

Widening of Taxpayer Base

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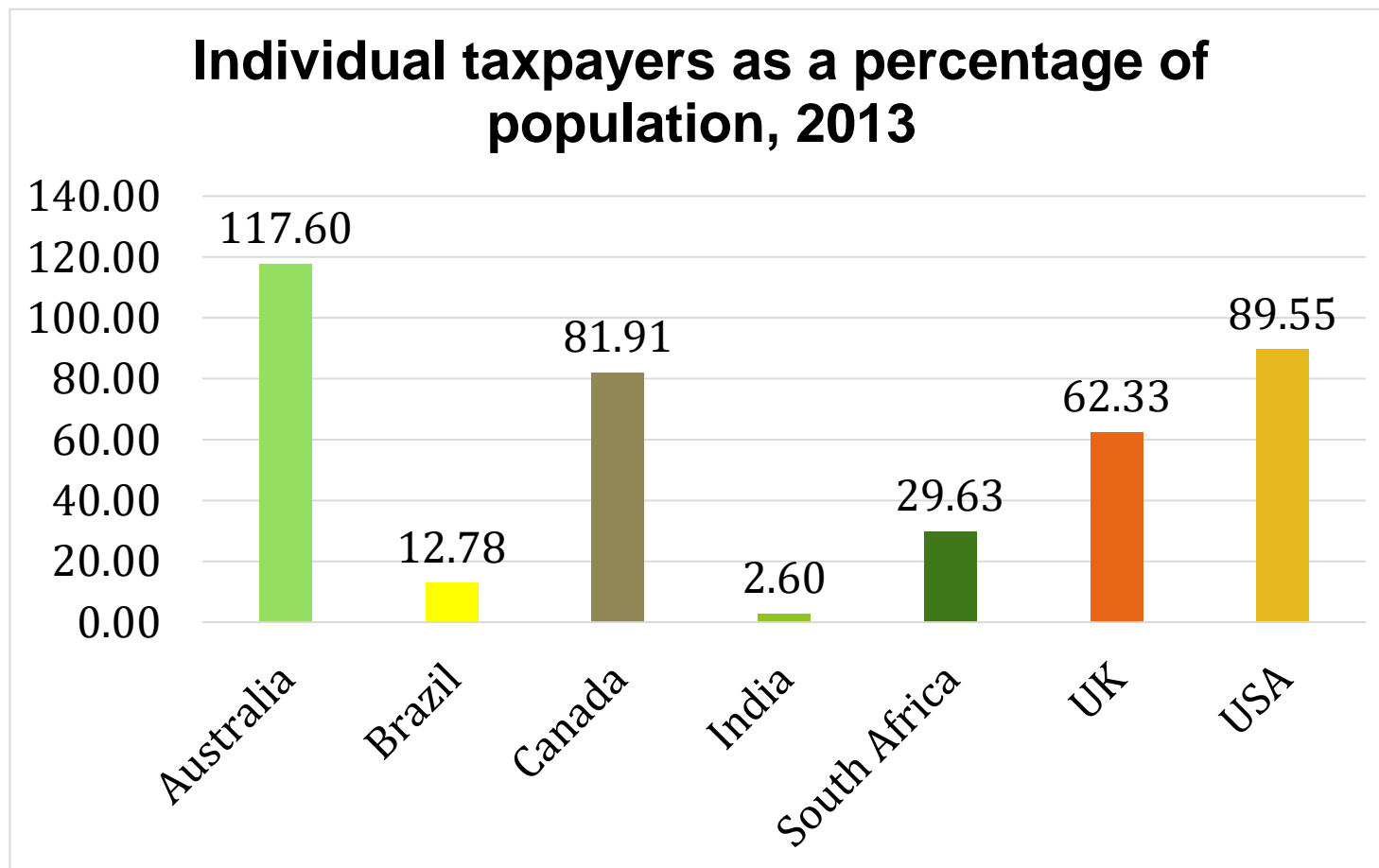
OUTLINE

- ▶ Introduction
- ▶ The Number of Taxpayers in India Justified?
- ▶ Measures Taken to Widen the Taxpayer Base by the Income Tax Department
- ▶ Problems/Shortcomings of the Present System
- ▶ Good Practices Followed by Tax Administrations from around the world
 - i. Taxpayer Registration
 - ii. Third Party Information Reporting
 - iii. Data Compilation, Collation and Matching
 - iv. Pre-filled Returns
 - v. Cash Registers
- ▶ Possible Solutions- Way Ahead

