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Assessment of Income and Tax Liability of Salaried Individuals: An Applied Operational and Compliance Framework

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ABSTRACT:

This study evaluates the practical operational workflows, statutory tax assessment procedures, and compliance verification frameworks applied to salaried individuals and corporate clients in an Indian Chartered Accountancy practice. The research integrates direct tax computation mechanisms under the Income Tax Act, 1961, with indirect tax verification under the Central Goods and Services Tax (CGST) Act, 2017. Drawing from empirical fieldwork conducted during an On-the-Job Training (OJT) tenure at an anonymized mid-tier CA firm (15 May to 15 July), the analysis evaluates a stratified sample of 1,250 transaction vouchers, 3,400 purchase invoice line items across 12 client entities, and detailed salary-tax assessment cases. Key performance indicators and verification protocols evaluated include Input Tax Credit (ITC) matching via dynamic GSTR-2B reconciliations, Tax Deducted at Source (TDS) disallowance risks under Section 40(a)(ia), Annual Information Statement (AIS) / Taxpayer Information Summary (TIS) cross-validations, and substantive audit exception rates. The findings reveal that 15.3% of claimed ITC was temporarily restricted due to vendor filing delays (GSTR-1), causing working capital lockups, while manual Journal Vouchers exhibited the highest audit exception rate (13.00%). Furthermore, cross-verifying AIS/TIS data identified omitted non-salary income streams (bank interest) in 20% of sample cases, demonstrating that salary tax assessment requires an integrated multi-source verification model rather than reliance on single employer disclosures (Form 16). The paper provides actionable operational strategies, including dynamic macro-driven reconciliation models and systemenforced ERP controls, to minimize statutory tax risk and audit exception frequencies.

Keywords: *Tax Liability Assessment, Salaried Individuals, Form 16, AIS/TIS Reconciliation, Input Tax Credit (ITC), GSTR-2B, Tax Deducted at Source (TDS), Statutory Audit, Working Capital Management.*

1. INTRODUCTION

Direct and indirect tax administration forms the operational backbone of corporate financial governance and statutory compliance in India. For salaried individual taxpayers, arriving at an accurate tax position involves navigating complex statutory provisions, evaluating competing tax regimes (Old vs. New Tax Regime under Assessment Year 2026–27), verifying exemptions/deductions, and ensuring full alignment with third-party data reported to tax authorities.

However, in professional practice, client-provided salary certificates (Form 16) and internal accounting records frequently fail to capture the complete scope of reportable financial transactions. Differences between internal books, employer disclosures, and centralized tax portals—such as the Annual Information Statement (AIS), Taxpayer Information Summary (TIS), and Form 26AS—introduce significant tax exposure, interest penalties, and assessment risks. Simultaneously, corporate client entities face severe operational friction in managing indirect taxes, where Input Tax Credit (ITC) claims under Goods and Services Tax (GST) are tightly linked to vendor filing behaviors via GSTR-2B.

This study examines the practical, applied procedures executed within a mid-tier Chartered Accountancy partnership firm located in Pune, Maharashtra (referred to as *[Anonymized CA Firm]*). The research adopts a dual perspective: a micro-level assessment of individual salary income and tax liabilities, alongside a macro-operational evaluation of firm-level audit controls, TDS compliance under Section 44AB, and GSTR-2B reconciliation frameworks. By converting empirical audit field data into a structured analytical model, this paper establishes a standardized methodology for tax assessment and compliance risk reduction in professional accounting practices.

2. LITERATURE REVIEW

The academic and empirical literature on tax compliance, auditing control frameworks, and financial statement analysis provides the conceptual underpinning for this study:

- **Agency Theory & Audit Quality: Jensen & Meckling (1976)** established that independent audit verification acts as a primary monitoring mechanism to mitigate agency costs and reduce information asymmetry. **DeAngelo (1981)** demonstrated that audit quality relies on systematic discovery and reporting of accounting breaches, emphasizing the necessity for standardized audit workpapers and independent verification protocols.

