

ITR FILING AND ITS CHALLENGES



e-Filing *Anywhere Anytime*
Income Tax Department, Government of India

THE INCOME TAX ACT, 1961



The primary legislation governing income taxation in India which came into effect on **April 1, 1962**



It has been amended numerous times since its enactment, but here are some key milestones and important amendments

Direct Tax Laws Act, 1987 - Introduced significant changes in IT Act, including the provision for MAT

Finance Act, 1995 – Introduced the concept of Electronic Filing of Income tax returns

Finance Act, 1999 - Introduced the concept of PAN as a common link of financial transactions for taxpayers

Finance Act, 2023 - Introduced the concept of taxation of Business Trusts

DIRECT AND INDIRECT TAX

Context	Direct tax	Indirect tax
Meaning	Reaches Government directly	Reaches Government under multiple layers
Levied on	Profits and Income	Goods and services
Taxpayer	Individuals, HUFs and businesses	Users and consumers of products, goods and services
Tax rate	Directly depends on income and profits	Uniform for everyone
Taxation	Time bound	Continuous/Simultaneous
Liability	Direct	Indirect
Evasion	Possible	Possible
Types	Income tax/ STT/ Wealth tax/ Gift tax	GST/ Other taxes

WHO IS AN ASSESSEE ? – SECTION 2(7)



Assessee means a person by whom any tax or any other sum of money is payable under this Act, and includes

Normal Assessee

An individual who pays tax for the total income earned during a financial year or the loss incurred by him.

Representative Assessee

A person who is responsible to pay tax for the income or loss caused by a third party.
Eg: Agent or guardian of a non- resident, minor or lunatic.

Deemed Assessee

An individual who is responsible to pay the tax as a legal entity.
Eg: Legal representative of a deceased person, Trustee of a trust

Assessee in Default

When individuals fail to meet their statutory responsibilities of paying tax, they become assessee in default.

NO. OF TAX FILINGS IN FY 2016-17 - FY 2020-21

PAN Category	FY-wise number of persons filing Income Tax Return									
	(Number in lakh)									
	2016-17		2017-18		2018-19		2019-20		2020-21	
	No. of ITRs	Percentage of Total ITRs	No. of ITRs	Percentage of Total ITRs	No. of ITRs	Percentage of Total ITRs	No. of ITRs	Percentage of Total ITRs	No. of ITRs	Percentage of Total ITRs
Individual	415.9	93.0	509.9	93.5	595.4	94.0	611.3	94.2	631.7	94.0
Company	7.2	1.6	8.0	1.5	8.5	1.3	8.4	1.3	9.2	1.4
Firm	10.6	2.4	12.1	2.2	13.2	2.1	13	2.0	14.1	2.1
HUF	10.1	2.3	11.1	2.0	11.7	1.8	11.6	1.8	12	1.8
Others	3.3	0.7	4.0	0.7	4.4	0.7	4.4	0.7	5.0	0.7
Total	447.1	100.0	545.1	100.0	633.2	100.0	648.7	100.0	672.1	100.0

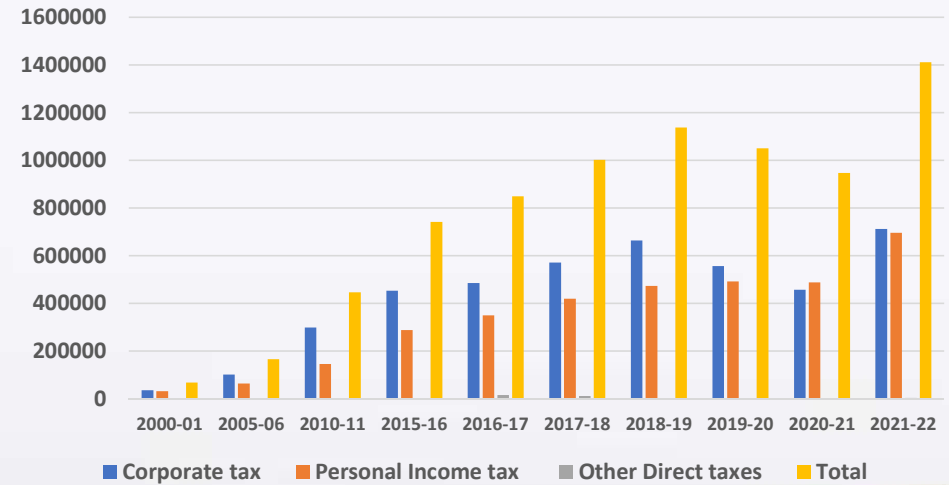
*Others include AOP, BOI, GOVT, AJP, Local Authority and Trust