INTRODUCTION

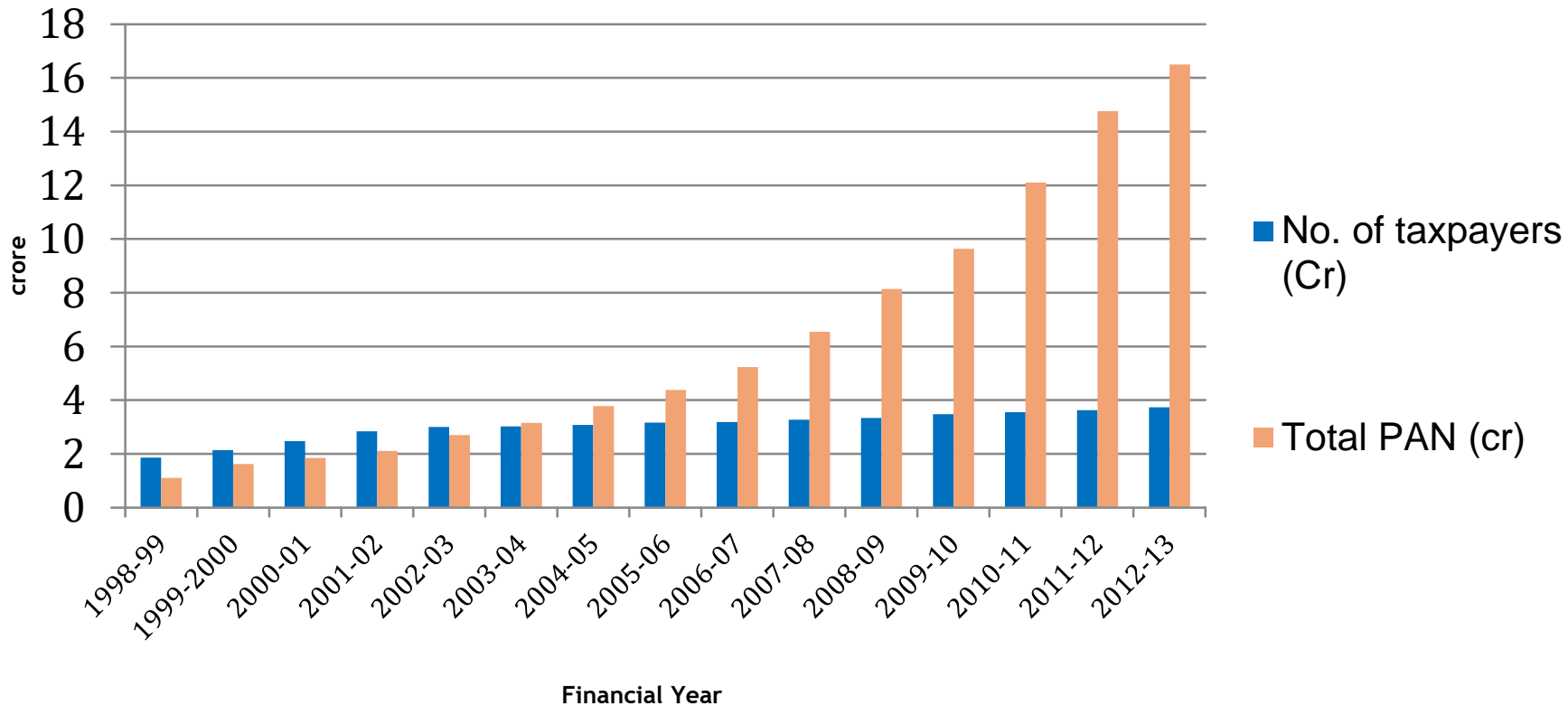
- ▶ Strong compliance measures required for:
 - Potential rule breakers and,
 - Compulsive non-compliers
- ▶ Poor tax collection: high cost of compliance >> complex tax structure >> deters potential filers
- ▶ Estimates- Indicators for missing numbers of taxpayers/ Gap
- ▶ Potential taxpayers to be brought into the tax net without being intrusive.
- ▶ Procedural, administrative and other changes

NUMBER OF TAXPAYERS IN INDIA JUSTIFIED?