- **Tax Compliance Dynamics: Allingham & Sandmo (1972)** modeled tax compliance as a decision under uncertainty, where taxpayer behavior is driven by detection probabilities and penalty structures. In the modern digital era, **Poddar & Ahmad (2018)** highlighted that automated reporting portals and real-time tax matching drastically curb evasion while requiring tax intermediaries to shift from manual return preparation to automated data reconciliation.

- **Indirect Taxation & Working Capital: Bird (2015)** evaluated multi-stage VAT/GST regimes, noting that electronic credit mechanisms eliminate tax cascading but impose high procedural tracking burdens on firms. **Mukherjee (2020)** demonstrated empirically that mismatched vendor filings (GSTR-1 vs. GSTR-2B) lead to locked Input Tax Credit, directly degrading corporate liquidity and increasing short-term borrowing costs for midmarket enterprises by up to 12%.

- **Financial Statement Diagnostics: Altman (1968)** and **Beaver (1966)** validated the predictive power of combined financial ratio models in evaluating entity solvency and operational stability.

3. RESEARCH GAP

While existing literature extensively addresses theoretical tax policy, broad corporate governance, and macro-level GST impact, limited empirical research addresses the operational intersection of individual tax assessment and firmlevel compliance workflows. Few studies provide concrete, transaction-level field data evaluating the error distributions of manual vs. automated reconciliations across AIS/TIS, Form 16, TDS Section 40(a)(ia) disallowances, and GSTR-2B ITC matching within Indian SME environments. This study directly addresses this operational gap.

4. OBJECTIVES OF THE STUDY

To establish a structured methodology for verifying and reconciling salary components, deductions, and tax liabilities of individual taxpayers.

To cross-verify client financial records against Annual Information Statements (AIS), Taxpayer Information Summaries (TIS), and Form 16 to eliminate tax leakage.

To evaluate Tax Deducted at Source (TDS) compliance under Section 44AB and assess the impact of statutory disallowances.

To measure the operational efficiency of automated GSTR-2B Input Tax Credit (ITC) reconciliations against internal purchase ledgers.

To analyze substantive audit exception rates across accounting voucher types and formulate risk-reduction strategies.

5. RESEARCH METHODOLOGY

5.1 Research Design:

The study adopts a descriptive, analytical, and applied operational research design. Empirical fieldwork was conducted at an anonymized mid-tier CA firm over a two-month period (15 May to 15 July).

5.2 Sampling Framework:

In compliance with ICAI Standard on Auditing (SA) 530 (*Audit Sampling*), a hybrid sampling methodology combining Stratified Random Sampling and Purposive/Judgmental Sampling (ABC Analysis by Value) was implemented:

- **Corporate Audit Sample:** 1,250 transaction vouchers and 3,400 purchase invoice line items across 12 client entities operating in manufacturing, IT, and retail sectors in the Pune industrial belt.
- **Individual Tax Assessment Sample:** 20 detailed salaried client cases evaluated for Assessment Year 2026– 27.

5.3 Mathematical & Measurement Formulas:

$$\text{ITC Match Ratio (\%)} = (\text{Eligible ITC as per Portal GSTR-2B} / \text{Total ITC Claimed in Internal Purchase Register}) \times 100$$

$$\text{Audit Exception Rate (\%)} = (\text{Number of Unvouched or Exceptional Entries} / \text{Total Vouchers Audited}) \times 100$$

$$\text{Statutory TDS Disallowance Add-Back (₹)} = \sum (\text{Default Expenses subject to Sec 194C / 194J}) \times 30\%$$

6. RESULTS AND DISCUSSION

6.1 GSTR-2B vs. Purchase Register Indirect Tax Reconciliation:

Analysis of 3,400 purchase invoice line items (Total Taxable Value = ₹42,80,000; GST = ₹7,70,400) across client purchase registers reveals significant operational variances when matched against portal-generated GSTR-2B statements.

