



Procedure and Problems of Income Tax Administration in India

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ABSTRACT:

Income tax administration in India, governed by the Law of Taxation, stands as a cornerstone of the nation's fiscal policy, playing a pivotal role in revenue generation and economic development. This research endeavors to unravel the intricate procedures inherent in income tax administration while scrutinizing the challenges embedded within India's broader legal framework of taxation. Rooted in the authority vested by the Indian Constitution, both federal and state governments wield the power to levy taxes, vital for funding diverse initiatives aimed at bolstering the national economy.

Over the past decade, India's tax landscape has undergone significant transformations, marked by rate restructuring, legislative simplification, and revisions to tax slabs, reflecting the nation's adherence to a Liberal Policy stance. Recent economic reforms have ushered in changes such as the adoption of value-added tax, the rationalization of tax structures, corporate tax reductions, and alignment of customs duties with ASEAN standards, fostering improved compliance, enforcement, and ease of tax payment.

This research study sets forth several objectives, including an in-depth analysis of existing income tax administration procedures, a comprehensive assessment of challenges confronting taxpayers, administrators, and policymakers, and the formulation of recommendations to augment the efficiency and efficacy of income tax administration in India. Through a thorough examination of these facets, this study aims to contribute to ongoing dialogues aimed at fortifying India's tax administration framework and fostering sustainable economic growth.

1) Introduction:

The administration of income tax in India, governed by the Law of Taxation, represents a crucial facet of the nation's fiscal policy. This research seeks to dissect the intricate procedures involved in income tax administration and explore the challenges within the broader legal framework of taxation in India. India is a dynamic nation that is always implementing new policies to suit the needs of the people. It has taken this authority from the Indian Constitution, which grants both the federal and state governments the authority to impose taxes. The government receives revenue via the collection of taxes, which is then use for several initiatives aimed at strengthening the national economy.

The tax system has experienced substantial modifications over the last ten years, including restructuring the rates of any specific taxes imposed by the government, simplifying tax legislation for public understanding, and changing the tax slabs for imposition. Following recent economic reforms, India's tax system now reflects the Liberal Policy. A few of the modifications include the introduction of the value added tax, the streamlining of the tax system, the lowering of corporate tax, and the adjusting of customs charges to match ASEAN levels. Better compliance, improved enforcement, and simpler tax payment are the results of these improvements.

2) Objectives of the Study:

This research study aims at achieving the following objectives:

- a) To analyze the existing procedures outlined in income tax administration in India.
- b) To identify and assess the challenges faced by taxpayers, tax administrators, and policymakers in the implementation of income tax regulations.
- c) To propose recommendations for enhancing the efficiency and effectiveness of income tax administration in the Indian context.

3) Hypothesis:

It is hypothesized that a thorough examination of the procedural aspects and challenges within the Law of Taxation will reveal areas for improvement. Addressing these issues can lead to a more efficient, equitable, and transparent income tax administration system in India.

4) Research Questions:

- a) What are the key procedural components of income tax administration in India?
- b) What challenges do taxpayers, tax administrators, and policymakers face in the effective administration of income tax in India?
- c) In what ways can the existing income tax administration system in India be reformed to address identified problems and enhance overall efficiency?

5) Literature Review:

Parthasarathi shome's tax administration reform commission (tarc)¹ recommends

- *Merging the central board of direct taxes (cbdt) with the central board of excise and customs (cbec)*
- *Broadening india's use of the permanent account number (PAN) system*
- *Improving services to taxpayers*
- *Ending retrospective taxation*

TARC made 385 recommendations out of which 291 recommendations are relating to CBDT and 253 to CBEC

Also, Taxmann's Principles of Taxation Laws aid with and facilitate a better understanding of the procedures and issues related to tax administration in India, the book is full with interpretations, explanations, and illustrations. It functions as a thorough manual on income taxes. It simplifies the many ideas and the intricacies of income tax law without sacrificing the level of comprehension needed.

