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Individual Income Tax Compliance in India: Return Preparation, Data Reconciliation and Regime Selection — Evidence from an On-the-Job Training Study

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A B S T R A C T :

The digitisation of India's direct-tax administration has made individual income-tax compliance more transparent, but it has also shifted greater responsibility onto taxpayers and advisers to report accurately and to reconcile information across multiple official sources. This paper examines how individual income-tax returns (ITR-1 and ITR-2) are prepared and filed in a technology-enabled professional advisory setting. It draws on a ten-week on-the-job training (25 May to 3 August 2026) in which approximately 50 individual client cases were managed from allocation to closure. Using a descriptive, practice-based methodology, the study documents the end-to-end filing workflow, analyses the taxation of salary, house property, capital gains, equity-based compensation and foreign income, and evaluates the practical significance of the old versus new tax regimes. The findings indicate that (i) document completeness and multi-source reconciliation are the most critical determinants of filing quality, (ii) regime selection cannot be inferred from gross income alone, (iii) equity-compensation and foreign-income cases create recurring technical and cash-flow risks, including advance-tax interest, and (iv) software improves efficiency but does not substitute for professional judgement. The paper concludes with process recommendations for advisory practices and for finance students entering tax-advisory roles.

Keywords: individual income tax; ITR filing; tax regime selection; reconciliation; AIS and Form 26AS; equity compensation; foreign tax credit; tax advisory

Introduction

Direct taxation is a significant source of public revenue in India, and its administration has changed substantially through the Income Tax e-Filing portal, pre-filled returns, the Annual Information Statement (AIS), the Taxpayer Information Summary (TIS) and Form 26AS. These tools improve transparency, yet pre-filled or system-generated data may be incomplete or inconsistent with a taxpayer's actual circumstances. As a result, the preparation of a return has evolved from a clerical exercise into a structured financial review of income, investments and, increasingly, cross-border exposures.

This paper studies that shift from a practitioner's vantage point. It combines the statutory framework of the Income-tax Act, 1961 with the workflow observed during a supervised on-the-job training (OJT) in the direct-tax advisory function of a technology-enabled tax-services firm in Pune. The study asks how individual returns are actually prepared and filed, where errors and delays arise, and how advisers can reduce compliance risk.

The paper is organised as follows. Section 2 provides the sector and theoretical background. Section 3 states the objectives. Section 4 describes the methodology and workflow. Section 5 presents findings and analysis. Section 6 discusses implications. Section 7 covers challenges and limitations. Section 8 offers recommendations, and Section 9 concludes.

1. Background and Theoretical Framework

1.1. Sector context

Indian individual tax compliance has moved through distinct phases, summarised in Table 1. Each phase has increased the importance of data validation and, with it, demand for professional advisory support.

Table 1 - Evolution of tax administration and its effect on tax consultancy

Period	Major development	Impact on consultancy
Before 2010	Manual filing and documentation	Reliance on manual records
2010–2016	Expanded electronic filing	Faster processing of claims and refunds
2017–2020	Greater digital integration and reporting	Increased attention to validation and reconciliation

Period	Major development	Impact on consultancy
2021 onwards	AIS, TIS, faceless assessments	Shift from simple compliance towards technology-enabled advisory

The retail tax-advisory market is shaped by a growing population of salaried and investing taxpayers, wider ownership of foreign and equity-linked assets, frequent legislative amendments and tight filing deadlines. A Porter's Five Forces assessment indicates moderate threat of new entrants (professional credentials act as a barrier), high client bargaining power (self-service tools and online providers are available), low supplier power, moderate threat of substitutes and high industry rivalry among Chartered Accountancy practices, boutique advisers and online platforms. Regulatory oversight rests with the Ministry of Finance, the Central Board of Direct Taxes (CBDT) and the Income Tax Department.

1.2. Statutory framework

Under the Income-tax Act, 1961, total income is classified under five heads: salary, house property, profits and gains of business or profession, capital gains, and income from other sources. Residents must report global income, including foreign salary, investment income and foreign assets (Schedule FA), and may claim relief from double taxation under Section 90 read with the applicable Double Taxation Avoidance Agreement (DTAA). Taxpayers may compute liability under the old or the new regime, whose outcomes depend on deductions, exemptions and income composition.

