REDESIGNING TAX RETURN FORMS TO BETTER CAPTURE TE DATA

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Tax filing in INDIA

- The liability to file income tax returns for all ‘persons’ is specified in Section 139 of the IT Act.
- Persons – Individuals, HUF, Firms, Association of Persons (AoP), Body of Individuals (BoI) others.
- All corporates and firms must file tax returns
- Others – Individuals, Association of Persons (AoP) and others must file returns if their total income without giving effect to exemptions and deductions is above the statutory threshold.
- The threshold is INR 2,50,000 (USD 2,990) / INR 3,00,000 (USD 3,588) – old vs new regime.
- Electronic filing is compulsory with limited exceptions.
- ITR 1 TO 4 – Individuals, HUFs and firms.
- ITR 5 – Persons other than individuals, HUFs and firms.
- ITR 6 - Corporates
- ITR 7 – Charitable and religious trusts, Political parties, Research Associations, and others
- Indirect taxes – Bills of entry filed by importers.
- GST figures not reported.

Top revenue foregone provisions

- Exemption of income of charitable entities – 72% of revenue forgone.
- Deduction availed by SEZ units and accelerated depreciation – corporates and non-corporates (firms/ HUFs/ BoIs / AoPs/ etc.
- Deduction for certain investments in savings schemes, repayment of housing loans and others – individuals.
- Conditional Basic Customs Duty (BCD) exemptions – goods used in the manufacture of mobile phones, exemptions to mineral fuels, oils and others.

Capturing TEs from Tax exemption for charitable entities - I

- The law provides tax benefits for entities fulfilling genuine social objectives associated with charity, health, religion, education, and others that complement government efforts towards social welfare and balanced regional development.
- Tax exemption for voluntary contributions and other income derived from charitable activities. Required to be applied for the purposes for which they set up.
- All of them must file returns ITR 7/ITR 5.
- Conditions for claiming exemptions are captured in the Schedules – useful for reporting and monitoring.

Capturing TEs from Tax exemption for charitable entities - II

- Details of registration under the IT and other Acts captured in Part A of ITR 7.
- Requirement for application of income for purposes for which set up.
- Restrictions on the specified modes of investments for voluntary contributions received by charitable trusts. Section 11(5).
- Donations to charitable entities – deduction under S 80G out of income of the donor.

Capturing TEs from Tax exemption for Special Economic Zones (SEZs)

- Newly established units offering services within SEZs enjoy tax exemption
  - 100 % of export profit for 1st 5 yrs, 50% for next 5, then upto 50% for next 5 years subject to conditions.
  - New units must be established before 1st April 2021.
  - Enjoy service tax, customs and excise exemptions also.
- Encourage exports and attract foreign investment – S 10AA (Schedule)
- Largest TE for corporates and ranked 2nd for non-corporates (firms, others).
- Audit flagged non-specification of time limit for receipt of foreign remittance – remedied by Finance Act 2023 by specifying 6 months time limit.

Capturing TEs from Accelerated Depreciation

- Depreciation at normal rates is allowed as a deduction but accelerated depreciation is a tax expenditure
- New plant and machinery acquired by a unit beginning manufacture or production after 31st March 2005, accelerated depreciation rate is 20% of cost for the first year.
- If the unit is set-up in a backward area located in the specified states (Telengana, Bihar…) on or after 1st April 2015 but before 1st April 2020, the accelerated depreciation rate is 35% of cost .
- Unit engaged in the manufacture of energy saving devices, air or water pollution control equipment – higher depreciation rate is 40% of cost
- 2nd Largest TE for corporates and ranked 3rd for non-corporates (firms, others)
- Schedules DPM, DOA, DEP

Capturing TEs from investment in savings and other instruments.

- Largest TE for individual taxpayers –Section 80C
- Achieves multiple policy objectives by encouraging savings in
  - Life insurance premium
  - Repayment of housing loan
  - Contribution to an approved pension fund
  - Payment of tuition fees of children.
  - others
  - No further break-up provided – hence, it is difficult to estimate the specific policy impact.

Capturing TEs from conditional customs exemptions

- Various notifications prescribe effective rates lower than tariff rates.
- Data is generated from Bills of Entry filed by importers at various Electronic Data Interchange (EDI) locations. Extrapolated to cover non-EDI locations.
- Contribution of major commodity groups included.
- Conditional exemptions linked to policy objectives – concessional domestic procurement, promotion of domestic industry are included.
- Exclusions are –
  - Concessions under FTAs
  - Duty free imports under export schemes – tax neutralization
  - Set-off of BCD against credit from tradeable scrips.

Capturing TEs from excise duty exemptions

- Similar to customs, notifications prescribe lower effective rates.

- Automation of Central Excise System (ACES) captures data from the returns filed by assessees.

- Includes area-based exemptions – conditional

- Exemptions granted under exceptional situations – not included.

- Exemptions under Central Excise included till Budget 2018-19.Discontinued after the introduction of the Goods and Services Tax (GST) on 1st July, 2017. GST figures yet to be reported.

KEY TAKEAWAYS

- Online filing of tax returns – key enabler of accurate estimates of revenue forgone.
- With the introduction of electronic filing of corporate tax returns - sample size increased from 1689 to 3,01,736 companies.
- Trade-off between simplicity and comprehensiveness
- Use of the weighted average statutory corporate tax rate – under/over-reporting of revenue impact.
- Non-reporting of revenue foregone from Goods and Services Tax (GST).
- Way forward – linking to other returns (GST done) for prefilling and AI bots for assisting with TE claims.

- THANK YOU