6) ANALYSIS OF RESEARCH QUESTIONS

A) WHAT IS THE KEY PROCEDURAL COMPONENTS OF INCOME TAX ADMINISTRATION IN INDIA?

Income tax is the amount of tax paid on the entire income earned by an individual in the previous year. It is the tax that the government levies on the money that people and companies make. Income taxes are the main source of funding for governments. They are utilized to supply citizens with goods and pay for public finance services and government obligations.

I. ENTITIES RESPONSIBLE FOR ADHERING TO THE INDIAN INCOME TAX LAWS ARE:

- People because personal income tax is a type of income tax that is levied on earnings from wages, salaries, and other sources. And,
- Small businesses, partnerships, corporations, and independent contractors are all liable to business income taxes.

These taxes are a vital source of income for the economy because of our progressive tax system, it contributes to the preservation of social equality and the Indian government depends heavily on them for funding.

II. POWER TO LEVY TAXATION LAWS IN INDIA

Entry 82 of the Union List of Schedule VII of the Indian Constitution grants the Central Government the authority to tax all revenues, except for income from agriculture. As stated in entry 46 of the State List of the schedule VII, the State Government is authorized to impose taxes on agricultural revenue.

III. KEY PROCEDURAL COMPONENTS OF INCOME TAX ADMINISTRATION IN INDIA

The key procedural components that govern the Income Tax Administration in India are as follows:

1. The Income Tax Act 1961:

The Income Tax Act of 1961 is a legislation in India that regulates the imposition, administration, collection, and recovery of income tax. Enacted in 1961 and enforced from April 1, 1962, the Act consists of 298 sections and 14 schedules. It serves as a comprehensive guide for determining taxable income, calculating income tax liability, addressing appeals, imposing penalties, and prosecuting taxpayers. The government regularly amends the Act, typically through annual amendments in the budget.

2. Income Tax Rules 1962:

Supplementing the Income Tax Act of 1961, the Income Tax Rules, effective from April 1, 1962, provide crucial support. The Central Board of Direct Taxes (CBDT) holds the authority to modify Income Tax Laws. For instance, Clause 13A of Section 10 establishes a maximum limit on House Rent Allowance, while Rule 2A in the Income Tax Rules 1962 outlines the method for calculating this limit.

3. The Finance Act:

¹ TARC 2013

Subject to annual changes, the Finance Act is introduced in Parliament by the Finance Minister. It proposes alterations to Direct and Indirect Taxes, becoming the Finance Act upon approval by both houses and the President's signature. Divided into four parts, it establishes income tax rates, source tax rates, outlines changes in tax rates for specific circumstances, and explains rules for determining agricultural revenue.

4. Government Notifications:

Under the authority granted by the Income Tax Act, the Central Government issues notifications on various aspects. These notifications, issued by the Ministry of Finance, cover exemptions related to employee payments, including allowances, pensions, cost inflation, leave encashment, long-term capital gains index, and interest exemption on specific securities.

5. Circulars:

To eliminate ambiguity and enhance clarity in the Income Tax Act, the Central Board of Direct Taxes (CBDT) issues circulars. These circulars offer interpretations and guidelines, and individuals should stay informed about the latest circulars to understand and comply with the Income Tax Act effectively.

6. Court Decisions (Judicial Pronouncements):

Decisions from the Supreme Court, High Court, and Tribunals provide crucial resolutions in case of disputes related to the Income Tax Rules 1961. Supreme Court judgments are binding on all courts, authorities, agencies, and assesses. In the case of conflicting judgments, decisions by larger benches take precedence. High Court decisions are binding on tribunals, income tax authorities, and assesses within their jurisdiction.

