launch of India's own digital currency "e-Rupee – Central Bank Digital Currency (CBDC)". The e-Rupee is a digital token that serves as a legal tender, and users will be able to transact with it via a digital wallet provided by partner banks and kept on mobile phones or devices. E-Rupee wholesale was launched on November 1, 2022 and the e-Rupee retail a month later by RBI. While e-Rupee wholesale is right now limited to settlement of secondary market transactions in government securities or G-Secs, the e-Rupee retail is available for widespread use just like physical cash. However, only four banks – YES Bank, IDFC First Bank, ICICI Bank and State Bank of India have been roped in for the first phase of piloting the e-Rupee retail.

As per the annual report¹⁹ for RBI for the FY ending March 2023, the total digital currencies account for INR 16.39 crore, which is not even 0.0001 per cent of the total bank notes in circulation. During FY 2023-24 and onwards, the RBI aims at expanding the ongoing pilots in CBDC-Retail and CBDC-Wholesale by incorporating various use cases and features. The pilot in CBDC-Retail is proposed to be expanded to more locations and to include more participating banks.

Though several initiatives have been taken by the Indian government to tackle the situation of black money such as payment through digital modes, launch of India's own digital currency, demonetization etc. Other factors that could prove useful to tackle this situation could be:

¹⁹<https://www.rbi.org.in/Scripts/AnnualReportPublications.aspx?year=2023>

Reporting obligations on goods/services provider



Though there is mandatory requirement for the taxpayer to quote its PAN, there is no reporting obligation on the goods / services provider to report such transaction with the government authorities.

A necessary initiative must be taken by the government to bring into the purview all goods / services provider mainly hotel industry, automobile industry, tour operators, airlines, valuation authorities etc. to compulsorily report such transactions with the

government such that the entire flow / transaction trail can be identified with ease and much lesser resources. Further, penal implications should also be levied in case of non-compliance.

Simultaneously, such details can be populated in AIS which will assist revenue authorities to verify the authenticity and reasonableness of the transactions undertaken by the taxpayers.

Details of sale and purchase transactions pertaining to immovable property

Any transaction involving the sale or purchase of immovable property valued at INR 30 lakh or above is subject to reporting through SFT by the registrar or sub-registrar. Additionally, it is important to note that TDS at the rate of one percent is applicable on the transfer of immovable property where both the consideration and stamp duty value exceed INR 50 lakh.

Further, each immovable property is linked with a unique property ID available with the sub-registrars. The details of immovable property transactions are linked to the respective property ID. These details, alongside information gathered from SFT and TDS returns submitted to the ITD (mentioned above), can be populated in AIS, which will ensure compliance with the reporting and tax procedures and maintain transparency and integrity in all immovable property transactions.



Details of sale and purchase transactions pertaining to jewellery

Each jewellery item held by the consumers or the jewellers can be linked with a unique identification number. Any sale or purchase transaction of jewellery without the unique identification number can be declared void or illegal by the government. Further, reporting obligations can be imposed on jewellers at regular intervals. Mandating stock audits can be another initiative to ensure systematic inspection and verification of jeweller's physical inventory with the information furnished by them to the government authorities.

This course of action will eliminate bogus cash jewellery transactions. Simultaneously, such reporting can be further linked with AIS, which will ensure voluntary disclosure by taxpayers when filing tax returns.

Introduction of additional data points in AIS

To enhance the comprehensiveness of the AIS, it is essential to extend the current sections and introduce new ones. These sections should be designed to incorporate a wider array of data points, encompassing various facets of taxpayers' financial

transactions. These additional details will enable the AIS to provide a thorough and nuanced portrayal of taxpayers' financial transactions relevant for pre-filing the tax return.

Tax savings investments

Currently, while most of the income and reporting details are accessible via TDS statements, RFI reporting, data exchange from other regulatory bodies, and various other platforms for verification, there's a notable absence or inaccuracy of information concerning eligible contributions made by employees. Reliance is mainly placed on declarations provided by employees, and Form 16 issued by employers read with Form 12B. In a recent review by the Income-tax authorities in Andhra Pradesh,²⁰ it has been underscored that employees frequently overstate their deductions, thus reducing their tax liability.

