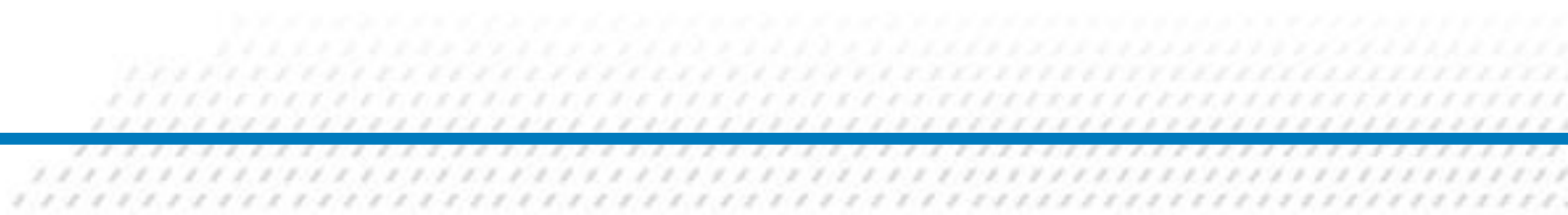




**INTERNATIONAL TAX RESEARCH  
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# Tax administration: Faceless assessment

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# Faceless assessment

- PM Narendra Modi launched a platform for “Transparent Taxation – Honouring the Honest” on 13 Aug 2020 comprising of 3 reforms - Faceless assessment, Faceless appeals and the Taxpayers’ Charter.
- It was launched through a video conference which symbolically depicts the assessment and appeal procedure in India in the future.
- The PM said that an attempt has been made to make the tax system seamless, painless, and faceless. While seamless means tax administration does not complicate, painless means simple rules and use of technology.
- He remarked that “the tax system may be turning faceless but it promises fairness and fearlessness for taxpayers” and added that the focus was on making the tax system “people-centric and public-friendly rather than power centric”.
- Under the faceless assessment procedure, an Assessing Officer (AO) does not have jurisdiction over any taxpayer, so much so that the identity of the taxpayer is not even disclosed to an AO (hence faceless).

# Faceless assessment

- The taxpayer should respond to notices electronically, without the need to visit a tax office or meet any official. This, Mr. Modi said, will end the era of “jaan pehchan” (acquaintance) to get scrutiny or notices settled.
- Under faceless assessment, a case is allocated dynamically through an automated allocation system to an assessment unit, in a jurisdiction different from the taxpayer’s location. There is no need for a taxpayer or his authorised representative to appear in person before any AO at the assessment unit, regarding his assessment.
- If a modification is proposed in the draft assessment order, the taxpayer or his authorised representative may request for personal hearing to make their submissions. The request may be granted at the discretion of the head of the E-assessment Centre. If the request is granted, such hearing shall be conducted exclusively through video conferencing.
- There is electronic communication with the assessee at every stage of assessment and an opportunity is provided to the assessee to respond. This is expected to bring about transparency, efficiency and standardisation of procedures.

# Differences in assessment procedure

<b>Manual assessment</b>	<b>Faceless assessment</b>
Cases are assigned to a single territorial jurisdiction	Allocation of cases on a random basis an automated allocation system
Physical meetings between the taxpayer and the officers	No meeting with any officer
Case selection through a. System b. Manual c. Tax evasion information	Selection of cases through a system, based on pre-defined parameters No discretion to any officer in selection of assessment cases
Issue of notices both manually and on system	Notices to be issued electronically and centrally only from the National e-Assessment Centre (NeAC) in New Delhi
Assessment orders are passed by the AOs	Assessment orders to be passed by NeAC

# Faceless assessment

- The faceless assessment scheme is expected to bring about a paradigm shift in the scrutiny and assessment of income tax returns and the functioning of the Income Tax Department.
- It is a team-based assessment unlike an individual driven activity in the past. Multiple units such as verification unit and technical unit are involved in the assessment procedure. This brings in functional specialisation and optimising the utilisation of resources.
- The faceless assessment procedure centralises the assessment procedure at the NeAC and removes the power of the AO at a local jurisdictional level, to issue assessment orders.
- The NeAC will be the focal point of the faceless assessment procedure and the sole point of interaction with the taxpayer. Faceless assessment is expected to eliminate the possibility of taxpayer overreach and corruption since there is no physical interface between tax officers and taxpayers.