1.3. Key technical concepts

Capital gains on listed equity (Section 112A). Long-term gains on listed equity shares and equity-oriented mutual-fund units (held more than twelve months, STT paid) are taxed at 12.5% on gains exceeding ₹1,25,000 in a financial year for transfers on or after 23 July 2024. For units acquired before 31 January 2018, the cost of acquisition is the higher of actual cost and the lower of fair market value on 31 January 2018 and the sale consideration (grandfathering).

Equity-based compensation. RSUs, ESPPs and ESOPs are taxed in two stages. At vesting, purchase or exercise, the fair market value (less any amount paid by the employee) is taxed as a perquisite under Section 17(2) and added to salary. On later sale, capital gain is computed with that taxed value as the cost of acquisition. For foreign shares, a holding period of more than 24 months is long-term; the 12-month threshold applies only to listed Indian equity.

Foreign Tax Credit (FTC). Under Section 90 and the relevant DTAA, credit is allowed for foreign tax paid on income also taxed in India, limited to the lower of the foreign tax paid and the Indian tax attributable to that income. The claim is supported by Form 67.

Advance-tax interest (Sections 234B and 234C). Simple interest of 1% per month (or part of a month) applies to shortfalls in advance tax and in quarterly instalments. Perquisite and capital-gains income that falls outside routine payroll TDS makes such shortfalls common.

1.4. Process framework

The workflow studied can be represented as a control cycle in which each stage has an explicit check (Table 2). The framework implies that technically correct computation is necessary but not sufficient; it must be embedded in a disciplined, reviewable process.

Table 2 - Control cycle for return preparation

Input	Processing	Control	Output
Client data and documents	Data entry and computation	Review and reconciliation	Computation
Computation	Regime comparison	Tax-rule check	Final tax position
Final tax position	Return preparation	Form verification	ITR
ITR	Digital submission	Status check	Acknowledgement

Objectives

1. To map the end-to-end process of individual income-tax compliance, from onboarding and document verification to computation, review and filing.
2. To examine the practical application of the Income-tax Act, 1961 to salary, house property, capital gains, equity-linked compensation and foreign income.
3. To assess how the old and new tax regimes affect the return-preparation decision.
4. To identify operational risks and the process controls that mitigate them.
5. To derive recommendations for advisory practices and for students entering tax-advisory roles.

Methodology

1.5. Research design

The study is descriptive and practice-based. Primary insights come from direct participation as a tax intern: client interaction, document review, computation, reconciliation and filing. Secondary information was drawn from official Income Tax Department sources, the Income-tax Act and Rules, and standard taxation texts. The study is conducted within one advisory function and is not a statistical survey.

1.6. Scope and data

The training ran from 25 May to 3 August 2026. The intern handled approximately 50 individual client cases, primarily ITR-1 and ITR-2, spanning resident individuals, senior citizens, professionals and eligible non-residents. All client-level information was aggregated and anonymised; no client-identifying data are reported, and all worked figures in this paper are hypothetical illustrations.

1.7. Workflow and tools

Training proceeded in three phases: (1) a theoretical foundation covering heads of income, regime slabs, deductions, residential status, advance tax and ITR forms; (2) supervised practice re-computing closed cases from the previous year and comparing results with filed figures; and (3) live case handling. Each case followed the lifecycle in Table 3.

