

It's not tax rates, but compliance, that irks taxpayers

Simplified procedures which are consistent over the years will result in happy taxpayers

It seems that the Income-tax Department has not realized that computerization and e-filing of tax returns requires much more timely action and accuracy while notifying the various forms. The latest problem faced has been in relation to the format of tax audit reports.

Tax audits are required to be completed by end of September. Most large companies with a number of branches start the process right from April, and get the tax audit of branches completed, which is then compiled and completed for the company as a whole, and thereafter e-filed. This year, the Central Board of Direct Taxes (CBDT) changed the format of the tax audit reports in the last week of July. The new format requires compilation of substantially more information. This would require a fresh audit in cases even where audits have already been completed, and would take much more time. When this was pointed out to the CBDT, the due date for completion of audit and e-filing of the tax audit report was extended—but not the due date for filing of the returns of income.

Computation of income is invariably based on the tax audit reports, and therefore, logically, the income computation required for filing the return of income would not be complete without the tax audit reports. Even when this was pointed out to the CBDT, it refused to extend the due dates for filing the returns of income, resulting in writ petitions being filed all over India. High courts have extended the date, but have also asked taxpayers to pay interest for the delay.

Whose action caused the problem in the first place, and who bears the brunt of such action? Could not the CBDT have simply notified the modified formats in March itself, and saved everybody time and effort, and loss of productive man-hours? Also, should not all the income-tax return forms be readily available by end-March itself, so that taxpayers can file their returns immediately if they so wish?

Unfortunately, taxpayers are taken for granted, and the tax department thinks that taxpayers have no work other than compliance with tax laws. That is why the scope of tax deducted at source (TDS) is so wide; far wider than in any other country. The cost of tax compliance in India is very high. Tax authorities boast about the low cost of tax collection. It is bound to be low, given that most of the work has been outsourced to taxpayers, who have to do all the data entry for the tax department. This attitude of taking taxpayers for granted, with no accountability for the tax department, is one of the major factors impeding business growth in India.

E-tax return forms are also often designed in such a manner that they leave no scope for a taxpayer to make a disputed claim. There are many issues on which courts have taken a view different from that of the tax authorities. The forms have an inbuilt computation mechanism for many such items, whereby a taxpayer has no choice but to follow the tax department's view in filing the return. With e-filing mandatory, a taxpayer wishing to take a contrary view has to find an innovative way of filing the return, so that she can make the claim! Is this a way of maximizing tax collection without having to amend the law?

For instance, for charitable trusts, corpus donations are treated as part of income in the return of income. The matter is before the courts, and quite a few courts and tribunals have taken the view that these are capital receipts and not income.

Similarly, tax treaties provide for a maximum rate of tax for certain types of income of non-resident Indians. Tribunals have held that such rates are inclusive of surcharge and education cess. However, the tax forms automatically compute surcharge and education cess in all such cases, resulting in a higher tax liability.

Here's another instance: the tax authorities have created a dispute as to whether a foreign company, which has only investments in India and has earned exempt capital gains and has otherwise no presence in India, is liable to minimum alternate tax (MAT) on its book profits, though it is not required to maintain books of account in India. The tax returns are often treated as defective if the balance sheet and profit and loss account is not filled up in the return. If this is filled up, it results in an automatic computation of MAT liability, even though the taxpayer wishes to claim that there is none.

Sometimes, the formats of the returns are not at all in accordance with the law. For instance, in the return for charitable trusts, they have to fill in computation under various heads of income, before claiming exemption for the amount spent for charitable purposes, though the law is clear that the exemption precedes the computation under the heads of income. A determinate private trust ends up with computation of tax at maximum marginal rate, as against the slab rates applicable to it. Can one not expect at least these basic things to be correct in the returns put out by the tax department?

Why do the forms have to be modified every year? Formats of tax returns and audit reports are not public secrets. If they have to be changed, why can't the forms be drafted and put up for public comment in January itself? Can they not be finalized by end of March after taking into account public feedback, so that all the problems are sorted out?

The least that taxpayers expect is simplified compliance. Many taxpayers are put off, not by the tax rates, but by the excessive and complicated compliance that they are subjected to. Simplified procedures which are consistent over the years will result in happy taxpayers, and happy taxpayers will hopefully result in better tax collections for the government.

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