Source: OECD Tax Administration 2015

No. of Taxpayers vs. Total no. of PANs issued

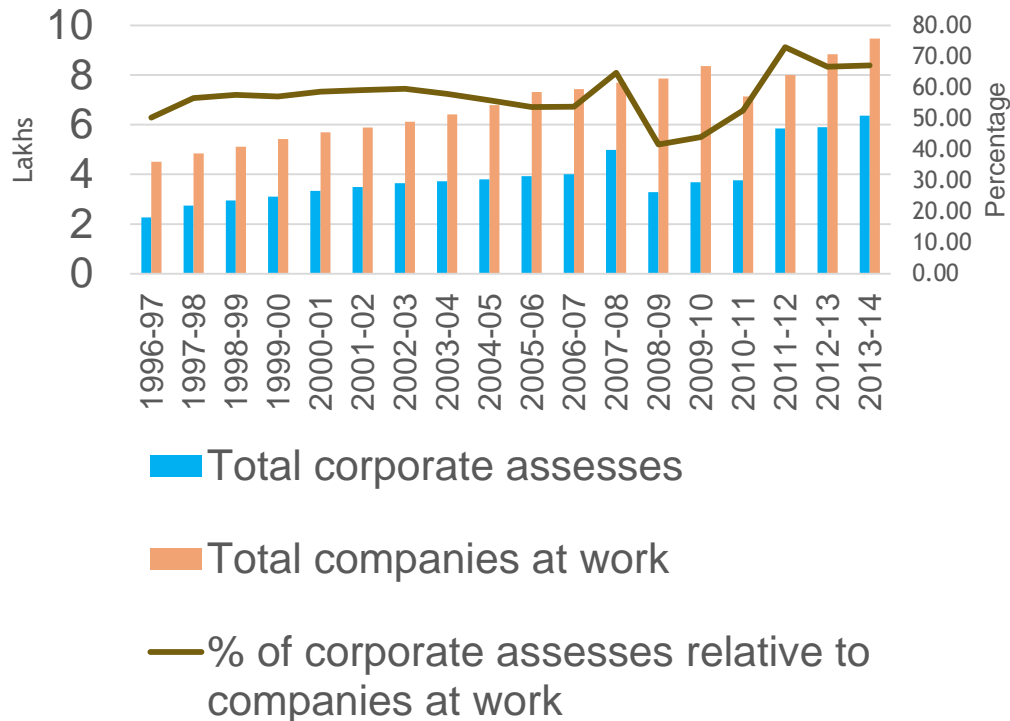


- ▶ More than 24 crore PAN. Less than 21.5% taxpayers (2015)
- ▶ PAN obtained as identity card or to enter into financial transactions where PAN quoting is mandatory?
- ▶ Detailed analysis and enquiry: The department has provision for labelling PAN holders as *effective* or *non-effective* taxpayers.

MISSING TAXPAYERS?

- ▶ MSMEs projected in 2012-13 at 4.48 crores.
- ▶ Professionals (medical,dental,architects,etc.) 0.56.crores
- ▶ Total 5.04 crores
- ▶ Returns filed (Forms ITR 3, 4, 4S and 5) by persons earning income from business and profession for accounting year 2012-13 1.50 crores
>Just 29.7 %
- ▶ Middle Class estimates for 2015:
 - EY: 10 crore
 - Mckinsey: 18 crore
 - Kharas: 14-18 crore

Corporate assessees, total companies and assessees as % of companies



Ministry of Corporate Affairs and CAG

- 50-60 % of the companies have been filing their returns.
- Defunct companies or companies that have closed down have to give a formal notice of closure to the ITD >> clean data base.
- CIT >> more than 60 per cent of the total direct tax revenue collections

