

## A Study on Taxpayers' Perceptions about Income Tax Law

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### Abstract

*Indian Income Tax Law is considered to be most complicated tax law. The framework of Income Tax Law, existence of ambiguities, frequency of changes add to the complexity. There are lakhs of cases pending with Income Tax Appellate Tribunal (ITAT), High Court and Supreme Court. There is big administration cost involved on the part of Govt. to administer and collect the income tax, but still 100 % tax compliance is not achieved. On the other hand, the taxpayers claim that they need to exert a lot of time, cost and energy to comply with income tax law. It was necessary to check whether the facts support these statements. The data has been collected from 200 Tax Audited Business Entities to study the perceptions of Taxpayers regarding Indian Income Tax Law. Their opinions on Tax Complexity, existing Tax Rates, and unofficial payments has been collected and analyzed.*

**Keywords:** Tax Audited Business Entities, Perceptions, Tax Complexity, Unofficial Payments

### Introduction:

Taxes is the price we pay for civilization. Taxes should be fair, promoting economic prosperity as well as simple. But though people agree on these goals, they often disagree about the relative importance of each goal. As a result, policies try to make a balance among competing goals and simplicity lags behind to other priorities.

After the economic crisis of 1991, there were structural tax reforms in India with main purpose of correcting the fiscal imbalance. The Tax Reforms Committee (1992) and Task Force on Direct Taxes (2002) made various proposals for improving Income Tax System. These suggestions have been implemented by the government in phases from time to time, still Indian Income tax law is considered to be one of the most complex tax laws

The policy makers are continuously making efforts for adapting tax system to changing economic circumstances. Though there is big machinery employed for administration and implementation of taxes we could not be able to ensure 100% tax compliance. Improving the effectiveness of the tax system is a big challenge in India.

Being Chartered Accountant, the researcher has experienced that the assesseees need to do variety of compliances under the complex tax law. Further there are many ambiguities and complications in Tax laws. In addition to that every budget brings in certain amendments with it. It makes it really hard to track the compliances for the organizations. Therefore, Compliances with various Laws, is considered to be a major hurdle in doing business in India. The organizations

complain that they need to devote more time and exert more efforts on compliances, than efficiently managing their businesses. So it is necessary to study that whether the facts support the arguments of the organizations. This is the reason behind undertaking the research on “Study on Taxpayers Perceptions about Income Tax Law in Jalgaon District”

**Objectives:**

- To understand the taxpayers perceptions about Income Tax Law.
- To find out the effect of existence of ambiguities and frequent changes in the Law on the operation of Direct Tax.
- To suggest suitable measures to simplify the tax policies and tax administration with respect to Direct Tax Laws.

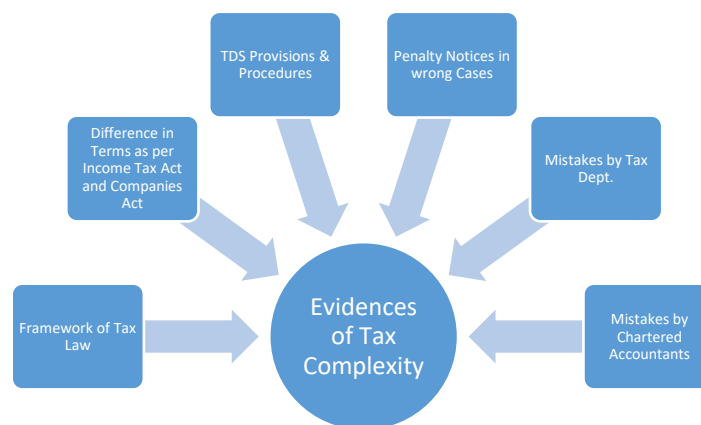
**Methodology:**

The study is undertaken on Tax Audited Business Entities of Jalgaon District. It ensures that very small entities are automatically excluded from the population. Tax Audit is applicable turnover of the Business exceeds Rs. 1 Crore and Gross Receipts of the Profession exceeds Rs. 50 Lakhs. Further if business or profession shows the profit below prescribed % of turnover or Gross Receipts, they also need to get their books audited, irrespective of amount of Turnover / Gross Receipts. Data has been collected with the help of Practicing Chartered Accountants from Tax Audited Business Entities. 250 questionnaire are distributed among the Tax Audited Business entities from Jalgaon District out of which 208 are returned and 200 are considered for further analysis.