Given that many eligible contributions, investments, and donations are linked to taxpayers' PAN, there is an opportunity to establish a connection between these deductions and have them appear as a distinct category in the AIS. Further, these deductions should automatically be linked with the tax return schema for ease of filing tax returns. Such integration could facilitate the verification of deduction accuracy as claimed by taxpayers. Some examples of such deductions/contributions could be as follows:

Section 80C

Public Provident Fund, Life insurance policy contributions, National Pension Scheme (all linked to the PAN of the taxpayer)

Section 80D

Medical insurance premium

Section 80G

Qualifying donations can be captured based on information filed by charitable/approved institutions that receive donations or contributions from the general public

Directorships and Unlisted Shares

Individuals are obligated to report their directorships and ownership of unlisted shares held at any point during the year in their tax returns. MCA has introduced rules²¹ for dematerialization of securities by private companies. A private company (except small company) is required to dematerialize its existing securities within a period of 18 months from closure of financial year ending on 31 March 2023 i.e., by 30 September 2024. Such private company is required to ensure that entire holding of its promoters, directors, key managerial personnel have been dematerialized before making any fresh / bonus / rights issue or buyback of securities.

In view of the above, it is advisable for ITD to introduce a dedicated section within the AIS to capture this information from companies. Such an inclusion would serve a dual purpose: reducing instances of non-reporting and aiding the department in reconciling the assets held by an individual with the income declared in their tax return.

Additionally, the tax department may consider implementing a reporting mechanism with the Registrar of Companies, like SFT reporting, to seamlessly link this data with the AIS. This approach would enhance data accuracy and further streamline the reporting process.

²⁰SCR/B/P.APO/G/BZA/Conf/2023 – Letter from CCIT, Vijaywada

²¹Companies (Prospectus and Allotment of Securities) Second Amendment Rules, 2023

Sale and purchase data of unlisted shares

Receipt from any person of an amount aggregating to INR 10 lakh or more in a financial year for acquiring shares (including share application money) issued by a company is required to report through SFT by the company issuing shares.

The above reporting requirement does not include transactions pertaining to transfer of unlisted shares, which are subject

to capital gains tax. By including sale and purchase data of unlisted shares in the AIS, tax authorities can better track these transactions. This enhances tax compliance as taxpayers are more likely to report such transactions accurately, reducing the chances of tax evasion.

Details on cryptocurrency transactions

Managing cryptocurrency transactions can pose difficulties in accurately documenting purchases, transfers, and sales for tax purposes. Integrating a specialised section for cryptocurrency transactions within the AIS would significantly simplify this process, ensuring adherence to relevant tax regulations.

The OECD has also introduced the Crypto Asset Reporting Framework or CARF, which entails detailed and automatic sharing of information exchange between jurisdictions. Please refer to the section on CARF and CRS for more details.

Details on Intra-day transactions

Intra-day transactions are not automatically included in the AIS. As these transactions fall under speculative income, their tax treatment varies. Therefore, it is crucial to distinctly record these transactions within the AIS to ensure absolute precision and transparency. This practice aids in fulfilling the taxpayer's compliance obligations and facilitates more thorough scrutiny by tax authorities.

Further, it is important that a clear identification of the nature of the transaction is provided in the AIS so that taxpayers can accordingly report the same, such as LTCG, STCG, Intra-day, and F&O.

Details on TDS credits not claimed in the past

Taxpayers have the option to carry forward TDS credits to future years. Any unclaimed TDS in previous years can be claimed by taxpayers, in the current year's tax return. However, such excess claim by taxpayers leads to unjustified demands due to mismatch in TDS credits with Form 26AS. At present, Form

26AS / AIS only reflects the amount of TDS credits available to taxpayers in a given FY. Therefore, AIS / Form 26AS could be further updated to reflect TDS credits not claimed in the past years and available to taxpayers.

Incorporation of pending demands and refunds

The data pertaining to outstanding demands and pending refunds is readily accessible within the income-tax department, but it is in poor condition with no certainty on its validity and/or clarity on source of demand. In addition, there appears to be no other convenient and open means of resolving the outstanding

demands or processing of pending refunds, than by visiting the tax officer. Any action in this direction will go a long way towards achieving government transparency and gaining the trust of the public.

