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7. Improving Tax Compliance in Indian Perspective

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Abstract:

Promoting voluntary tax compliance is the aim of tax administration. Tax administration is not solely concerned with punishing tax evaders or pursuing past-due taxpayers. However, if the administration is successful in creating a strong likelihood that noncompliance would be identified and appropriately penalized, voluntary compliance may be promoted. Given the paucity of prior study in this field and the current emphasis on policy to reduce tax evasion and expand the tax base, India is a suitable location to investigate such an intervention. This study offers a behavioral intervention that has been modified for India's particular sociocultural setting in order to reduce tax evasion. We describe the experimental setup and possible implementation issues. There are policy implications as well as possible areas of government involvement, such as assuming a position of legitimate power that seeks to increase public confidence in the government and boost tax morale. We will talk about it in this paper. enhancing adherence to tax laws.

Keywords:

Tax Compliance, Tax Returns, Technology, Legal Necessity, Business Growth, Economy, Taxpayers, Laws, Regulations, Corporate Tax, Goods and Services Tax, Customs Duty, Tax Deducted at Source, Tax Return Filing, Tax Audit.

7.1 Introduction:

Tax Compliance:

The degree to which a taxpayer complies with their nation's tax laws is known as tax compliance. This entails timely tax payment, filing tax returns, and accurately disclosing their income. It has a significant impact on a person's financial situation and is a crucial component of personal finance. There may be fines and legal repercussions for breaking tax laws. [1]

Tax Compliance and Technology Without a doubt, the use of technology in tax administration has reduced the amount of work involved and improved the efficiency of compliance. The launch of online income tax return filling marked the beginning of it all. In spite of initial resistance, the implementation of online technologies was a time-consuming and error-reducing step toward a simple tax compliance procedure.

GST: The Revolutionary the Goods and Services Tax (GST), which was implemented in 2017 and created a single, integrated tax system, was the real game-changer that sparked the revolution. Without digital technology, this wouldn't have been easy. When the GST was implemented, the business community may use the GST Network (GSTN) to electronically file returns, reconcile invoices, and collect input tax credits. Thus, the digital infrastructure eliminated problematic redundancies that were predicted to result in tidiness and inefficiencies, significantly reducing the need for human interventions.

For emerging economies worldwide, increasing tax revenue collection is a top goal. Low-income nations typically have low tax collections as a percentage of GDP, both in absolute terms and in comparison to economies with greater incomes. At least two factors make it difficult to identify ways to increase tax collection: (1) there is a dearth of reliable data on tax compliance; and (2) given institutional limitations, it is difficult to design efficient tools for enhancing compliance.

In any situation, it is difficult to measure tax compliance and assess the factors that influence it. Because of the scale of the informal sector, it is especially challenging to examine these concerns in emerging nations. Although taxpayer surveys rely on self-reports, they could be possible to obtain a representative sample of the population. It's possible that businesses and individuals won't appropriately declare their registration and tax payment status. When assessing the causal effects of interventions intended to increase compliance, such self-reported survey data may be especially troublesome, particularly if taxpayers have an incentive to demonstrate that the program was "successful" (as in the case of financial incentives, for example).

However, even high-quality administrative data is limited because it only includes people and businesses that are officially recognized or partially covered by the tax code. Because the tax base is so small in many developing nations, administrative data samples are sometimes heavily filtered. This makes it more difficult to comprehend tax formalization, a crucial compliance margin. For instance, it could be challenging to identify if a firm listed in a registration database is a new firm or an informal organization formalizing using administrative data alone. Furthermore, compared to survey data, tax data often provide a much smaller collection of taxpayer attributes. [2]

7.2 Importance of Tax Compliance:

Businesses must comply with tax laws for the following reasons:

- **Legal necessity:**

Respecting the tax rules of the jurisdiction in which the firm operates is a legal requirement for all businesses. Any disregard for the relevant tax laws, whether deliberate or not, constitutes a legal violation.

- **Managing company reputation:**

A company's reputation might be damaged by news of legal actions taken against it for tax evasion. Customers, suppliers, and investors may become seriously distrustful as a result of this.

- **Avoiding disruptions to business operations:**

Legal repercussions for any tax law violations may make running business more expensive. The tax department has the power to restrict the company's bank accounts and take its assets.