Following Hypothesis is formulated for the study-

**H1:** Frequent Changes in Tax Provisions and Procedures increase the complexity of Business Tax Affairs.

**Why Income Tax Law is considered to be Complex? :**



### **1. Framework of Income Tax Law:**

The framework of Income Tax Law consists of Income Tax Act, 1961, Income Tax Rules on various matters, Government Notifications and CBDT Circulars. Further one has to keep himself regularly update with High Court and Supreme Court Judgments on disputed matters.

### **2. Difference in Terms as per Income Tax Act and Companies Act:**

Though Income Tax Act and Companies Act are most widely used Acts there are following major differences in operation of these Acts:

#### **➤ Difference in rate and methodology of calculating Depreciation:**

These differences mandates a compulsory adjustment while finalizing the tax liabilities of the organization. There are instances of wrongly charging of Depreciation in number of cases. There were 708 cases of mistakes in calculating depreciation leading to tax effect of Rs.2436.51 Crores (Source: CAG Report 20 of 2014 Allowance of Depreciation and Amortization)

#### **➤ Difference in definition of 'Relative' under both the Acts:**

There are differences in definition of Relative under the Companies Act 2013 and Income Tax Act, 1961. Further for income Tax purposes also the one has to keep in mind the two definitions general definition u/s 2(41) and definition given under Gift Tax Act for the Gift transactions

### **3. Complexity in Compliance with Tax Deducted at Source (TDS) provisions:**

TDS stands for tax deducted at source. Any entity making the payment is required to deduct tax at source if the payment exceeds given limits. The rates for TDS are prescribed by the tax department.

The TDS compliance burden on companies was high. Few reasons are discussed here:

(1) Companies had to go through two assessments, one for income tax and another for TDS.

(2) Great uncertainty prevailed due to the fact that no time limit on TDS assessments exists unlike income tax audits where there is a 5 year limit on reopening of assessments. So, TDS assessment records are required to be maintained for not less than 10 years.

(3) There was lack of coordination between TDS Deductors, Deductees and Income Tax officials leading to avoidable costs to companies which could be sorted out by streamlining of procedures.

(4) TDS penalties were often levied on Deductors though the fault lay with Deductees.

(5) The problems occur due to "incorrect application of mind" by tax authorities that raises post filing costs of TDS. (**Chattopadhyay & Das-Gupta, December 2002**)

#### **4. Issue of Penalty notices in wrong cases:**

Under section 271 (1)©, if it is satisfied that the person has undisclosed his income or furnished inaccurate particulars of his income the penalty will be levied @ 100 % -300% of tax sought to be evaded. Penalty proceedings need to be initiated at the time of order of assessment. However, it has been found that the Dept. has wrongly issued penalty notices which has created hardships on the assesseees. (**CAG, 28 of 2013**)

#### **5. Mistakes by the Dept.:**

Income tax Provisions and their compliances are so complicated that even the Dept. Officials are not saved from the mistakes. Internal Audit by Controller and Auditor General depicts that there are errors in assessments on part of Income Tax Dept. which leads to underassessment and resulting revenue loss. In 16236 cases there is under assessment by Tax Dept. with the tax effect of 18782.36 Crores. (Controller And Auditor General , 2016)

#### **6. Mistakes in Chartered Accountant's Reporting:**

Chartered Accountants are considered to be facilitators for Income Tax Dept. for administering the provisions of the Act. They are considered to be 'the expert' in the field of taxation. But the provisions of the Act are so complex, that even they are committing the mistakes.

During the assessments completed regarding financial year 2010-11 to 2012-13 in 367 cases CAs' failed to provide full and correct information leading to short levy of taxes 2813.11 crore . (CAG, 32 of 2014)

### **Result & Discussion**

**I. Demographic Characteristics:** The Data has been collected from 200 Business entities, majority i.e. about 76% of the respondents belong to the Age Group of more than 35 years. Regarding the **Gender Classification** about 86 % of the respondents are male and 14 % of the respondents are female. Considering the form of business 71 % Proprietors, followed by Partnerships and then corporate entities.

