

STUDENTS' ECONOMIC FORUM

A monthly publication from South Indian Bank

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FACELESS ASSESSMENT –
A NEW ERA OF TAX ASSESSMENT

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Theme No: 347: **FACELESS ASSESSMENT – A NEW ERA OF TAX ASSESSMENT**

“When learning is purposeful, creativity blossoms. When creativity blossoms, thinking emanates. When thinking emanates, knowledge is fully lit. When knowledge is lit, economy flourishes.”

- Dr. A.P.J. Abdul Kalam

The “SIB Students’ Economic forum” is designed to kindle interest in the minds of younger generation. We highlight one theme in every monthly publication. Topic of discussion for this month is **“Faceless Assessment – A New Era of Tax Assessment”**.

Background

Traditionally, the tax assessment procedure was a face-to-face interaction between the taxpayer and the tax authorities. The tax authorities would typically send a notice to taxpayers at their address or registered email ID. The notice would contain the details that the income tax authorities wish to examine and they would allot a date of hearing when the taxpayer was required to visit the tax office and produce the requested documents. On the appointed date, the taxpayer or his authorised representative had to physically visit the jurisdictional Income tax office, submit the details and offer explanations as requested by the tax officer. As most assessment proceedings require multiple submissions and hearings with the tax officer, the taxpayer had to spend considerable time, effort and money to travel to the tax office to attend the hearings. The Income tax department is not far behind in technology usage and is moving rapidly toward digitisation. In addition to filing of income tax returns or filing of forms, collection of information from the taxpayer, collection of tax, filing rectification applications which are being done online for a few years, the processes of income tax assessment and appeal will also now be completed through the online mode.

Faceless Assessment Scheme

With the aim of bringing efficiency, transparency and accountability in the assessment proceedings through online systems, the Central Board of Direct Taxes (CBDT) had notified the E-assessment Scheme, 2019 in September 2019. Thereafter, the CBDT issued notifications to align the ‘E-assessment Scheme 2019,’ with the ‘Transparent Taxation-Honouring the Honest’ platform, which was launched on August 13, 2020 (including renaming the ‘E-assessment Scheme 2019’ as ‘Faceless Assessment Scheme 2019’). The government has now passed the Taxation and Other laws (Relaxation and Amendment of certain Provisions) Act, 2020 on September 29, 2020 to incorporate the Faceless Assessment Scheme under the provisions of Income Tax Act, 1961. Assessee personally or physically need not visit the tax office or face the tax authorities for any assessment, appeal or any other ancillary tax administrative work. It was said that out of 4.6 lakh appeals pending at the level of the Commissioner (Appeals) in the IT Department, about 4.05 lakh appeals (88 per cent of the total) will be handled under the new mechanism. Almost 85 per cent of the present strength of Commissioners (Appeals) will be utilised for disposing of cases under the faceless appeal mechanism.

Framework for Faceless Assessment

For the purpose of faceless assessment, the CBDT would set up the below 'centres' and 'units' and specify their respective jurisdiction:

- A 'National e-Assessment Centre' for facilitating e-assessment and central control.
- 'Regional e-Assessment Centers' under the jurisdiction of the regional Principal Chief Commissioner to conduct assessment.
- Assessment units for identifying points or issues, materials for determining any liability (including refunds), analysis of information, and other such functions.
- Technical support including legal, accounting, forensic, information technology, valuation, auditing, transfer pricing, data analytics, management or any assistance or advice on any other technical matter for technical units.
- 'Verification units' for enquiry, cross verification, examination of books of accounts, witness and recording of statements, and such other functions.
- 'Review units' for reviewing the draft assessment order to check whether the facts, relevant evidence and law and judicial decisions have been considered in the draft order.

All communications between the above units will be through the National e-Assessment Center for the purpose of evaluation under this scheme.