(Rs. In crores)

Financial Year	Corporate tax	Personal Income tax	Other direct taxes	Total
2000-01	35 696	31 764	845	68 305
2005-06	1 01 277	63 689	250	1 65 216
2010-11	2 98 688	1 46 258	1 049	4 45 995
2015-16	4 53 228	2 87 637	1 079	7 41 945
2016-17	4 84 924	3 49 503	15 286	8 49 713
2017-18	5 71 202	4 20 084	11 452	10 02 738
2018-19	6 63 572	4 73 179	967	11 37 718
2019-20	5 56 876	4 92 717	1 088	10 50 681
2020-21	4 57 719	4 87 560	1 897	9 47 176
2021-22	7 12 037	6 96 604	3 781	14 12 422

DIRECT TAX COLLECTION

Direct Tax Collection



RESIDENTIAL STATUS – SECTION 6

Basic conditions

In India > or = 182 days in FY



In India > or = 60 days in FY
and > or = 365 days in
preceding 4 FYs



Resident

Further conditions

Non resident



NR in India in 9 out of 10
preceding FYs



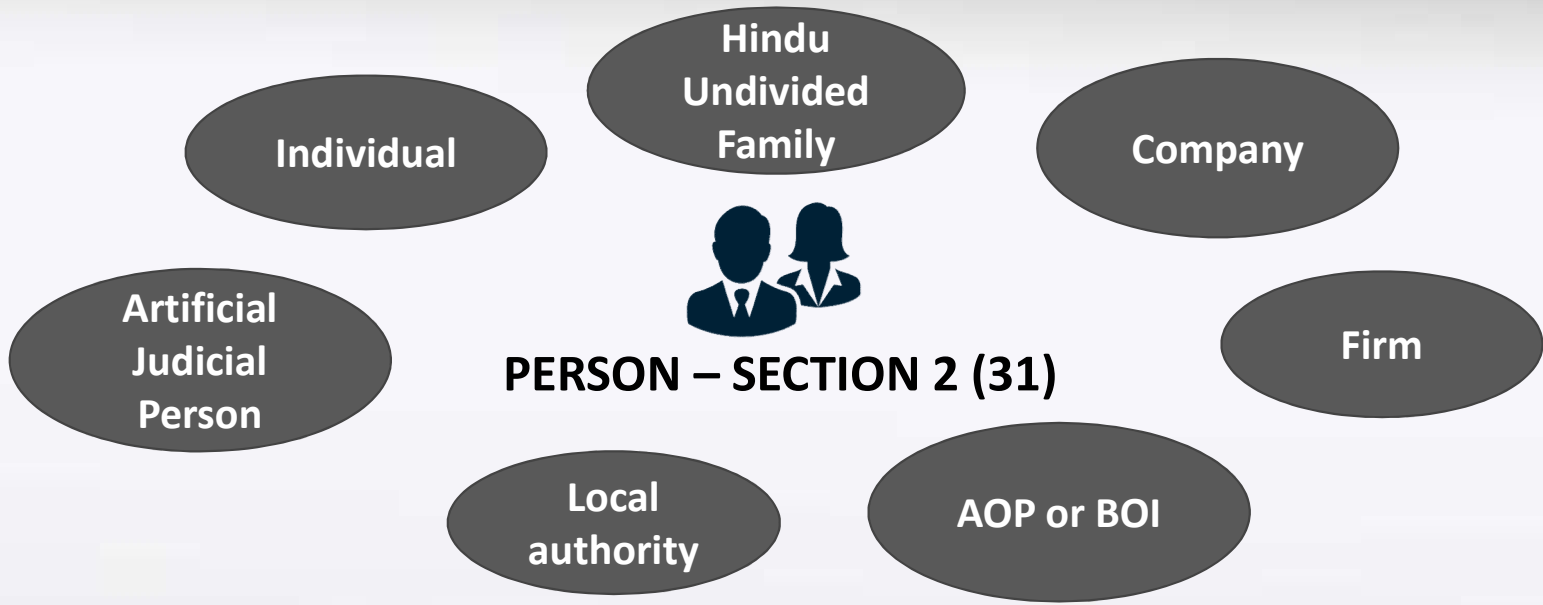
RNOR



In India for < or = 729 days in
preceding 7 years

ROR





THE INCOME TAX ACT, 1961
SECTION 14 - HEADS OF INCOME

Income from
salary

Income from
House Property