Number of companies and corporate taxpayers

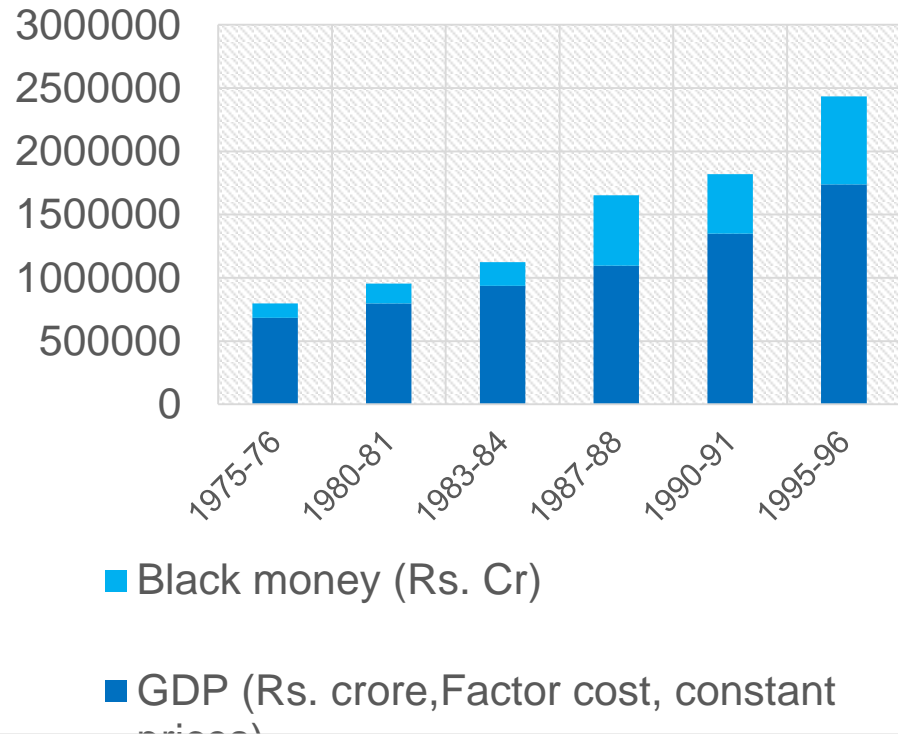
Financial Year	Total Number of registered companies	Number of companies filing accounts with ROC	Number of companies filing returns with Income tax Department
2009-10	8,35,860	5,82,816 (69.72)	3,68,000 (44.02)
2010-11	7,14,550	6,37,561 (89.22)	3,76,000 (52.62)
2011-12	8,00,761	7,46,468 (93.21)	5,85,000 (73.05)
2012-13	8,83,611	8,34,684 (94.46)	5,90,000 (66.77)
2013-14	9,46,651	8,51,249 (89.92)	6,36,000 (67.18)

Not all companies that filed their returns and accounts with the Registrar of Companies (ROC) were filing their income tax returns.

MCA

INFORMAL ECONOMY

Black economy and white economy



Source: White Paper on Black Money, Ministry of Finance, 2012

Brazil >> usage of plastic money (98 per cent) ensures speed, information tracking and security in transactions (Shome 2012)

Cash in Circulation

2007	2008	2009	2010	2011	2012
90.6%	90%	89.7%	89.5%	87.9%	86.6%

Almost 87% of all transactions in cash!

Source: The Fletcher School, Tufts University. The Institute for Business in the Global Context (2014). The Cost of Cash in India. (Part two of a series on the cost of cash around the world).

MEASURES TAKEN BY ITD

- ▶ **Survey and Preparation of Streetwise and Building wise Directory (Section 133A)** but not implemented/practiced
- ▶ **Presumptive Taxation** but was discontinued in 1997-98
- ▶ **1/6 scheme**
- ▶ **Banking Cash Transaction Tax (BCTT)** but removed
- ▶ **Tax Deduction at Source (TDS):** 29 sources of income/payments
- ▶ **Tax Collection at Source (TCS) :** Sale of 11 items like timber, forest produce, liquor, toll charges, etc.,
- ▶ **Annual Information Return (AIR):** for 7 types of transactions but some received without PAN

- ▶ **Central Information Branch (CIB):** for 40 types of transactions but not collected regularly even from 12 compulsory sources. No PAN in many cases
- ▶ Reintroduction of *Kisan Vikas Patra* in 2014: investors are required to provide their KYC details, and those investing above INR 50,000 are also required to quote their PAN.
- ▶ **TDS on Sale of Immovable Property and TCS on Sale of Gold**
- ▶ **Securities Transaction Tax (STT)**
- ▶ ***Computer Assisted Scrutiny Selection (CASS)***
- ▶ ***Integrated Taxpayer Data Management System (ITDMS)***
- ▶ ***Non-filers Monitoring System (NMS)***