Some of the recent prominent precedents on various aspects of Income Tax are:

*DCIT, New Delhi vs M/S. L.T. Foods Ltd*² Supreme Court has held that Automatic vacation of stay granted by ITAT after the expiry of 365 days is unconstitutional. The automatic vacation is granted even if the assessee is not responsible for the delay caused in hearing the appeal. Such object is being discriminatory and is liable to be struck down as violating Article 14 of the Constitution of India.

In the case of *CIT v. Reliance Telecom Ltd*³. The Supreme Court held that the order passed by the ITAT recalling its earlier order is beyond the scope and ambit of the powers under Section 254(2) and rules that ITAT has no power to recall its order even if submissions were filed on merits. In exercise of powers under Section 254(2), the ITAT may amend any order passed by it to rectify any mistake apparent from the record only. The Tribunal cannot revisit its earlier order and go into detail on merits.

B) WHAT CHALLENGES DO TAXPAYERS, TAX ADMINISTRATORS, AND POLICYMAKERS FACE IN THE EFFECTIVE ADMINISTRATION OF INCOME TAX IN INDIA?

Several challenges are encountered by taxpayers, tax administrators, and policymakers in the effective administration of income tax in India. Some of these challenges include

I. CHALLENGES FACED BY TAX PAYERS

- **Complexity of Tax Laws:**

Taxpayers struggle with the intricate nature of income tax laws, finding it challenging to comprehend and comply with the complex provisions.

- **High Compliance Burden:**

Taxpayers bear a significant burden in terms of documentation, filing requirements, and adherence to deadlines, leading to time-consuming processes and potential reliance on professional assistance.

- **Uncertainty and Ambiguity:**

Taxpayers face uncertainties related to frequent amendments, ambiguous tax implications in certain transactions, and a lengthy dispute resolution process, impacting financial planning and compliance.

- **Technological and Educational Challenges:**

Challenges related to technology adoption, especially for SMEs and individuals in rural areas, hinder seamless compliance. Additionally, a lack of taxpayer education contributes to difficulties in understanding rights, obligations, and available deductions. Also, individuals and businesses operating in the informal economy may face difficulties transitioning to the formal sector and complying with income tax regulations. This poses challenges for tax administrators in bringing these entities into the tax net

- **Frequent Amendments:**

² 2020 (ITA No.4046/Del/2013)

³ CIT v. Reliance Telecom Ltd 2020

The income tax laws in India undergo frequent amendments, sometimes on an annual basis. Keeping up with these changes poses a challenge for taxpayers, and they may find it difficult to stay informed about the latest regulations.

II. CHALLENGES FACED BY TAX ADMINISTRATORS

In India, tax administration is carried out by various authorities at different levels. The major tax administration authorities in India include:

- Central Board of Direct Taxes (CBDT)
- Income Tax Department
- Goods and Services Tax Council (GST Council)
- Central Board of Indirect Taxes and Customs (CBIC)
- Goods and Services Tax Network (GSTN)
- Customs Department:
- State VAT Departments
- State Excise Departments
- Tax Tribunals (ITAT)(GSTAT)

These authorities work together to ensure the effective administration of both direct and indirect taxes in India. The structure and responsibilities of these authorities may evolve with changes in tax laws and administrative reforms. The major challenges faced by these authorities are:

Tax Evasion and Avoidance:

Tax administrators grapple with the persistent issue of taxpayers engaging in evasion or avoidance practices. Identifying and addressing these instances to ensure fair and accurate tax collection is a constant challenge.

Technology and Infrastructure:

Outdated technology and inadequate infrastructure can hinder the efficiency of tax administration processes. Adopting modern technology for data management, e-filing, and online verification is crucial for enhancing operational effectiveness.

Complex Legal Procedures:

Lengthy and complex legal procedures contribute to a backlog of tax-related disputes. Simplifying dispute resolution mechanisms and ensuring a timely resolution of cases are challenges for tax administrators.

Informal Economy and Non-Compliance:

Bringing entities from the informal economy into the formal tax net poses difficulties. Tax administrators face challenges in ensuring compliance, especially from small and medium-sized enterprises (SMEs) and those operating in the informal sector.