- **Corporate Social Responsibility:**

It is the duty of every business to support the social objectives of the area it serves. Since tax money is used by the government to support development initiatives, voluntary tax compliance shows a company's dedication to its CSR.

- **Business growth and expansion:**

A corporation may develop a trustworthy tax forecasting system and reduce excessive worry about tax ramifications by using a long-standing voluntary tax compliance practice. [3]

- **Impact of Income Tax Compliance on the Economy:**

Beyond individual responsibility, income tax compliance significantly influences the direction of the national economy. Tax revenue funds various social initiatives, infrastructural upgrades, and government services. Understanding this economic interdependence strengthens the broader impact of compliance on the country's success.

- **Errors in Income Tax Compliance:**

Addressing common misconceptions is crucial to fostering a compliance culture. This section clarifies common misunderstandings regarding income tax, defines compliance, and eliminates any inaccurate information that might be preventing individuals or businesses from fulfilling their tax obligations.

- **Importance of Early Filing:**

A key component of efficient income tax compliance is meeting filing deadlines. This section highlights the significance of meeting income tax reporting deadlines and offers helpful tips for guaranteeing punctuality while outlining the repercussions of late filing.

- **Indian Income Tax Law Framework:**

The comprehensive structure provided by India's income tax laws guarantees that both individuals and corporations contribute fairly to the advancement of the country. Financial penalties and legal ramifications are just two of the serious outcomes that can result from breaking these rules. Effective navigation of this complicated terrain requires a thorough comprehension of the legal requirements imposed by income tax regulations. [4]

7.3 Review of Literature:

The foundation of a healthy society is the timely payment of taxes and the truthful reporting of taxable income. Tax administrations continue to invest significant resources in tax collection, even if the ability to misreport income has decreased due to the development in third-party reporting (Kleven et al. 2011). Individual income tax noncompliance costs the US and the UK approximately $319 billion and £35 billion annually, respectively (IRS 2016 and HMRC 2019). Our capacity to close this "tax gap" depends on our ability to better understand the factors that influence tax compliance and the financial viability of additional actions. [5]

Even if compliance trends are understood, a second significant obstacle to increasing tax income is identifying efficient tools to increase compliance. Conventional models of tax evasion have emphasized audit-based enforcement in conjunction with fines (Allingham and Sandmo, 1972, for example). In actuality, though, audit-based enforcement is frequently exceedingly expensive. Audit threats have been the main focus of audit studies. Even while these threats could work in the short term, real audits are eventually required to improve compliance over time. The second issue with audit-based enforcement is incentive misalignment, which is especially pertinent to developing countries. Tax authorities need to be motivated to conduct themselves honestly and with diligence in order for audits to be successful, yet these requirements are frequently not met. [6]

The degree to which taxpayers abide by the tax laws and regulations that are enforced is known as tax compliance. Traditional economic models of tax compliance highlight a number of elements that affect tax compliance (Srinivasan, 1973). According to these models, the decision to comply with tax laws is predicated on tax rates, the degree of enforcement already in place by the taxing authority, and the profit from "hiding" income or keeping it in the illicit economy. Other factors include the taxpayer's financial limitations (like the cost of compliance) and behavioral limitations (like tax morale). Specifically, the current emphasis on tax compliance has taken an experimental approach to comprehending the behavioral aspects that underlie tax return filing. [7]

7.4 Objectives:

- To Improving Tax Compliance
- To Study the List of tax compliances in India
- To Impact of Income Tax Compliance on the Economy

7.5 Research Methodology:

This study's goal is to examine the significance of Improving Tax Compliance for businesses and the academic community, as well as its difficulties and solutions. Research is a methodical process that includes finding, evaluating, and synthesizing pertinent books, research articles, and reliable reports that have been written about the subject. During the research phase, specialized keywords like "GST" are used to search academic resources like Scopus, Google Scholar, and JSTOR.