#### **II. Indian Tax Environment / Current Scenario:**

India was ranked 100 in 190 countries in World Bank's Doing Business rankings (World Bank , 2018). Though Tax Compliance is not the primary function of the business or Profession still the Organization has to spend lot of time in these compliances. So 72% i.e. 144 respondents replied that they find Income Tax is not easy to understand and comply with. When asked about the reason, these 144 respondents highlighted following reasons, which collectively make income Tax the most complicated Law.

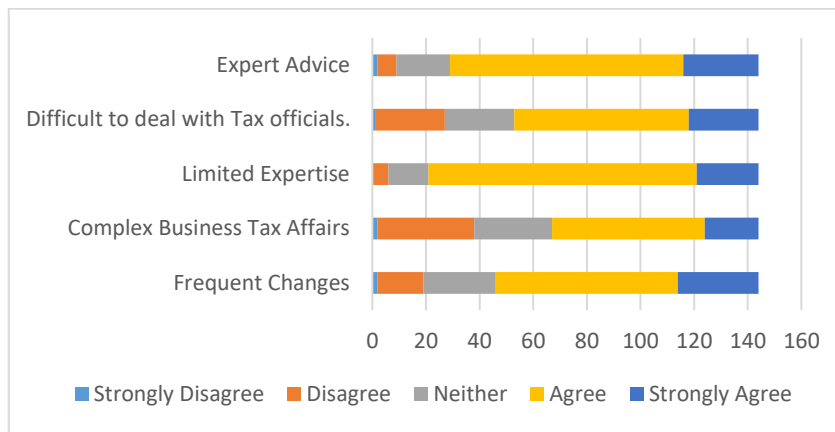


Figure 1: Reasons for Tax Complexity

About 85% of the respondents agreed that they have limited expertise in Tax matters and expert advice is necessary to handle them. 68% of the respondents replied that frequent changes in Income Tax Act make it hard to follow. 63 % of the respondents feel that it is very difficult to deal with Tax officials that increases the level of difficulty of Income tax. 53% of the respondents feel that their business tax affairs are complex

### III. Income Tax Rates:

- When asked about whether the Income Tax should be increased/ reduced, 46% of the respondents feel that either it should be remained same and 36% replied that it should be slightly reduced. Only 5% feel that it should be slightly increased. In an answer to another question, 72% of the respondents are feeling that understanding and compliance of Income Tax Law is not easy. This shows that people are not worried about the quantum of tax liability, they are more concerned about complexity prevalent in the Law.
- 76% of the respondents are ready to pay extra tax if Income Tax Law is simplified and 74% are ready to pay extra if there are no changes in Tax law for a sizable period.

### IV. Unofficial Payments:

- 35% of the total respondents agreed that they have Scrutinizes/ Cases pending with the Dept. Out of these, 68.6% respondents disclosed that they have cases pending with IT Authorities since last 3 to 5 years. There are 10% respondents whose cases are pending since more than 5 years.
- 29% of the respondents agreed that they experienced harassment from the Tax Dept.