# Faceless assessment

- The faceless assessment procedure involves multiple layers of evaluation by different units. The assessment unit can only make a draft assessment order and send it to the NeAC, which will examine it according to the risk management strategy specified by the CBDT. It will assign the draft assessment order to a review unit in any other ReAC through an automated allocation system, for a review of the same.
- The faceless assessment procedure envisages the use of automated examination tool, artificial intelligence and machine learning.
- This new multi-layered procedure involving multiple units and use of technology eliminates the scope for arbitrariness by an AO. Consequently, high-pitched assessments and taxpayer harassment is largely eliminated.
- All communication between the NeAC and ReACs, various e-assessment units and the taxpayer will be exclusively done by electronic mode. This would deny an opportunity to the AOs to pass an order favouring the tax payer in return for a pecuniary payment.

# Challenges in faceless assessment

- Ability of the CBDT to create appropriate information technology infrastructure to process assessments of a large number, support big data submissions and to archive the assessment documents of all the taxpayers over a period of time. This concern emanates from the taxpayer experience with the GST filings and the quantum of e-assessments finalised in the pilot project launched in September 2019.
- The Income Tax Department has set a limit to the size of taxpayer response to notices under e-Proceeding. The response should be provided in less than 1,000 characters in 'Response/ Remarks' field. At present, documents can be uploaded up to the size of 50MB (maximum of 10 PDF attachments can be submitted in a single response and maximum size for each attachment should not exceed 5 MB). Consequently, many taxpayers may provide an incomplete/ inappropriate response due to size limitations, leading to an improper assessment.



# Challenges in faceless assessment

- A faceless assessment may be counterproductive in the case of large companies which have global operations or uniqueness in its business model, which may require an interaction. In many instances, assesseees may not be able to convey their responses appropriately in a written form.
- Many companies may not have the required IT infrastructure to submit large volume of data. In addition, it would be difficult for companies to provide large volumes of data to the Income Tax Department if limits are imposed on the technology infrastructure to transfer data and within the time limit set by the Income Tax Department.
- An online evaluation of such data by information technology specialists from technical units would instead be appropriate.
- Taxpayers are allowed to request for a personal hearing to make oral submissions only in limited circumstances, which may or may not be granted by the tax officials.
- In all of these circumstances, an online remote discussion-based assessment may be appropriate than faceless assessment.

# Challenges in faceless assessment

- A technical unit under the Faceless Assessment Scheme is required to provide assistance or advice on legal, accounting, forensic, information technology, valuation, audit, transfer pricing, data analytics, management or any other technical matter in a particular case or a class of cases. Most of these functions require subject matter or technical matter expertise, specialised knowledge and training.

The Internal Revenue Service, the tax department of the United States of America employs economists, statisticians, lawyers, information technology professionals and other technical researchers.

Lack of technical expertise is the bane of the Income Tax Department. The CBDT has transferred two thirds of its existing workforce at all levels of the Income Tax Department to the Faceless Assessment units including the technical units.

Unless the CBDT recruits the appropriate workforce having the required expertise, specialised knowledge, skills and training to staff the technical units, the existing non-specialised workforce would be forced to undertake these functions, defeating the purpose of creating technical units.

# Conclusion

- The intent of introducing the faceless assessment is laudable considering the circumstances in which it was introduced.
- The success of the faceless assessment depends on various factors such as the earnestness in the implementation of the scheme, the technology infrastructure put in place to enable this assessment procedure, extent to which assessment units use inputs provided by the technical units, the ability of the taxpayers who are not proficient in the use of internet and email to adapt to this new procedure, training offered to existing tax officials to assess in a digital environment, recruitment of specialists in various fields and evaluating responses provided in regional languages by tax officials who are not conversant in such languages.
- The government's objective of providing "Painless Tax Regime and Seamless Tax Compliance" can be accomplished if appropriate changes are made to the faceless assessment procedure.



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