


Students' ECONOMIC FORUM

A monthly publication from South Indian Bank

*To kindle interest in economic affairs...
To empower the student community...*

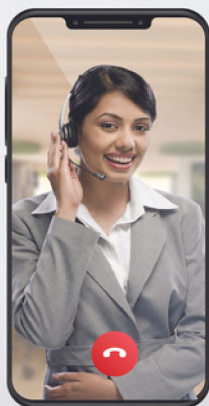
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Faceless Assessment Scheme



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Faceless Assessment Scheme

May 2023 | Theme 377

"Tax should be collected as honey is collected from the flower, without causing harm to it."

Chanakya

The 'SIB Students' Economic Forum' is designed to kindle interest in the minds of the younger generation. We highlight one theme in every monthly publication. Topics of discussion for this month is 'Faceless Assessment Scheme'.

Introduction

In the digital age, governments around the world are striving to modernize their systems and processes to make them more efficient, transparent, and accountable. India, as one of the world's largest democracies and economies, has been at the forefront of this transformation in various sectors, including taxation. Over the past decade, India has embarked on a remarkable journey to revamp its tax administration system, leveraging technology to reduce human interface, streamline processes, and enhance the overall experience for taxpayers.

One of the most significant milestones in this transformative journey has been the introduction of Faceless Assessments. This revolutionary approach to tax assessments represents a departure from traditional methods, aiming to eliminate direct contact between taxpayers and tax officials, reduce opportunities for corruption, and bring about a new era of transparency and efficiency. This comprehensive exploration will delve into the various facets of Faceless Assessments in India, spanning its origins, objectives, structural framework, operational procedures, challenges, and the way forward.

I. Origins of Faceless Assessments

The inception of Faceless Assessments in India can be traced back to the broader vision of creating a more taxpayer-friendly ecosystem, characterized by digitization, transparency, and efficiency.

Over the past decade, India has undertaken several initiatives to modernize its tax administration, including the digitization of tax returns, faster processing of refunds, simplification of income tax returns, and the implementation of technology-driven solutions.

However, the true catalyst for change came in August 2020 when the Hon'ble Prime Minister of India launched the "Transparent Taxation – Honoring the Honest Platform." This groundbreaking platform aimed to meet the evolving requirements of a 21st-century taxation system and introduced several key reforms, including Faceless Assessments, Faceless Appeals, and the Taxpayers' Charter. These reforms marked a significant departure from the traditional tax assessment processes, paving the way for a more technologically advanced and responsive system.

II. Objectives of the Faceless Assessment Scheme

The Faceless Assessment Scheme, introduced in 2019 (formerly known as the E-assessment Scheme, 2019), was designed with several key objectives in mind:

- **Greater Transparency, Efficiency, and Accountability:** One of the primary goals of the scheme is to enhance transparency, efficiency, and accountability in income tax assessments. This entails streamlining assessment procedures, reducing the potential for discretion or bias, and ensuring that assessments are conducted in a fair and impartial manner.



Eliminating the Interface Between Taxpayers and Assessing Officers:

Perhaps the most transformative aspect of the scheme is its aim to eliminate the traditional interface between taxpayers and assessing officers to the extent that is technologically feasible. This represents a fundamental shift from the earlier manual and territorially bound tax processes, where direct interactions between taxpayers and tax officials were commonplace.

Resource Optimization: The scheme seeks to optimize the utilization of resources within the tax administration by embracing economies of scale and functional specialization. This involves the efficient allocation of cases, reducing redundancy, and ensuring that each function within the assessment process is handled by specialists.

III. Scope of the Faceless Assessment Scheme

The scope of the Faceless Assessment Scheme is extensive, encompassing a wide range of scenarios:

Scrutiny Assessments: Under this scheme, scrutiny assessments are a critical focus. These assessments are initiated when returns of income are filed and selected for scrutiny under existing guidelines, typically through the issuance of notices under section 143(2) of the Income Tax Act.

Non-Filing of Returns: The scheme also covers situations where notices under section 142(1) have been issued to request the filing of returns, but no return has been furnished in response. This ensures that non-compliant taxpayers are also brought within the purview of the scheme.

Section 148 Cases: Another category of cases covered by the scheme pertains to instances where an assessee has not furnished a return of income under section 148, and a notice under section 142(1) has

been issued to gather necessary information. This extends the scheme's reach to cases of income that might have escaped assessment.