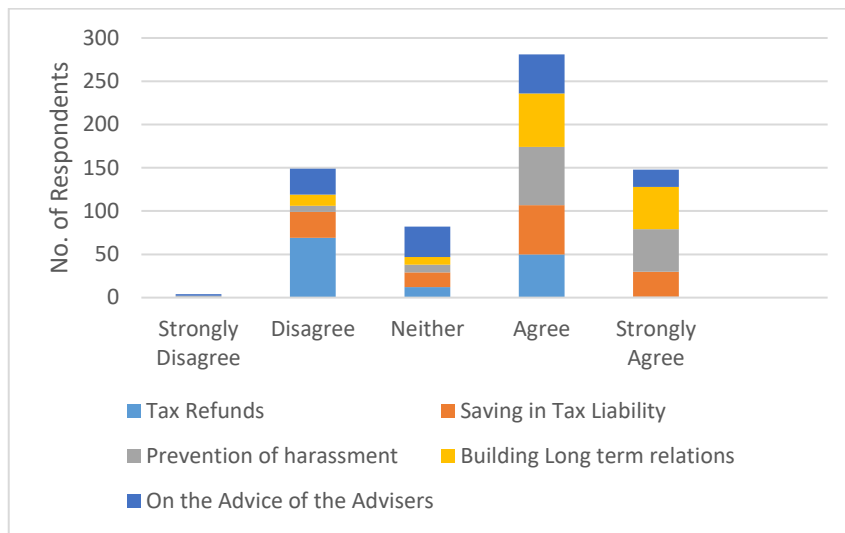


Figure 2 : Perceived Benefits from Unofficial Payments

- 67% of the respondents feel that it is necessary to pay unofficial money (bribes) to the Tax Authorities. The major reasons pointed out for unofficial payments are saving in Tax Liability, saving oneself from harassment, Building long term relations with Tax Dept. and on the advice of Tax Experts. Few of them feel that bribes are also paid for obtaining Tax Refunds.

A study conducted by Transparency International in 2005 reports that petty corruption in Income Tax Department in the country is estimated to be Rs. 496 crore per annum. Around 47% of those who had claimed to have paid bribe had directly paid bribes to the Income Tax staff (Transparency International India, 2005)

- The need to pay bribes led to businesses concealing their income since bribe costs could not be shown on the books
- Social consciousness to comply with taxes is adversely affected by the seemed improper utilization of tax payers' money.
- Psychic costs are a very important part of compliance costs. Many individuals do not want to be in the tax net only because of the mental tension they suffer from being a part of it.

**Hypothesis Testing:**

**H0:** Frequent Changes in Tax Provisions and Procedures do not increase the complexity of Business Tax Affairs.

**Ha:** Frequent Changes in Tax Provisions and Procedures increase the complexity of Business Tax Affairs.

**Table 1: Frequent changes in Tax Laws \* Business tax affairs complex Cross tabulation**

		Business tax affairs complex					Total
		Strongly Disagree	Disagree	Neither	Agree	Strongly Agree	
Frequent changes in Tax Laws	Strongly Disagree	0	2	0	0	0	2
	Disagree	0	8	2	7	0	17
	Neither	0	2	14	11	0	27
	Agree	2	20	10	26	10	68
	Strongly Agree	0	4	3	13	10	30
Total		2	36	29	57	20	144

Table 6.3 above shows the cross tabulation between tax laws change frequently and complications in compliance procedures, out of 144 respondents combining ‘Agree’ and ‘Strongly Agree’ responses, 59 i.e. 41% respondents reported that Tax laws change frequently as well as there are complications in compliance procedures and only 10 respondents disagreed to these statements.

**Table 2-Chi Square Test**

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	48.093 <sup>a</sup>	16	.000
Likelihood Ratio	49.506	16	.000
Linear-by-Linear Association	12.296	1	.000
N of Valid Cases	144		

(a. 14 cells (56.0%) have expected count less than 5. The minimum expected count is .03.)

The Pearson chi-square value in the Asymp. Sig. (2-tailed) column is 0.000 and less than .05 indicating that the rows and columns of the contingency table are independent. That shows we can interpret the cells in the contingency table. Frequent changes in Income Tax Provisions majorly in the form of Annual Budget, make the compliance with direct tax law more complex. One gets familiar with the Tax Law and even before digestion of the current year

changes, the new provisions come into force with new Budget. It becomes tough for even Tax experts, then what will be the situation of Business Entities, whose main focus is to run the business effectively and efficiently in this competitive era. In other words, since Asymp. Sig. is less than 0.05, the null hypothesis is rejected in the Business entities case and alternate hypothesis “*Frequent Changes in Tax Provisions and Procedures increase the complexity of Direct Tax Law*” is accepted.

**Conclusion:**

It can be concluded that Complexity is an inherent characteristic of Income Tax Law. Taxpayers are not bothered about tax payment, but they are more concerned about complexity of the tax law. They feel that frequent changes and difficulty in dealing with tax officials further adds into complexity. Increased tax cases, delayed disputes encourages unofficial payments and leads to Tax Avoidance. Thus, Formulating stable tax laws i.e. less frequent changes in tax law, maximum usage of electronic media i.e. avoiding direct contact between Tax Payer & Tax Administrator as well as Tax Simplification is the need of the hour.

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