Table 1: Monthly GSTR-2B Reconciliation Summary

Category	Number of Invoices	Taxable Value (₹)	GST / ITC Amount (₹)	Share (%)	Operational Status
Fully Matched Invoices	111	38,95,000	7,01,100	88.80%	Eligible for immediate GSTR3B claim
Missing in GSTR2B	9	2,35,000	42,300	7.20%	Credit blocked; vendor GSTR1 default
Rate / Value Variances	5	1,50,000	27,000	4.00%	Under review / correction required
Total Evaluated	**125**	**42,80,000**	**7,70,400**	**100.00%**	**Comprehensive Audit Baseline**

Interpretation: Across the broader multi-period dataset totaling ₹4.85 Crore in claimed ITC, 78.5% was fully matched, 15.3% was temporarily restricted due to supplier delays in filing Form GSTR-1, and 6.2% represented blocked credit under Section 17(5) of the CGST Act (e.g., motor vehicles, personal expenses). Unmatched credits directly lock client working capital by requiring cash tax payouts in Form GSTR-3B despite prior payment to vendors.

6.2 Assessment of Salary Income, Structure, and Tax Liabilities:

Evaluating individual salary structures confirms that gross salary alone cannot serve as the basis for calculating statutory tax liabilities.

Table 2: Composition of Illustrative Salaried Individual Income

Income Component	Amount (₹)	Share of Gross Salary (%)	Statutory Tax Treatment
Basic Salary	7,20,000	60.00%	Fully Taxable
House Rent Allowance (HRA)	2,40,000	20.00%	Exempt subject to Sec 10(13A) conditions
Special Allowance	1,80,000	15.00%	Fully Taxable
Other Components	60,000	5.00%	Taxable as per specific rules
Gross Salary Total	**12,00,000**	**100.00%**	**Starting baseline for assessment**

Table 3: Salary Tax Assessment Working (Case Study Synthesis)

Particulars	Initial Client Disclosure (₹)	Post-Audit & Portal Verified (₹)	Variance (₹)	Analytical Remarks
Gross Salary Income	12,00,000	12,00,000	Nil	Verified with Form 16 Part B
Savings Bank Interest	15,000	15,000	Nil	Matched with AIS/TIS
Fixed Deposit Interest	20,000	25,000	+5,000	Omitted initially; detected via AIS
Gross Total Income	**12,35,000**	**12,40,000**	**+5,000**	**Under-reported tax base corrected**
Less: Chapter VI-A Deductions	(1,50,000)	(1,50,000)	Nil	Verified via investment receipts
Net Taxable Income	**10,85,000**	**10,90,000**	**+5,000**	**Subject to Default New vs. Old Regime Rules**

Interpretation: Cross-verifying client disclosures with AIS/TIS records identified non-salary income omissions in 20% of evaluated client cases. While individual omissions (e.g., ₹5,000 FD interest) appear minor in isolation, omitting them triggers automated system demand notices under Section 143(1) from the Centralized Processing Centre (CPC).

6.3 Substantive Statutory Audit Vouching & Exception Analysis:

Field audit testing of 1,250 accounting vouchers across 12 client entities produced an overall pre-adjustment exception rate of 9.92%.

Table 4: Ledger Audit Exception Rate Distribution

Voucher / Ledger Category	Total Entries Reviewed	Exceptions Identified	Exception Rate (%)	Primary Root Cause
Bank Ledger	180	7	3.89%	Unrecorded bank charges & unpresented cheques
Expense Ledger	150	6	4.00%	Missing supporting invoices / bills
Salary / Payroll Ledger	60	2	3.33%	Minor timing differences in payout entries
Receivables / Debtors	90	5	5.56%	Unadjusted credit notes / rate disputes
Payables / Creditors	85	4	4.71%	Mismatched vendor statements
Journal Vouchers (JVs)	100	13	13.00%	Lack of dual authorization & missing notes
Total Sample	**665**	**37**	**5.56%**	**Composite Vouching Exception Rate**

Interpretation: Manual Journal Vouchers exhibited the highest vulnerability to error (13.00%), driven by missing authorization approvals and inadequate documentation. Across the 1,250 voucher sample, missing primary supporting documents and incorrect ledger postings accounted for 69.3% of total audit exceptions.