IV. Structural Framework of Faceless Assessments

To effectively implement the Faceless Assessment Scheme, a robust structural framework has been put in place. This framework comprises two critical components:

National Faceless Assessment Centres (NFAC):

The NFAC serves as the backbone of the faceless assessment mechanism. It is a centralized processing center with a broad spectrum of functions aimed at ensuring accuracy, efficiency, and seamless operation at the back-end of the Income Tax Department. The head of the NFAC is typically the Principal Chief Commissioner of Income Tax or the Principal Director General of Income Tax.

The primary functions of the NFAC include:

- Specifying various formats, modes, procedures, and processes related to various aspects of the faceless assessment, subject to approval from the Central Board of Direct Taxes (CBDT).
- Automated allocation of cases to Assessment Units (AUs) through an allocation system that leverages data analytics and artificial intelligence (AI).
- Allocating cases to verification units (RFAC) when requested by AUs.
- Ensuring timely electronic communication of notices and communications to taxpayers.
- Facilitating communication among different units within the RFAC.
- Selecting Draft Assessment Orders (DAO) for review and allocating them to review units through an automated allocation system.



Providing technical inputs through specialized Technical Units (TUs), covering various areas such as legal, accounting, forensic analysis, information technology, valuation, audit, transfer pricing, data analytics, and management.

Regional Faceless Assessment Centres (RFAC):

RFACs play a pivotal role in supporting the NFAC and ensuring the smooth functioning of assessment procedures within specific regions. There are 30 RFACs across the country, each headed by a Chief Commissioner of Income Tax (CCIT), with further delegation of units to various ranks of the Income Tax Authorities.

The structure of RFACs includes:

- **Assessment Units (AUs):** These units, headed by the Principal Commissioner of Income Tax (PCIT), consist of Range Heads, Deputy Commissioners of Income Tax (DCITs), and Income Tax Officers (ITOs). AUs are responsible for identifying issues, seeking information, analyzing material, and ultimately framing draft assessment orders. They play a central role in the assessment process.
- **Verification Units (VUs):** VUs are an integral part of RFACs, led by the PCIT and staffed with Range Heads, DCITs, and ITOs. Their primary functions include conducting e-verification under section 133C, conducting inquiries, examining books of accounts, questioning witnesses, and recording statements via electronic modes. Verification units play a critical role in ensuring the accuracy and fairness of assessments.
- **Review Units (RUs):** RUs, headed by PCIT, are responsible for the review of draft assessment orders. Their mandate includes examining whether relevant and material evidence has been brought on record, ensuring that relevant points of fact and law have been duly incorporated, verifying whether issues requiring addition or disallowance have

been adequately addressed, considering applicable judicial decisions, checking the arithmetical correctness of modifications proposed, and performing any other functions necessary for the purposes of review.

- **Technical Units (TUs):** TUs, also headed by PCIT, are tasked with providing technical support and expertise. They cover a wide spectrum of technical matters, including legal issues, accounting principles, forensic analysis, information technology, valuation, audit procedures, transfer pricing, data analytics, and more. These units offer critical technical assistance as and when required in specific cases.

It's important to note that all actions taken by AU, VU, RU, and TU officers are subject to approval by the respective Range Heads. Additionally, all communication, whether internal among units or with taxpayers and other relevant parties, is routed through the NFAC to maintain consistency and transparency in the assessment process.

V. Operational Procedure of Faceless Assessments

The operational procedures of the Faceless Assessment Scheme represent a fundamental shift in how tax assessments are carried out in India. The process unfolds through a series of well-defined steps:

- The NFAC electronically allocates cases to Assessment Units (AUs) based on a sophisticated algorithm that leverages data analytics, artificial intelligence (AI), and predefined risk parameters. This ensures the equitable distribution of cases among AUs.
- AUs, upon receiving allocated cases, may identify the need for further information, documents, or evidence from the taxpayer or any other relevant person. This initial step sets the tone for the assessment process.



