Understanding of Compliance Query of Income Tax Department

Income tax department has started sending notices (Compliance Query) to non-filers for the assessment year 2013-14 & onwards & are also using the said information to verify under-reporting of income. The income tax department has been capturing information on financial transactions /activities relating to you through Non-filers Monitoring System (NMS). This year NMS has identified 44.07 lakh non-filers (Cycle 3 -2015) with potential tax liabilities for AY 2013-14.

Earlier NMS cycle 1 (2013) and NMS Cycle 2 (2014) identified 12.19 lakh and 22.09 lakh non-filers with potential tax liabilities. As a result of 1st and 2nd cycle, 30.68 Lakh returns have been filed and self-assessment tax of Rs. 4,733 crore has been paid by the identified target segment upto 31.03.2015. To identify tax evaders, the Income Tax Department has set up a major data center Centralized Processing Cell- Compliance Management (CPC-CM) which is in line with existing two such centers Central Processing Centre (CPC), Bangalore and TDS Centralized Processing Cell (CPCTDS) which will have dedicated workforce, drawn from the department. The CPC-CM is an ambitious project of the Central Board of Direct Taxes (CBDT) aimed at enabling the I-T department to use technical data to check cases of non-compliance and non- filers of taxes.

The CPC-CM will have the entire database of the Permanent Account Number (PAN), reports generated by financial snoop agencies and the full assortment of letters and notices issued to noncompliant taxpayers, their replies and the final action in the new center.

The department had initiated the business intelligence project in February 2013 to identify PAN holders who have not filed their returns and about whom specific information was available in its databases like the Annual Information Return (AIR), Central Information Branch (CIB) data or TDS/TCS returns.

Below are some of the information's collected by compliance management cell through AIR, CIB and TDS return for which notice is being served to non-filer.

**1. Annual Information Return(AIR) :**

AIR-001: Cash deposits aggregating to Rs. 10,00,000/- or more in a year in any savings account

AIR-002: Paid Rs. 2,00,000/- or more against credit card bills

AIR-003: Investment of Rs. 2,00,000 or more in Mutual Fund

AIR-004: Investment of Rs. 5,00,000/- or more in Bonds or Debenture

AIR-005: Investment of Rs. 1,00,000/- or more for acquiring shares

AIR-006: Purchase of Immovable Property valued at Rs. 30,00,000/- or more.

AIR-007: Investment in RBI Bond of Rs. 5,00,000/- or more

**2. Central Information Branch (CIB) :**

CIB- 94: Sale of Motor Vehicle

CIB-151: Transfer of immovable property

CIB-154: Transfer of capital assets where value declared for the purpose of stamp duty is more than sale value

CIB-157: Purchase of Immovable property valued at Rs. 5 lakhs or more

CIB-183: Time deposit of Rs 1,00,000/-

CIB-185: Purchase of Bank Draft of more than Rs. 50,000/- in cash

CIB 321: Share Transactions more than Rs. 20,000/-

CIB-403: Investment in Fixed Deposit/Time Deposit exceeding Rs. 2,00,000/-

CIB-406: Payment made against Credit Card more than Rs 2,00,000/-

CIB-410: Cash deposit aggregating of Rs 200000 on a day

CIB-502: Contract of Rs. 10,00,000/-or more in the Commodities Exchange

CIB-514: Interest paid by co operative credit Society

CIB: Payment in connection with foreign travel amount exceeding Rs. 1,00,000/- at one time

CIB: Payment to Hotel and Restaurants exceeding Rs. 1,00,000/- at one time

**3. TDS return:**

TDS-94A: TDS Return Interest other than interest on security (section 194A)

TDS-92B: TDS Return Salary to Employees (section 192)

**4. Service Tax Return :**

EXC-002: Turnover from services reported in Service Tax Return

**5. Stock Broker:**

STT-01: Purchase of equity share in a recognised stock exchange

STT-02: Sale of equity Share (settled by actual delivery or transfer) in a recognised stock exchange

STT-03: Sale of equity Share (settled by otherwise than by the actual delivery or transfer) in a recognised stock exchange

STT-04: Sale of option in securities (derivative) in a recognised stock exchange

STT-05: Sale of Futures (derivative) in a recognised stock exchange

The Non-filers Monitoring System (NMS) under Compliance Management Cell, New Delhi, was implemented as a pilot project to prioritize action on non-filers with potential tax liabilities. Data analysis was being carried out to identify non-filers about whom specific information was available in AIR, CIB data and TDS/TCS Returns.

**How are non-filers Monitoring System Works?**

The Non-filers Monitoring System (NMS) was implemented to identify non-filers with potential tax liabilities. Salient features of this initiative are:

• Data analysis was conducted to identify PAN holders who had not filed Income tax returns despite conducting high-value transaction as reported in AIR, CIB data and TDS/TCS Returns.

• Bulk Data matching exercise was carried out with the Financial Intelligence Unit (FIU) to include nonfilers who had conducted high-value cash transactions.

• Rule based algorithms were applied to classify the cases as P1, P2, P3, P4 and P5 priority ratings (P1 being the highest priority) for graded monitoring.

• Compliance Management Cell (CMC) sends letters to PAN holders communicating the information summary and seeking to know the submission details of Income tax return.

• Compliance module on the e-filing portal and information related to non-filers is made available to the specific PAN holder and capturing responses from the non-filers. SMS and email are also being sent to the target segment asking them to access e-filing portal. The PAN holder is able to provide details electronically and keep a printout of the submitted response for record purposes.

• Online monitoring system will ensure further follow-up action and track return filing and tax payment of the target segment.

• An online monitoring system will also ensure that information related to non-filers is effectively used by the field formation. How to deal with notice received for Non-Filing of Income Tax Return: If you get a notice for non-filing of income tax return from compliance management cell, first you need to understand why you have received notice. Consult an authorized and certified Tax professional before submitting information as incorrect submission will lead your case selected for scrutiny for further investigation.

• It is also advisable to compute tax liability if due, pay tax and file income tax return before submitting your response. If you chose option no taxable income without explaining proper source of income for high-value transaction, department may select your case for scrutiny and send you notice u/s 148 of income Tax act for further investigation.

**What happens if no response is electronically submitted within in the time limit?**

If you don't submit a response within the prescribe limit CPC-CM may send information available with them to concerned assessing officer. With the available information, the assessing officer if he has reason to believe that any income chargeable to tax has escaped assessment, then he may take up your case for scrutiny and assess tax liability subject to other provisions of the income tax. In such case, you may end up in paying tax liability along with interest and penalty.

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