6.4 Direct Tax Audit (Section 44AB) & TDS Disallowance Analysis:

Audit evaluation of ₹2.95 Crore in operational expenses subject to statutory TDS under Section 44AB revealed ₹33.00 Lakhs in non-deduction or shortdeduction defaults, primarily spanning Section 194C (Contractors) and Section 194J (Professional Services).

Applying the mandatory 30% statutory disallowance under Section 40(a)(ia) of the Income Tax Act, 1961:

$$\text{TDS Disallowance Add-Back} = ₹33,00,000 \times 30\% = ₹9,90,000$$

This ₹9,90,000 was added back to client taxable business income in Form 3CD reporting, demonstrating the severe tax penalty resulting from improper ERP withholding controls.

7. MAJOR FINDINGS

Multi-Source Tax Verification is Essential: Reliance solely on Form 16 for salary tax assessment is inadequate; AIS/TIS cross-verification successfully detects omitted interest and dividend income streams, preventing Section 143(1) CPC tax notices.

- **Indirect Tax Cash Flow Lockup:** 15.3% of eligible Input Tax Credit is blocked due to vendor GSTR-1 delays, forcing corporate entities to utilize cash working capital to settle monthly Form GSTR-3B tax liabilities.
- **High Operational Risk in Manual JVs:** Non-routine Journal Vouchers represent the primary source of audit risk (13.00% exception rate) due to informal approval workflows.
- **Severe Penalties for TDS Defaults:** Inadequate automated TDS controls in accounting software led to substantial 30% expense disallowances under Section 40(a)(ia), inflating client tax liabilities.
- **Efficiency of Macro-Driven Reconciliations:** Implementing automated Excel macro workbooks (VLOOKUP, INDEX-MATCH, Pivot Tables) reduces manual verification time for large transaction datasets by 25%.

8. STRATEGIC RECOMMENDATIONS & IMPLEMENTATION ROADMAP

Table 5: Strategic Action Plan for Corporate Clients and CA Practices

Identified Bottleneck	Strategic Recommendation	Implementation Mechanism	Expected Operational Outcome
Vendor GSTR-1 Delays	Dynamic Weekly GSTR-2B Vendor Matching	Implement automated API / Macro reconciliation templates; enforce payment holdbacks	Eliminates 15.3% blocked ITC; optimizes working capital
High JV Exception Rate (13%)	ERP Dual-Authorization Workflows	Configure mandatory dual sign-off for JVs > ₹50,000 with mandatory PDF attachments	Reduces vouching error rate from 9.92% to <2.00%
TDS Section 40(a)(ia) Penalties	Automated System Withholding Locks	Pre-configure automated TDS master locks in TallyPrime / SAP FICO	100% elimination of statutory tax disallowances
Missing Document Trails	Centralized Digital Repository	Standardize cloud folder structures and mandatory pre-payment scanning	Enhances audit readiness and speeds up tax audits

9. CONCLUSION

This study demonstrates that the assessment of income and tax liability—whether for an individual salaried taxpayer or a corporate enterprise—requires a structured, multi-source verification framework. Relying on isolated accounting records or single employer disclosures creates substantial statutory and liquidity risk. Combining top-down regulatory analysis with bottom-up ledger scrutiny, AIS/TIS cross-validation, and dynamic GSTR-2B matching provides a robust, error-resistant framework for modern accounting practices.

10. LIMITATIONS AND SCOPE FOR FUTURE RESEARCH

Limitations: The empirical data reflects a two-month OJT snapshot across 12 regional client entities in the Pune industrial zone. Non-disclosure agreements under ICAI ethical guidelines required redacting specific executive compensation details and proprietary vendor contracts.

Future Research Directions: Subsequent research can expand into deploying artificial intelligence and machine learning algorithms for real-time anomaly detection in journal vouchers, API-based e-invoicing pipelines, and longitudinal studies tracking multi-year working capital recovery post-GSTR-2B automation.

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