7.6 Result and Discussion:

Tax and regulatory compliance is the term used to describe the many tax and regulatory obligations that individuals and businesses must adhere to in order to make sure that they are in conformity with the applicable laws, rules, and guidelines. It includes paying taxes on time, filing tax returns, and abiding by the rules that control how businesses operate. [8]

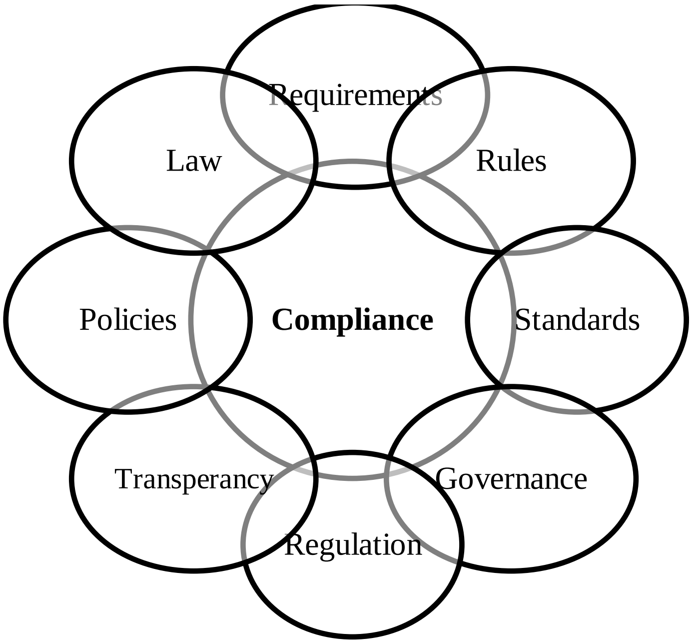

Figure 7.1: Tax Compliances

(Source: By Google)

List of tax compliances in India:

- **Income Tax:** Both people and corporations must pay this direct tax on their earnings for the fiscal year.
- **Corporate tax:** Businesses pay this direct tax on the money they make in a particular financial year.
- **Goods and Services Tax (GST):** It is an indirect tax imposed on the supply of products and services.
- **Customs duty:** Is a levy that is applied to products that are brought into India.
- **Tax Deducted at Source, (TDS):** Is a deduction that companies make from payments they make to both individuals and other businesses.
- **Advance tax:** Is the practice of both individuals and businesses paying taxes in advance.
- **Filing tax returns:** Is the process of submitting tax returns to the appropriate tax authorities.

- **Tax audit:** A business's financial records are examined to make sure tax regulations are being followed.
- **Transfer pricing:** Is a way to set prices for related parties' transactions such that they are at arm's length. [9]

Taxation Policy and Evasion in India:

Income tax and corporate profit tax make up the majority of India's direct taxation system (Rao and Rao, 2005). Over the past ten years, India's direct tax to GDP ratio has steadily increased to approximately 5.7%, a major increase from the below 4% levels at the beginning of 2001–02 (Figure 2). Changes in corporate and personal income tax policies, the most recent of which occurred under the Income Declaration Scheme (IDS) in 2016–17, may also be reflected in variations in the growth rate of taxes. [10]

In essence, the IDS was a tax amnesty program that allowed former tax evaders to pay taxes based on their unreported income from prior years.1 Between 2000 and 2016–17, personal income tax revenues climbed by an average of 16.65%; the largest increase occurred between 2005 and 2006, when they increased by almost 41% (Income Tax Department, 2017). The drastic drop in taxes collected between 2001 and 2002 may have resulted from the Income Tax departments restructure in 2000–01, which included a reduction in the workforce overall and a halt in activity (Central Board of Direct Taxes, 2018a). The computerization of return processing and the issuance of the Kelkar Committee Report, which suggested a revision of current tax laws, may have contributed to the subsequent increase (until 2006–07, when e-filing of returns was implemented). By identifying high-value cash transactions, the Indian Income Tax (IT) Department has gradually increased its enforcement and financial flow surveillance in recent years. The number of effective assessors, or people who file tax returns, has been declining in recent years; in 2015 and 2016, the growth rate slowed to 2.5 percent. The total number of entities authorized to pay taxes during the same time should be taken into consideration when interpreting this statistic. Of the roughly 370 million PAN allottees, 70.32 million had paid taxes, according to CBDT data published in 2018 (CBDT, 2018), representing a compliance percentage of almost 19%. [11]