SHORTCOMINGS OF THE PRESENT SYSTEM

- ▶ Lack of awareness and availability of information to the common man on what constitutes taxable income.
- ▶ Lack of awareness about the need to file returns
- ▶ 26 categories/ classes of persons are expected to file their returns. Not all of them do. (Section 139)
- ▶ Whether the PAN holder is an *effective* taxpayer or not, the Department does not maintain this information.
- ▶ Administrative: Formally issuing notice under section 142(1) >> lack of resources

- ▶ After 2003, some **information fields dropped from PAN Form 49A**
- ▶ **Lack of Uniformity in Obtaining and Quoting of PAN and Reporting PAN to Department.**
 - ▶ persons required to obtain a PAN 11
 - ▶ transactions for which quoting the PAN is mandatory 55
 - ▶ types of transactions reported back to the ITD 51.
- ▶ **Form 61 filers** are potential taxpayers as the source of money in the case of agriculturists may be exempt but income from the transactions where PAN is required to be quoted may not be exempt
- ▶ **Non-compliance of Shops and Establishments Act**

GOOD PRACTICES FOLLOWED BY TAX ADMINISTRATIONS FOR WIDENING OF TAXPAYER BASE

Most successful tax administrations have:

- ❑ *Good taxpayer registration systems,*
- ❑ *Third party information reporting,*
- ❑ *Data compilation, collation and matching with the help of business intelligence and analytics to widen and deepen the tax base,*
- ❑ *Provision of prefilled returns to taxpayers and*
- ❑ *Legal enforcement measures to promote use of electronic cash registers to reduce cash transactions, etc.*
- ▶ **Identify and register persons and other entities** who have not filed their return of income.
- ▶ **Facilitate taxpayer registration**
- ▶ **Ensure automatic notification of persons**
- ▶ **Keep the address data base of registered taxpayers up to date**
- ▶ **Carry out survey of businesses lifestyle audits, etc.**

Taxpayer Registration Number- Brazil

▶ **Cadastro de Pessoas Físicas (CPF)**

▶ There are **4 kinds of 'registration status'** labels depending upon the situation:

- **Regular:** This is when there is no pendency at all
- **Pending Regularisation:** Failure to deliver a required statement/return of income
- **Suspended:** Incomplete, incorrect or false information
- **Cancelled:** Multiple allotment on account of judicial order or on death of the taxpayer

▶ **If taxes are unpaid, then CPF is labelled 'pending' after a year and is cancelled after two years.**

▶ **Mandatory CPF registration**

“Applies to professionals registered with associations”

“Foreigners as well as Brazilians staying abroad but with assets in Brazil that are subject to registration (vehicles, aircraft, bank account, real estate, etc.) are also required to obtain CPF since December 2001”

- ▶ **Quoting of CPF:** CPF has to be quoted for *obtaining/renewing driver's licence, obtaining loans, taking college entrance tests, setting up an enterprise, applying for passport and various other financial and economic transactions.*
- ▶ An individual making a purchase is required to quote his/her CPF, which helps the seller/company/private entity to check the customer data
- ▶ Failure to clear debts leads to the individual's name being added to CADIN-Creditos nao Quitados de Orgaos e Entidades Estaduais. This also gets recorded with all public administration bodies. This prevents the individual from entering into many transactions

Third party Reporting Internal Revenue Service (IRS), USA

- ▶ Most Comprehensive

The following third party reporting requirements, among others, have been prescribed by IRS:

- ▶ Payment Card and Third Party Network Transactions above \$20,000
- ▶ Cash of \$10,000 or more received in course of daily business
- ▶ Cheque transactions above \$10,000 through banks
- ▶ Cash Transactions Above \$10,000 in Casinos

Data Matching- Australian Tax Office (ATO)

The ATO matches data with tax returns. Data-matching areas of focus include:

- ▶ omitted interest
- ▶ employment income
- ▶ government payments
- ▶ capital gains tax from the disposal of shares and property
- ▶ employment related income from a foreign source
- ▶ taxable government grants and payments made to contractors in the building and construction industry
- ▶ distributions from partnerships, trusts and managed funds.