Income from profits/
gains of Business or
Profession

Income from
Capital Gains

Income from
Other sources

ITR FORMS

ITR FORMS	APPLICABILITY	SALARY	HOUSE PROPERTY	BUSINESS INCOME	CAPITAL GAINS	OTHER SOURCES
ITR 1 – SAHAJ	Resident individuals and HUFs	✓	1 ✓	✗	✗	✓
ITR 2	Individuals and HUFs	✓	1 x ✓	✗	✓	✓
ITR 3	Partner in a firm, individuals and HUFs	✓	1 x ✓	✓	✓	✓
ITR 4- SUGAM	Firm, HUFs and individuals- Income up to Rs. 50 lakhs u/s 44AD, 44ADA or 44AE	✓	1 ✓	✓	✗	✓
ITR 5	LLPs, Partnership	✗	1 x ✓	✓	✓	✓
ITR 6	Companies	✗	1 x ✓	✓	✓	✓
ITR 7	Trusts, Political parties, Institutions	✗	1 x ✓	✓	✓	✓
ITR V	It is the acknowledgement of filing the return of income.					

HOW DO I KNOW WHICH ITR I NEED TO FILE



Different tax returns are prescribed for filing by individual taxpayers depending on their source of income and residential status.

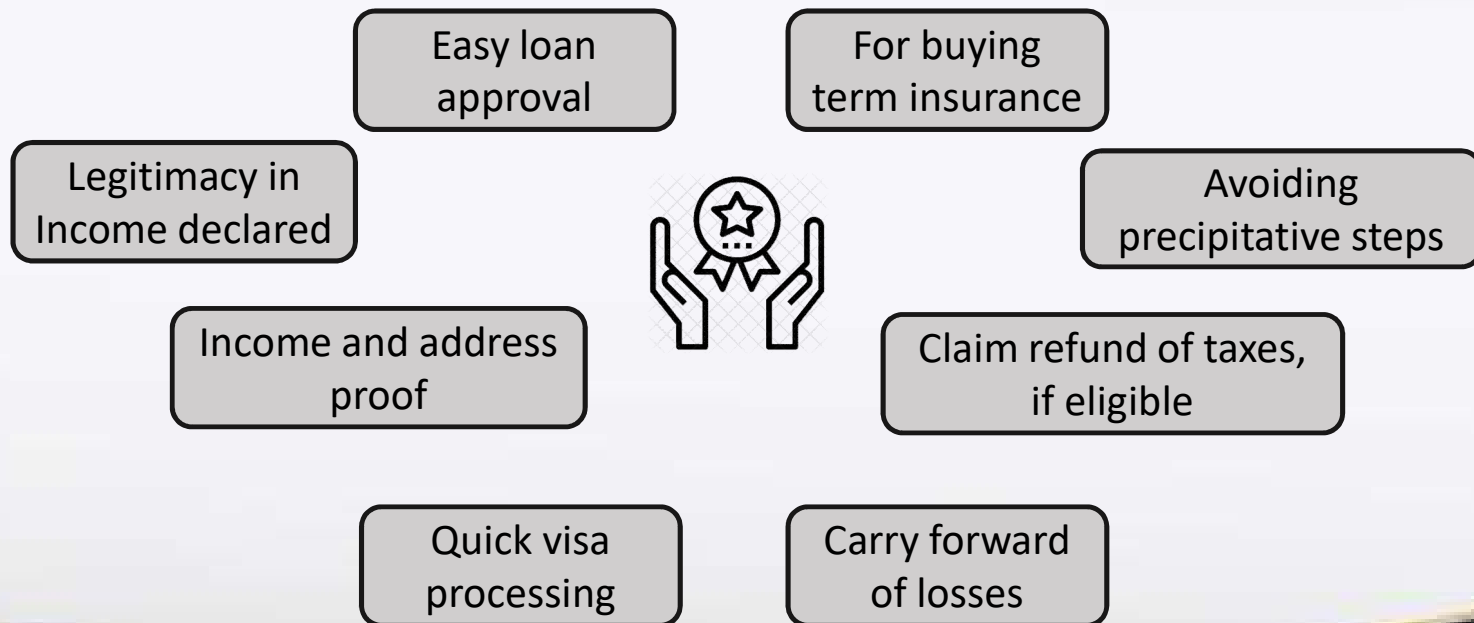


To determine the correct ITR to file, we can use the **Help tab** to decide which ITR Form to file.