Table 3 - Client case lifecycle and intern involvement

Stage	Activity	Intern's role
Allocation	Assignment of taxpayer	Understanding the client profile
Onboarding	Initial document request	Sending checklist and following up
Verification	Reviewing financial documents	Document validation
Computation	Preparing tax working	Software computation and spreadsheet workings
Review	Senior verification	Addressing review comments
Client discussion	Clarifications and confirmation	Communication and follow-up
Filing	Return preparation and submission	Assisting in finalisation
Closure	E-verification and record completion	Documentation and status update

Computation used a professional tax-computation package (Winman CA-ERP), supplemented by spreadsheets for FIFO lot-matching, foreign-exchange conversion and regime comparison, and by an in-house AI-assisted platform for equity-compensation, capital-gains and AIS/TIS reconciliation modules. Cases were tracked through a CRM system with a status timeline (Case Created, Documents Pending, In Progress, Pending Review, QC Approved, Computation Reviewed, Proceed to Filing, E-filed, EVC Done). Quality control followed a layered sequence: Preparation, Self-Review, Senior Review, Corrections, Final Validation and Filing.

Findings and Analysis

1.8. Document collection and reconciliation

Each case began with client financial profiling (employment, residency, income sources, investments, property, foreign assets, TDS and prior filings), since the nature of income determines the applicable form. Documents were collected against a category checklist (identity, employment, banking, investments, house property, capital markets and foreign income) and then checked for completeness, accuracy and relevance. Reconciliation was the most analytical step (Table 4).

Table 4 - Reconciliation sources and purpose

Source	Verified against	Purpose
Form 16	Salary slips	Salary validation
AIS	Bank and investment records	Income verification
TIS	Supporting documents	Data consistency
Form 26AS	TDS certificates	Tax-credit verification
Brokerage statements	Capital-gains working	Investment reporting

1.9. Income-head analysis

Salary. Computation required analysis of basic pay, HRA, allowances, bonus, perquisites, employer retirement contributions, professional tax, the standard deduction and TDS, rather than transcription from Form 16. Old-versus-new regime comparison was performed frequently to identify the lower-tax option.

House property. Self-occupied and let-out properties required verification of loan certificates, rent agreements and municipal tax receipts, with interest deduction and loss treatment applied as applicable.

Capital gains. Work involved determining acquisition and transfer dates, holding period, cost and consideration, and classifying gains under Sections 111A and 112A. A recurring task was matching mutual-fund redemptions to purchase lots on a FIFO basis using consolidated account statements.

Equity compensation. Cases involving RSUs, ESPPs and ESOPs gave the greatest exposure to cross-border taxation, because supporting data originate in foreign brokerage or administrator systems rather than payroll. A frequent client misconception was that the perquisite-then-capital-gain structure amounts to double taxation; in fact the taxed perquisite becomes the cost basis.

Hypothetical illustration. Suppose 100 RSUs vest at USD 120 per share when the applicable rate is ₹84.00. The perquisite is 100 × 120 × 84 = ₹10,08,000, added to salary. If the shares are sold about five months later at USD 145 and a rate of ₹85.50, sale consideration is ₹12,39,750 and the capital gain is ₹2,31,750, which is short-term and taxed at slab rates because foreign shares are not eligible for Section 111A.

Foreign income and FTC. Foreign salary, dividends, brokerage accounts and taxes paid required document scrutiny, Schedule FA disclosure and Form 67 preparation.

Hypothetical illustration. With taxable income of ₹42,00,000 and Indian tax of ₹10,92,000 (average rate 26%), a foreign dividend of ₹3,00,000 on which ₹76,500 was withheld abroad yields Indian tax on that income of ₹78,000. Eligible credit is the lower figure, ₹76,500.

Advance tax. RSU perquisites and subsequent gains often pushed assessed tax above TDS already deducted. Where assessed tax is ₹6,00,000, TDS is ₹3,80,000 and no advance tax was paid, the shortfall against 90% of assessed tax is ₹1,60,000, and three months of Section 234B interest alone is ₹4,800 (hypothetical). Warning clients before the filing deadline reduced dissatisfaction.

1.10. Portfolio observations

The case load was concentrated in assisted return filing with a significant minority of Foreign Tax Credit cases. Of 38 unique clients, 25 were returning and 13 were new, suggesting strong retention alongside referral-driven growth. Most clients were salaried employees of large technology multinationals, which explains the recurrence of equity-compensation, foreign-brokerage and FTC issues. This portfolio is a specialised, high-complexity slice, not a representative sample of Indian taxpayers.