III. CHALLENGES FACED BY POLICYMAKERS

Policy makers in India encounter several challenges in ensuring the effective administration of income tax. These challenges can be categorized into four main areas:

• Tax Law Complexity and Simplification:

Balancing the intricacies of income tax laws, ensuring clarity for taxpayers, and simplifying regulations while maintaining effectiveness.

• Combatting Tax Evasion and Avoidance:

Developing and implementing strategies to address evolving tax evasion and avoidance practices, promoting compliance, and ensuring a fair tax system.

• Balancing Revenue and Economic Growth:

Striking a balance between revenue collection goals and fostering economic growth, encouraging investment, and job creation through tax policies.

• Technology Integration and Global Challenges:

Addressing challenges related to technology adoption, data security, international taxation, and ensuring equitable taxation in the context of globalization.

Effectively navigating these challenges requires a comprehensive and strategic approach by policymakers, involving collaboration with tax administrators, stakeholders, and the public. Regular evaluations of tax policies, reforms, and adjustments based on feedback and changing circumstances are essential for a robust and dynamic income tax administration system.

C) IN WHAT WAYS CAN THE EXISTING INCOME TAX ADMINISTRATION SYSTEM IN INDIA BE REFORMED TO ADDRESS IDENTIFIED PROBLEMS AND ENHANCE OVERALL EFFICIENCY?

Reforming the existing income tax administration system in India requires a multi-faceted approach. Here are several potential ways to address identified problems and enhance overall efficiency:

1. **Simplify Tax Laws and Procedures:**
 - Streamline and simplify income tax laws to enhance clarity for taxpayers.
 - Encourage online compliance through user-friendly platforms.
2. **Leverage Technology for Efficiency:**
 - Invest in advanced technology for tax administration, including online systems, data analytics, and artificial intelligence.
 - Use data analytics for risk profiling to identify and address areas of non-compliance proactively.
3. **Promote Taxpayer Education and Awareness:**
 - Conduct extensive awareness and education programs to inform taxpayers about their rights, obligations, and available deductions.
4. **Strengthen Compliance and Dispute Resolution:**
 - Implement measures to bring entities from the informal economy into the formal tax net.
 - Strengthen international cooperation on tax matters to address challenges related to transfer pricing and profit shifting.
5. **Encourage Positive Taxpayer Behavior:**
 - Foster a positive perception of taxation through public awareness campaigns.
 - Introduce incentive mechanisms for compliant taxpayers to encourage voluntary adherence to tax regulations.

Implementing these reforms will require a coordinated effort between policymakers, tax administrators, and other stakeholders. Continuous monitoring and evaluation of the effectiveness of these measures will be essential for ongoing improvement in the income tax administration system in India.

7.CONCLUSION

Due to Multiplicity of taxes, there is unhappiness among citizens of India regarding tax structure. Taxes by Union Government, State Governments and the local governments have resulted in difficulties and harassment to the taxpayer. The Tax System has failed to stop tax evasion and curb the growth of parallel economy. White paper issued by Indian government on black money in 2012 tells that parallel economy exist the same amount of Indian GDP. Therefore, though the current tax structure is good but it is far from being ideal and still it has many more changes to be made to see that there are no loopholes in the system.

Effectively navigating the analysed challenges requires a comprehensive and strategic approach by policymakers, involving collaboration with tax administrators, stakeholders, and the public. Regular evaluations of tax policies, reforms, and adjustments based on feedback and changing circumstances are essential for a robust and dynamic income tax administration system.

The researcher has thus, conclude that the hypothesis stands proved that a thorough examination of the procedural aspects and challenges within the Law of Taxation will reveal areas for improvement. Addressing these issues can lead to a more efficient, equitable, and transparent income tax administration system in India.

8.REFERENCES

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II. WEBSITES & e-LIBRARIES:

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