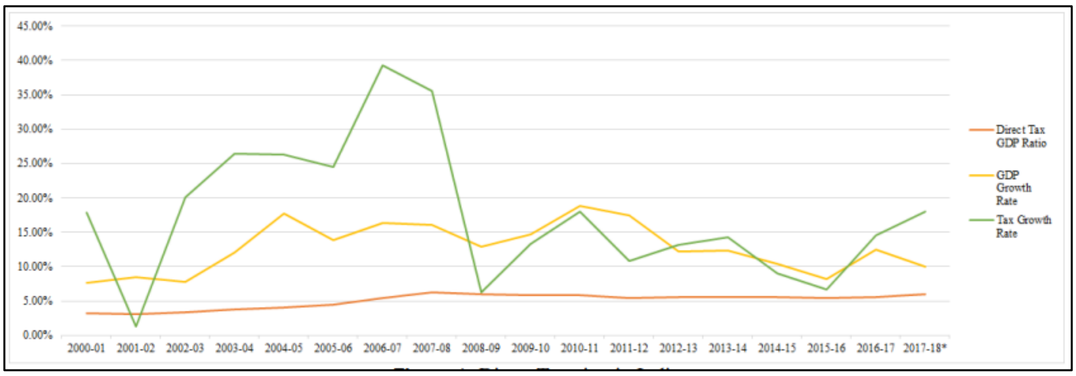

Figure 7.2: Direct Taxation in India [12]
(Source: Direct Taxes data, CBDT (2018a))

Tax Compliance in India:

- "A tax non-compliant society and too many people evade taxes" is a common description of India.
- Less than 3% of Indians pay income taxes, which suggests that the vast majority do not.
- The majority of Indians are also accused of underreporting their earnings.
- Per capita tax revenues will rise as a result of tax compliance.

Present Status:

Because the economy is becoming more formalized, tax-to-GDP levels are rising quite well in tandem with rising per capita incomes.

- Taxes as a percentage of GDP increased from 8.7% to 11.6% between 2000–01 and 2017–18.
- Personal income taxes increased from 1.5% to 2.6% of GDP over this time.
- As business profitability has slowed, corporate taxation levels have been declining for a number of years; if this hadn't occurred, tax revenues would have increased much more quickly.
- Salaried individuals pay more in the personal income tax category than do business owners. "Removing this unevenness" is crucial.
- Tax compliance has increased as a result of demonetization, the ongoing fight against tax evasion, and the introduction of the GST.
- The base of indirect taxpayers has grown by over 50% since the introduction of the GST.
- A concentrated effort has been made to transform India into a society that complies with tax laws.
- A corporate tax rate of 25% for companies with annual revenue up to Rs 250 crore was suggested in the Union Budget 2018–19.

Increase Tax Collection:

- Rewards like discounted public transportation costs or preferential treatment at government-run hotels, hospitals, and airlines might be more successful in encouraging individuals to pay taxes.
- South Korea takes into account free parking in public parking lots, VIP rooms, and airport access.
- Giving businesses tax compliance certificates to assist them establish a reputation.
- Requiring tax certifications in order to renew specific permits.
- Public celebration of sound financial practices is necessary.
- It is necessary to foster collaboration and trust between the public, private sector, and government.
- For business tax payers in the unorganized sector, the government should think about implementing an insurance program that would offer financial assistance during difficult times.
- A favorable tax administration environment must be established.

- Providing tax intelligence and collection organizations with incentives, most likely in the form of increased pay and benefits.
- Electronic monitoring by advancements in technology.
- Fast resolution of contentious matters.
- Ensuring fairness, predictability, ease, and simplicity in the tax system.
- Academic courses on corporate ethics and practices must be introduced for business graduates, chartered accountants, company secretaries, auditors, and legal specialists in order to create a favorable environment for tax administration. [13]

The Digital Transformation of Tax Compliance:

In order to increase tax compliance and boost the effectiveness of its tax administration system, the Indian government has taken the initiative to use technology. To improve transparency, decrease tax evasion, and streamline procedures, a number of programs and technology developments have been implemented.

