

E-verification of ITRs: mismatches and the mistakes

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SUMMARY

- *While the objective is good, the problem lies in the manner of its implementation*

The income tax department is moving to a system where information on transactions by taxpayers is collected from various sources and provided to them online, ahead of the deadline for filing tax returns, in the form of annual information statement and tax information statement. Taxpayers can object to any incorrect transaction by giving their feedback on the department's compliance portal. They can file the returns after taking such transactions into consideration so that they do not miss out on any item of income. This is a far more efficient and superior way of identifying escapement of income, rather than the department's current procedure of scrutiny of assessments. Therefore, scrutiny of assessments have reduced over the past few years, with focus more on cross verification of information.

The second stage of e-verification has now commenced, where taxpayers are informed about any mismatch in the information provided in their returns for the financial year 2021-22. Taxpayers are asked to give valid reasons for any such mismatch by selecting the appropriate reason on the compliance portal or by filing an updated tax return and paying the tax as well as the additional tax on the difference. Unfortunately, quite a few glitches have marred this e-verification process.

Hundreds of taxpayers faced a problem when the compliance portal showed interest income as a mismatch, though it had been shown in their tax returns as other income, since there was no separate column for interest income. Acknowledging this, the department responded by issuing a press release to clarify that a taxpayer need not respond to mismatches pertaining to interest income. Such mismatches would be resolved on their own and would be reflected on the portal when completed.

Unfortunately, there are many more such mistakes on the compliance portal. A common one relates to treatment of income from mutual funds as dividends, though there is a clear difference in law between dividends, which are declared by companies, and income distribution by mutual funds, which are not dividends in law but are referred generally to as dividends by laymen. The compliance portal reflects dividends as including mutual fund distribution, while taxpayers would have shown this as other income. Unfortunately, there is no option to select any reason for mismatch caused due to such wrong interpretation of law by the tax department. Such mismatches remain despite complaints.

Non-resident taxpayers who have dividend income on which tax is deducted at source at the normal rate of tax (20%) and do not have any other taxable income exceeding the exemption limit are exempted from filing income tax returns. However, if non-resident taxpayers try to select the appropriate reason on the tax department's portal—exemption from filing tax return by a non-resident, they are forced to select the option that states they will file an updated tax return.

In one such case, when the matter was escalated by a taxpayer's representative, a department official who took the phone call told him to select the 'income is exempt' option. When it was pointed out that this would be a wrong statement to make, since the exemption pertains not to income but to filing of the tax return, the official said they would get back shortly. During the next call, the official told him that the exemption for filing the tax return was only for companies and not for individuals. When he insisted that the relevant portions of the tax law be read over the call, it became evident

to the official that there was a mistake in the compliance portal. The problem still remains unresolved even after a week.

Such minor mistakes continue to be a source of major harassment to affected taxpayers. While the objective is good, the problem lies in the manner of its implementation. Even that can be resolved if there is a proper mechanism set in place for the first few months when such problems are noticed and brought to the notice of higher officials, and not just the call centre. Alternatively, there could be a dropdown item of 'other valid reason', which needs to be populated with space for a short explanation that can be reviewed by senior officials.

The consequences of non-resolution of mismatches could be reassessment proceedings, which consume the time of both the taxpayer as well as the tax department. Can remedial action be taken quickly, instead of allowing the problems to pile up?

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