1.11. Risk areas and controls

Table 5 - Principal risks and mitigation

Risk	Potential impact	Mitigation
Missing or incomplete documents	Incorrect computation, under-reporting	Standard checklist; multi-source reconciliation
AIS/TIS mismatch	Under- or over-reporting	Cross-verification with source documents
Incorrect capital gains	Additional tax demand	Transaction-level verification
Incomplete foreign-income reporting	Non-compliance	Detailed review of brokerage statements
Incorrect FTC claim	Rejection or reduced relief	Cross-check against supporting documents
Filing delays	Interest and penalties	Structured workflow; client follow-up

1.12. Key findings

1. **Data quality drives compliance quality.** Missing documents consistently delayed computation, increased follow-ups and review time, and raised compliance risk.
2. **Reconciliation is central.** Comparing Form 16, AIS, TIS, Form 26AS, bank and brokerage records was the most effective means of capturing all income and reducing notice risk.
3. **Technology aids efficiency, not judgement.** Software automated calculation and schedule validation, but incorrect interpretation of source documents still produced incorrect output.
4. **Regime choice is not determined by gross income.** The better regime depends on eligible deductions, exemptions, income composition and the provisions applicable to the assessment year. Because no anonymised outcome dataset was retained, the study does not report regime-wise percentages.
5. **Layered review reduces error.** Senior review of every return before filing was important for complex cases.
6. **Client management matters as much as technical skill.** Clear explanations, expectation setting and timely follow-up determined turnaround.

Discussion

The findings suggest that individual tax compliance in a digital environment is best understood as a data-validation problem. Pre-filled information lowers manual effort but increases the importance of the adviser's role in testing that information against evidence. The case-mix also shows how modern remuneration structures, particularly equity compensation and overseas employment, introduce legal and cash-flow complexity that ordinary payroll TDS does not resolve. The study links directly to finance practice: income classification maps to financial-statement analysis, capital-gains work to investment analysis, regime comparison to personal financial planning, reconciliation to risk management and FTC to international finance.

Challenges and Limitations

Challenges. The intern's access was limited to individual ITR work; the compressed, deadline-driven season constrained depth of client discussion; cross-border topics (FTC, DTAA, Schedule FA) required study beyond standard software guidance; and clients were inconsistent in supplying foreign-income documents, prolonging closure.

Limitations. The analysis rests on one adviser's case exposure within a single function and a short training period, so it is not statistically generalisable. Confidential client-level data and the organisation's financial information were unavailable, so findings are qualitative and process-oriented. All numerical examples are illustrative. The training overlapped with the peak season, limiting exposure to lower-frequency case types such as business income.

Recommendations

For advisory practices:

- Use a standard pre-filing checklist and structured document-request messages, and track cases centrally.
- Perform a systematic regime comparison for every client and apply additional review to complex ITR-2 cases.
- Introduce AI-based document classification, piloting it first on routine documents such as Form 16 and bank statements.
- Publish short client-education notes on RSU/ESOP taxation and Foreign Tax Credit.
- Offer equity-compensation clients a mid-year advance-tax check-in to flag Section 234B/234C exposure early.
- Provide regular training on amendments to tax law and international taxation.

For students entering tax-advisory roles: build a firm grounding in the Income-tax Act; develop spreadsheet and reconciliation skills; understand source documents rather than relying only on software output; practise clear client communication; and ask reviewers for the rationale behind corrections.

Future research. Subsequent studies could track turnaround time and repeat-query rates after such measures are introduced, and could analyse anonymised regime-outcome data across a larger sample.

Conclusion

This study shows that accurate individual tax filing depends on a disciplined sequence of profiling, documentation, reconciliation, computation, review and verification rather than on form-filling alone. Technology improves speed and consistency, but professional judgement remains essential, especially for equity-compensation and cross-border cases where errors are costly. For practitioners, the central lesson is that process design, meaning checklists, reconciliation and layered review, is as important as technical knowledge. For students, hands-on exposure to live cases bridges the gap between statutory theory and compliant, defensible practice.

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