- Verification Units (VUs) and Technical Units (TUs) play crucial roles in the assessment process. VUs conduct verification activities, including inquiries, examination of books of accounts, interviewing witnesses, and recording statements. TUs provide technical expertise on various matters, offering guidance on legal issues, forensic analysis, valuation, and other technical aspects.
- When AUs deem it necessary, they request the NFAC to issue appropriate notices or requisitions to the taxpayer or any other relevant person to obtain the required information. The NFAC facilitates this communication, ensuring that notices are sent in a timely and efficient manner.
- Taxpayers and relevant parties, in response to notices issued by the NFAC, are required to file their responses through their registered income tax e-filing accounts within the stipulated timeframe. This electronic filing ensures the efficient exchange of information and documentation.
- In cases where there are proposed modifications in the Draft Assessment Order (DAO), taxpayers have the option to seek a personal hearing. This hearing is conducted exclusively through video conferencing or video telephony, in line with the procedures established by the Central Board of Direct Taxes (CBDT). This innovative approach maintains transparency while minimizing physical interactions.
- In situations where assistance has been sought from VUs or TUs, the NFAC receives the verification or technical reports and forwards them to the respective AU for further consideration.
- AUs, taking into account all relevant material available on record and the responses received, prepare the Draft Assessment Order (DAO). The DAO can either accept the return as filed by the taxpayer or propose modifications to the declared income or tax liability.

The DAO undergoes scrutiny at the NFAC, in accordance with the Risk Management Strategy (RMS) defined by the CBDT. Depending on the outcome, the NFAC may take different courses of action:

- a) If no assignment is made to the Review Unit (RU), and
- b) If assignment has been made to any RU and:
 - In cases where no response is received from the taxpayer, the NFAC finalizes the assessment based on the DAO and serves the final assessment order, along with a demand notice specifying the sum payable or refundable, as applicable, and initiates penalty proceedings if warranted.
 - Following the completion of the assessment, all electronic records related to the case, including any penalty proceedings, are transferred to the Assessing Officer with jurisdiction over the case. This ensures that any further actions required under the Income Tax Act are carried out promptly.

In conclusion, it is imperative for taxpayers to become not only acquainted but also adept in navigating the intricacies of Faceless Assessments. These assessments represent the future of tax assessment processes in India's rapidly evolving digital economy.

References:

- [Central Board of Direct Taxes \(CBDT\) website](#)
- [Income Tax Department of India website](#)





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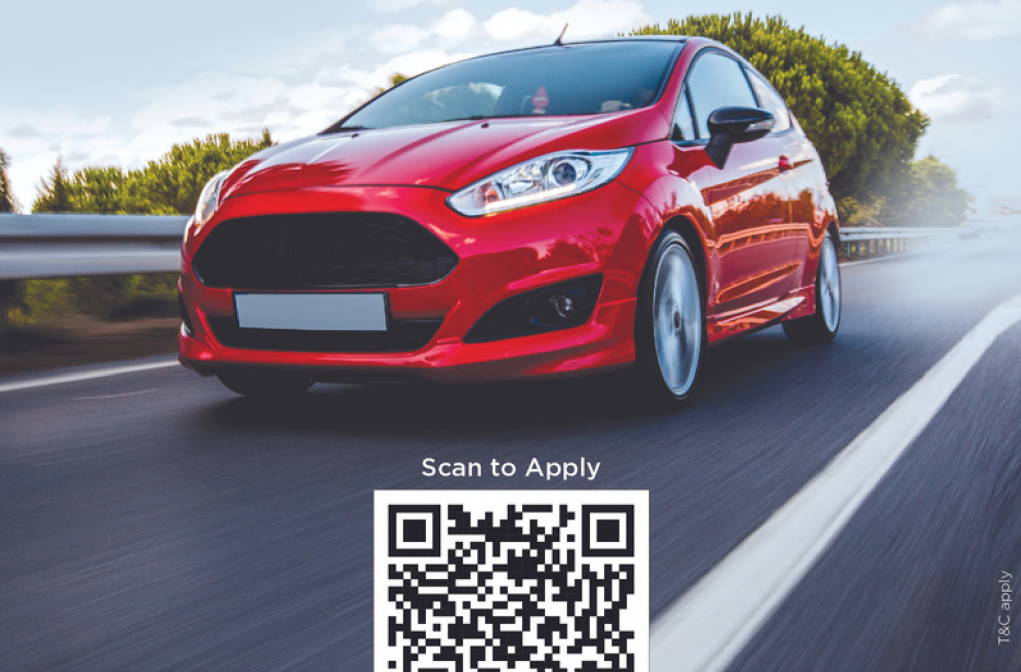
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