- ▶ **ATO** has been analysing cash transactions of many businesses through its data matching programme.
- ▶ **CONNECT** system, HMRC: for persons and entities > searches the hidden link in the form of family relationships, business relationship, legal relationship etc.
- ▶ **HMRC** invested £917 million in 2010 and £77 million in 2012 in the **CONNECT** system. In 2011-12 alone, this investment helped HMRC increase compliance revenue by almost £2 billion
- ▶ **CRA** received over 667,000 income tax and information returns from non-filers during 2013-14 as a result of their actions to ensure compliance. (1.86% of population)

- ▶ Paper on the role played by third parties in tax compliance (Lederman, L. 2007) >>withholding taxes are often effective as it involves third parties in tax payments.
- Amounts subject to withholding and reporting (e.g., wages and salaries) - net misreporting 1.2 per cent.
- Amounts subject to third-party information reporting, but not to withholding (e.g., interest and dividend income) - misreporting 4.5 per cent.
- ▶ IRS: In 2006, **99%** wage & salary subject to information reporting withholding was reported and taxed, while **44%** compliance rate for those subject to little or no information reporting

Pre Filled Returns and Cash Registers

- ▶ **Pre-filled Returns:** In most Nordic countries, third party information acts more as an assisting tool for compliance rather than for penalizing. The tax administration rather than the taxpayer is the originator of tax returns
- ▶ **Cash registers:** With cash, a retailer can hide transactions by not recording it in a point of sales (POS) system.

- ▶ *“Electronic Fiscal Device (EFD) >> technological devices that revenue administrations can use to monitor business transactions. Conformity to technical requirements >> data storage and monitor events.”* (OECD, 2013)
- ▶ More than 35 countries in the world have electronic cash registers (includes Bangladesh, Mexico, Tanzania, etc.)
- ▶ According to law in Albania, each transaction is verified by the tax department as cash registers are connected on-line.
- ▶ Poland ordinance in 2010. It brought lawyers, doctors, tax advisors, physicians, funeral homes, translators, accountants, human resource and recruitment services into the ambit of electronic cash register
- ▶ Brazil: Electronic invoice (NFCe) issued by all retailers for all commercial sales transactions. The invoices with QR code are issued on paper, and can be verified on the treasury website. Consumers can view data on smart phone and tablet.

POSSIBLE SOLUTIONS WAY AHEAD

- ▶ Educating potential taxpayers – what is income and who all are expected to file their return of income:
- ▶ Collection/maintaining list of potential taxpayers and associations/bodies with details of potential taxpayers
- ▶ Streetwise and building wise directory of businesses: Geographical Information Systems (GIS) provide a potential tool to create such a database
- ▶ Comprehensive database- obtain PAN: Professionals, members of all professional institutions, persons engaged in the real estate business and persons applying for various government incentives
- ▶ In the PAN system of the Income Tax Department: Categorizing PAN holders by tax assessment, effective/non-effective

- ▶ There are large number of transactions in AIR and other third party returns where PAN is still not being quoted or is not available. Names and addresses of entities and persons quoted in various transactions may not be the same. Identification and collation of all transactions of a single beneficiary should be done
- ▶ Master Data Management-Data Warehouse – Business Intelligence: MDM products to use third party information transaction data, both with PAN and without PAN. Eg: CONNECT system in UK
- ▶ Have qualified, trained and skilled willing staff that bring about effective and continued implementation > Long tenure.
- ▶ Curb cash transactions> electronic cash registers should be introduced for businesses and professionals. And connect online to the tax department for real time data transfer.

- ▶ Since persons filing Form 60 and 61 enter into commercial or financial transactions are also potential taxpayers, the forms should be structured on the lines of PAN form 49A.
- ▶ To encourage people to obtain a PAN and quote it, non-quoting of PAN should attract TDS at the maximum marginal rate as in Australia and not just 20% as in India
- ▶ Legal provisions for obtaining a PAN, quoting it in prescribed transactions and the reporting back of such transaction details to the ITD should be synchronized.
- ▶ Penal provisions relating to non-quoting and fraudulent quoting of PAN must be enforced and publicized for it to have a salutary effect on other defaulters.
- ▶ Moderate GST rate
- ▶ Lower transaction charges on debit/credit cards

THANK- YOU