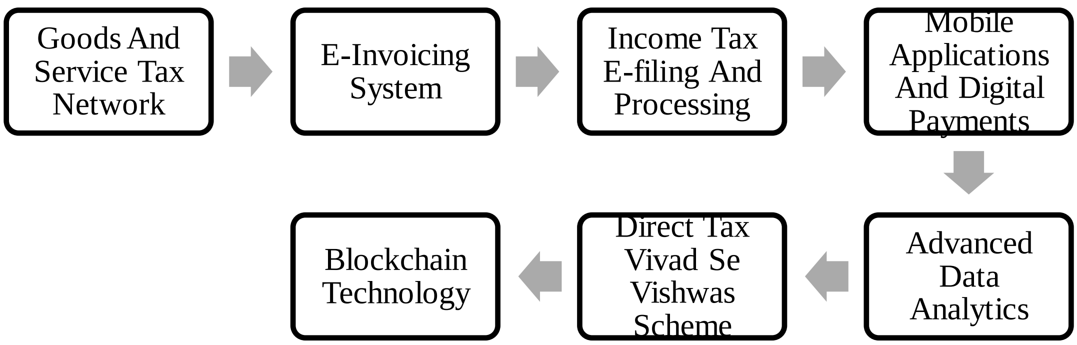

Figure 7.3: Infographic: Technological advancements in Tax administration System *(Source: ResearchGate)*

1. **Goods and Services Tax Network (GSTN):**
   An important turning point in India's tax reform process was the implementation of the Goods and Services Tax (GST) in July 2017. The GST simplified the tax structure by combining several indirect taxes into a single tax system. The Goods and Services Tax Network (GSTN), a strong IT infrastructure that makes it easier to register, file, and process GST returns, is essential to the GST implementation process.
2. **E-Invoicing System:**
   The Indian government implemented the e-invoicing system in order to improve the GST framework even more. Businesses are required by e-invoicing to create invoices via a common site, which gives each invoice a unique Invoice Reference Number (IRN). The goals of this system are to streamline the reporting process, lower tax evasion, and standardize invoicing.
3. **Income Tax e-Filing and Processing:**
   Through its e-filing platform, the Income Tax Department of India has embraced digital transformation, allowing taxpayers to electronically file their Income Tax Returns

(ITRs). The process is made more efficient and error-free by the user-friendly e-filing system, which provides pre-filled forms based on information from prior returns and other government sources.

4. **Direct Tax Vivad Se Vishwas Scheme:**
   Launched in 2020, the Direct Tax Vivad Se Vishwas Scheme used technology to settle tax issues and cut down on litigation. By paying a specific proportion of the contested tax amount, taxpayers might resolve any outstanding issues under this method. An internet gateway enabled the entire procedure, guaranteeing efficiency and transparency.
5. **Advanced Data Analytics and Artificial Intelligence (AI):**
   India's tax administration has been completely transformed by the application of artificial intelligence (AI) and sophisticated data analytics. These technologies are used by the Income Tax Department to examine vast amounts of data, spot trends, and find irregularities. This enhances compliance and reveals instances of tax avoidance.
6. **Mobile Applications and Digital Payments:**
   Mobile applications and digital payments for tax compliance have been made possible by India's widespread smartphone and internet access. To give taxpayers quick access to tax-related information and services, the government has released a number of smartphone apps, including the GSTN app and the Aaykar Setu app.
7. **Blockchain Technology:**
   The potential of blockchain technology, which is well-known for its security and transparency qualities, in tax compliance is being investigated. By offering a tamper-proof ledger of transactions, blockchain can guarantee the accuracy and immutability of all tax-related data. [14]

7.7 Conclusion:

To sum up, technology may be extremely helpful in India when it comes to handling tax and regulatory compliance. Both individuals and companies can benefit from its ability to automate procedures, increase accuracy, lower expenses, and more effectively handle compliance procedures. India's tax compliance has changed as a result of technological advancements, becoming more effective, transparent, and taxpayer-friendly.

Technology has been essential to modernizing the tax administration system, from the introduction of GSTN and e-invoicing to the usage of mobile applications and advanced analytics. The Goods and Services Tax Council in India is thinking of utilizing blockchain technology to further enhance the GST system. The government hopes to improve transparency, lower fraud, and expedite the reconciliation process by utilizing blockchain technology.

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