We can then proceed to answer the questions displayed to us to determine the correct ITR form to file

BENEFITS OF FILING ITR



PRECAUTIONS WHILE FILING RETURN OF INCOME

- Download AIS and Form 26AS and check the actual TDS/ TCS/ Tax paid. In case of any discrepancy, we should reconcile it with employer/ tax deductor / Bank
- Compile and carefully study the documents to be referred to when filing the ITR, like bank statement/ passbook, interest certificates, receipt to claim exemptions or deductions, Form 16, investment proofs etc.
- Ensure details like PAN, permanent address, contact details, bank account details, etc. are correct in the pre-filled data.
- Ensure that PAN and Aadhar have been linked.

PRECAUTIONS WHILE FILING RETURN OF INCOME

- Identify the correct ITR form (ITR 1 to ITR 7). Provide all the details in the return such as total income, deductions (if any), interests (if any), taxes paid/ collected (if any), etc.
- E-file the return of income on or before the due date. The consequences of delay in filing include late filing fees, losses not getting carried forward, deductions and exemptions not being available.
- After e-filing, e-verify the return. If we want to manually verify the return, send the physical copy of ITR – V (Acknowledgement) to Centralized Processing Center, Income Tax Department, Bengaluru (Karnataka) within 120 days of filing the return of income.

COMMON ERRORS WHILE FILING ITR

Issues
Not linking PAN with Bank accounts
Filing incorrect and incomplete information of all bank accounts held
Not determining correct residential status
Selecting incorrect Assessment year
Mentioning incorrect personal or correspondence details
Failure to pre-validate bank account
Non reporting of Saving Bank and FD Interest
Not reconciling of income with Form 26AS, Form 16/16A and AIS

Issues
Not claiming correct deductions thinking that there is no taxable income
Not claiming TDS and avoiding claim of refund
Reporting incomes after deducting TDS
Not reporting interest received on Income tax refunds
Failure to account for more than one HP
Not reporting capital gains on switching units of MF
Not clubbing minor child incomes
Non- disclosure of exempt income
Non- disclosure of foreign assets and Income

COMMON ERRORS WHILE FILING ITR

Issues
Not keeping evidence of deductions claimed in ITR
Not paying Advance tax/Self Assessment tax
Submitting fake invoices/ giving wrong disclosure
Wrong claim of depreciation on Fixed Assets
Not reporting investment and withdrawal of capital gains related investments
Non- disclosure of losses being carried forward
Not submitting requisite forms
Late filing of Income Tax return
Failure to e-verify ITR V

Rectification
There is an option to rectify the mistake in ITR filing. Section 139(5) of the Income Tax Act permits the taxpayers to rectify their mistake in ITR filing by filing a Revised Income.
If taxpayer after filing their return discovers any mistake, omission or any wrong statement, he is allowed to file for a revised return any time before the end of respective assessment year or before the completion of that year whichever is earlier.

PROCESSING OF RETURN BY IT DEPARTMENT

At the time of processing ITR, the Tax Department checks for any arithmetical errors, internal inconsistencies, tax and interest calculation and verifies tax payment made etc.

Once the ITR is processed, the tax department sends the **intimation u/s 143(1)**

Initial processing of returns by CPC is **completely automated** and section 143(1) intimation is also computer generated record

Intimation with no demand or no refund

Intimation determining demand

Intimation determining refund

NATURE OF ADJUSTMENTS UNDER 143(1)

- Arithmetical errors** in the return
- Any incorrect claim which is apparent from any information in the return where incorrect claim which may include the following:
 - The claim of an item in the return which is **inconsistent with another entry** of the same or some other item in such return – For example, Income from Other Sources are deducted from Business Income but not declared under income from other sources.
 - Disallowance of set off loss in the financial year which is carried forward from previous years in which return was filed beyond specified due date.
 - Disallowance of **expenditure indicated in the audit report but not indicated in the return of income.**

USE OF AI IN ITR SCRUTINY

Indian Income Tax Department is extensively using AI to identify data for eliciting information. The Dept. uses algorithms to identify skewed claims and also uses ratio analysis to elicit data u/s 133(6).



It is observed that the AI is used to compile information on investments in FD, shares, MFs from connected entities such as banks, MFs, Regn. Dept., travel agents, clubs, Immigration Dept.

My hearty thanks to the Managing
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