

Reinvented: India's Income Tax Department

A stronger legislative framework, better training, and the use of technology are enabling better intelligence gathering, and ultimately, better tax compliance

The ability of the Revenue Department to run analytics and mine data will be its greatest strengths going forward, not only because this will enable it to accelerate efficiencies, but most crucially, because it will allow it to separate the honest taxpayer from the dishonest. The IT Department's Intelligence and Criminal Investigation Wing is at the forefront of efforts to cross-pollinate and share information, transform the Department in terms of data analytics, and lead investigations, including in emergent areas like crypto-currencies. The department's focus is also on identifying fraud and scams, which appear to be rampant in certain sectors – the Nirav Modi/PNB imbroglio is only the most recent illustration – but also on understanding the cross-linkages of electoral funding.

AN EVOLVING INVESTIGATIVE FRAMEWORK

Deriving information from multiple sources

The Tax Department's approach to investigations has undergone a sea change in the last three decades. In the 1990s, search-and-seizure operations would involve acquiring information without the knowledge of the assessing officers, secretly bringing it in, and discreetly leading one's targets on. The challenge was compounded by time-consuming bureaucratic processes, and by the risk of information leakages.

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Today in comparison, information flows through multiple sources, including, critically, a person's digital footprint on social media and e-Commerce sites. Financial data gathered from bank accounts,

stock exchanges, property-related transactions and credit-card spends is the other critical source, coming a long way from the erstwhile Annual Information Return (AIR) regime, where information (mostly de-linked from PAN numbers), was gathered physically from a limited number of sources.

This reality changed around 2006, with the mandatory requirement for filing a Statement of Financial Transactions (SFT), which obliges certain specified entities to furnish an SFT in respect to financial transactions, or any reportable account registered by them during the financial year. Recently, the STF's scope has been expanded to include NBFCs and chit funds, given rise to a massive flow of information, though still mostly de-linked to PAN numbers. To handle such volumes, the Department has launched the risk-management-oriented 'Project Insight', which will mine data from multiple sources and use big data analytics to widen and deepen the tax base. This integrated IT platform

is being implemented in a phased manner over 2016-2018 with the help of L&T Infotech. The aim is to catch tax evaders non-intrusively, using technology that allows the government to collate various databases, including IT forms, IT returns, TDS statements, and SFTs received from financial institutions.



To this end, the Department has implemented the Integrated Tax Payer Data Management System (ITDMS), which assists in generating 360-degree profiles of each individual via information gathered from multiple data sources.

The GST has also been a great source of real-time, quality data, which the Department has started analysing to identify suspect transactions. To do this, it has developed an 'automated assistor system' that screens over 300 parameters, and then provides actionable inputs for the purpose of scrutiny or even search-and-seizure operations. The demonetisation exercise lent further insight on money trails, helping the Department detect tax evasion. Further, the CAG's audit reports are a critical source of leads, offering a wealth of information that feeds into stronger cases against tax evaders. Not surprisingly, there are now 85 million income-tax filers, compared to just 25 million a few years ago.

Add to this, the new global standard on Automatic Exchange of Information (AEOI) is generating vast amounts of data on accounts held by non-resident individuals and entities in over 80 countries. The standard includes a model agreement for government authorities to operationalise the automatic exchanges on an annual basis, and to ensure that the information is reported in a standardised format. Intelligence has also been flowing in because of agreements such as the Foreign Accounts Tax Compliance Act (FATCA), which allows for an automatic exchange of financial information between India and the US; the Common Reporting Standards (CRS) between OECD countries; and SAARC-level arrangements.

Building a world-class IT and forensics infrastructure

Data analytics is the way forward for tax administrations across the world. To that end, India is spending

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over USD 100 million to build a centralised data warehouse of virtual information, collected both from 'traditional' sources (e.g., banks), and from 'unconventional' ones, such as social media. Eventually, it will form one of the world's largest identity databases, complementing the GST, India's most ambitious tax overhaul, as policymakers work to get more people to 'cough up' tax. Further, to address the challenges of new-age economic offenses and evasion, the Department has set up a state-of-the-art forensics lab in Mumbai. Its purpose is to help tax sleuths crack passwords, recover files, and identify file signatures, especially during a search or survey – crucial, because most assessee data is stored digitally, and strongly encrypted. To complement its in-house experts, the Department often also ropes in tech personnel from the large private-sector firms who specialise in areas such as network forensics. Finally, the Department has begun tracking transactions in cryptocurrencies such as Bitcoin across 11 exchanges in India.

Imparting skills for effective action

To ensure that tax officers are at the top of their game, the Department provides them with 18 months of training on both soft skills

and on the more technical elements. Competency itself is not a challenge, because the Department only hires the very best 600 candidates from a vast pool of over 1.2 million applicants. It has also tied up with the NALSAR University of Law to award a master's degree in taxation and business law to its officers. Tax officers, moreover, receive international exposure via courses at the International Tax Academy in Amsterdam and in Georgia, Sydney Law School, and so on. Finally, to deepen a sense of ethics and values, it collaborates with Yoga University in Kolkata.

Framing the appropriate legislation

Acquiring relevant information is one part of the equation. The other, critical element is strong legislation. Recent amendments to Sections 68 and 69 of the IT Act have made it difficult to evade taxes, by plugging loopholes and raising the highest penalty to 107 per cent. Moreover, the Black Money Act is designed to nab tax evaders with undisclosed income, and those who have stashed assets abroad. One of the most crucial guidelines in the Act allows for the attaching and confiscation of Indian assets against undisclosed foreign income or assets. Also critical are recent amendments to the Benami Transactions Prohibition Act, which have strengthened the existing law, and enabled assets worth Rs 40 billion to be attached since 2016. On the corporate front, the Department has initiated action against more than 200,000 shell companies – corporate entities with no active business operations or significant assets – by striking them off from the Registrar of Companies' record-books, and freezing their bank accounts. ■

This article is based on discussions of the India CFO Forum in Mumbai and Bangalore with Ravichandran Ramasamy, Principal Director of Income Tax, in April 2018