Incorporating more data from the financial statements and tax audit report

Companies are required to file annual accounts with MCA electronically. The ITD has entered into an MOU with MCA. The data available with MCA can be leveraged and populated in the AIS. Similarly, items from the tax audit report can be populated in the AIS. In case of mismatch, taxpayers can be requested to submit feedback on the AIS portal. This way, verification of data can be done as well as unnecessary scrutiny notices can be avoided for the taxpayers. This will also lead to availability of capacity within the tax department which can be used to focus on other priority areas.

In recent years, there has also been an increasing trend of CPC making huge additions while processing corporate tax returns under section 143(1). The additions are typically made based on the alleged inconsistency between the tax audit report and the tax return. In many cases, basic checks are not followed given that software is updated every year, and this results in creation of huge tax demands leading to unwanted tax litigation. If the financial data can be directly populated in the AIS, any inconsistency between data reported as per tax audit report and the tax return filed can be highlighted providing an opportunity to taxpayers to resolve differences before processing the tax return.



Measures for simplification of data management in AIS

Another pivotal facet of enhancing the AIS is streamlining data management. This entails creating user-friendly interfaces and tools that empower taxpayers to effortlessly navigate and oversee their data. The incorporation of user-centric design principles is imperative to guarantee that individuals can conveniently access and interpret their financial information.

Download of report providing details of dividend

The AIS now incorporates a segment for dividend income, which were historically prone to under-reporting in tax returns. Additionally, taxpayers previously faced the onerous task of compiling multiple datasets and analyzing lengthy bank statements to report this income accurately. As a result, the AIS has significantly alleviated this burden, particularly since its inception, by providing precise reporting.

To enhance this feature further, an option to download a quarterly breakdown of dividends can be introduced. The AIS already offers a useful feature that breaks down capital gains and losses on a quarterly basis. A similar feature for dividends would enhance the system's usability, making it easier for individuals and corporates to report dividend income in their tax returns and also compute advance tax accurately.

Additionally, currently dividend statements can be downloaded per entry wise. However, managing numerous dividend entries is cumbersome. Implementing a consolidated download option for all dividends entries would significantly reduce the time and effort required to organize this data efficiently.

Inclusion of tax calculators

Incorporating tax calculators within the AIS can be a valuable addition. These tax calculators would enable taxpayers to estimate their tax liabilities by utilizing the data present in their AIS.

Taxpayers can utilize the tax calculators to gain clear understanding of their anticipated tax liabilities. This insight allows individuals to engage in proactive financial planning, helping them allocate resources and make informed decisions to meet their financial goals more effectively.

It not only simplifies the tax estimation process but also promotes financial literacy and informed decision-making. This feature will align with the broader goal of creating a more transparent, efficient, and user-friendly tax ecosystem.

As outlined in the Handbook published by the Directorate of Income-Tax (Systems) in March 2022,²² the ITD has issued guidelines to streamline the various aspects of information and reporting within the AIS. Nonetheless, it is essential to address the issues to ensure that the AIS becomes a definitive reference document.

By addressing these facets of improvement, the AIS can evolve into a comprehensive, accurate, and user-friendly tool that empowers taxpayers to manage their data more effectively while aiding tax authorities in ensuring compliance and revenue collection.



Conclusion and way forward

AIS is critical to elevate delivery of services to taxpayers. The Indian government has been ahead of the curve in implementing technology and digital solutions vis-à-vis other tax administrators. Experience of tax administrators, even in advanced countries, shows that digitization is fraught with challenges. For instance, HMRC's flagship program of Making Tax Digital has been delayed four times since it was first announced in 2015.²³ There are numerous studies²⁴ which demonstrate the positive impact of digitization on tax compliance and tax collections. The Government should continue with its focus on digitization in the field of tax and further enhance the functionality of AIS.

²²Handbook on AIS issued by Directorate of Income-Tax (Systems)

²³Report of the national audit office in the UK

²⁴For example: Digitalisation to Improve Tax Compliance: Evidence from VAT e-Invoicing in Peru by IMF

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