Process of the Faceless Assessment Scheme

- i. The National Faceless Assessment Centre (NFAC) will serve a notice to the taxpayer under section 143(2) of the Act. The taxpayer should file his/her response to the notice within 15 days of receipt of the notice from the NFAC.
- ii. The NFAC will assign the case selected for the purpose of faceless assessment to a specific assessment unit in any one Regional Faceless Assessment Centre (RFAC) through an Automated Allocation System (AAS).
- iii. The assessment unit may make a request to NFAC for: obtaining information, documents, evidences as required from the taxpayer; and / or; conducting enquiry or verification by verification unit; and / or; seeking technical assistance from technical unit.
- iv. The NFAC shall issue communication to the respective person to obtain the documents as requested by the assessment unit.
- v. Thereafter, the NFAC shall send the documents / information or evidence received from the taxpayer or report received from the verification unit / technical unit to the concerned assessment unit.
- vi. After considering the material available on record, the assessment unit will prepare draft assessment order either accepting or requesting modifications in the submitted returns and send it to NFAC along with the details of penalty proceedings to be initiated (if any).
- vii. The NFAC will examine the draft assessment order in accordance with the risk management strategy by way of an automated examination tool. NFAC will then finalise the assessment and serve the order to the tax payer or issue a show cause notice to the taxpayer. NFAC can even assign the draft order to the review unit through AAS if required.
- viii. The review unit will review the draft assessment order and intimate the NFAC of its concurrence with it or suggest suitable modifications. In case of variation suggested by the review unit, the NFAC will send the modifications suggested by the review unit to a different assessment unit through an AAS. The new assessment

unit, after considering the variations suggested by the review unit, will prepare and send the final draft assessment order to the NFAC to issue it to the taxpayer.

Benefits of Faceless Income Tax Assessment for Taxpayers

- Now that a taxpayer can comply with assessment without physical attendance in the offices of the Income tax Department, faceless assessment is expected to bring positive changes to the assessment system, thereby saving travel time and cost for the taxpayer, being environment friendly as there will not be any submission made physically, review by more than one assessment unit for a single assessment making the entire assessment process more transparent and objective.
- Previously, the taxpayers had to visit the department's office for scrutiny, which resulted in an increase in corruption cases. But faceless assessment comes in an electronic mode through which the assessee does not have to face any official and report his grievance. You can contact the department from your home anytime you want. The assessee will get the response for his query on his registered email id. The need to contact an official will be wiped out.
- The government has employed state-of-the-art digital technology for a risk management system of the assessment. Automated Examination Tool, Artificial Intelligence, and Machine Learning will ensure that there is either no human intervention or less interference from the Income Tax Department. The faceless tax assessment will provide more transparency and efficiency to the system. Now that more than 99% of the ITRs are filed online, the system will help in assessing the scrutinized ITRs easily.
- Also, the single territorial jurisdiction has been abolished and concept of dynamic jurisdiction has been introduced. Wide discretion and subjective assessment are being replaced by team-based assessment. You now have a system where your draft order is issued in one city, review is done in another city and finalisation in yet another city. There will also be other features such as centralised issuance of notice (by the National e-assessment Centre).
- Expeditious disposal of cases.
- Earlier people used government machinery as a tool to harass innocent people but faceless mechanism will put an end to it.

Challenges which may be faced in faceless assessments

- Resistance to change
- Taxpayers who are not tech-savvy may be reluctant to respond online or they will have to appoint a professional to assist in the online responses. Further, since there is no face-to-face interaction, the online submission should be well drafted, precise for the tax officer to understand taxpayer's submissions and claims correctly.
- Technical glitches, non-availability of internet connection, power failure, speed of the network, etc. could result in delays.
- Maintaining Digital Records
- Cyber Security Issues

Conclusion

'Faceless Assessment' scheme is going to be a game changer and the objectives sought to be achieved are exponentially faster clearance, a reduced interface between taxpayers and officers, and enhanced ease of doing business. Under the new regime, all cases other than serious frauds, major tax evasion, sensitive matters, black money, benami cases and international tax charges are to be done through faceless

assessment. The shift is towards rationalization, simplification, greater transparency, ease of managing tax issues and creating an overall taxpayer-friendly ecosystem. The faceless e-assessment system for income tax, which is currently being piloted, is a milestone initiative towards achieving these goals and India is the first country to implement this system which will help it to cope with current issues.



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