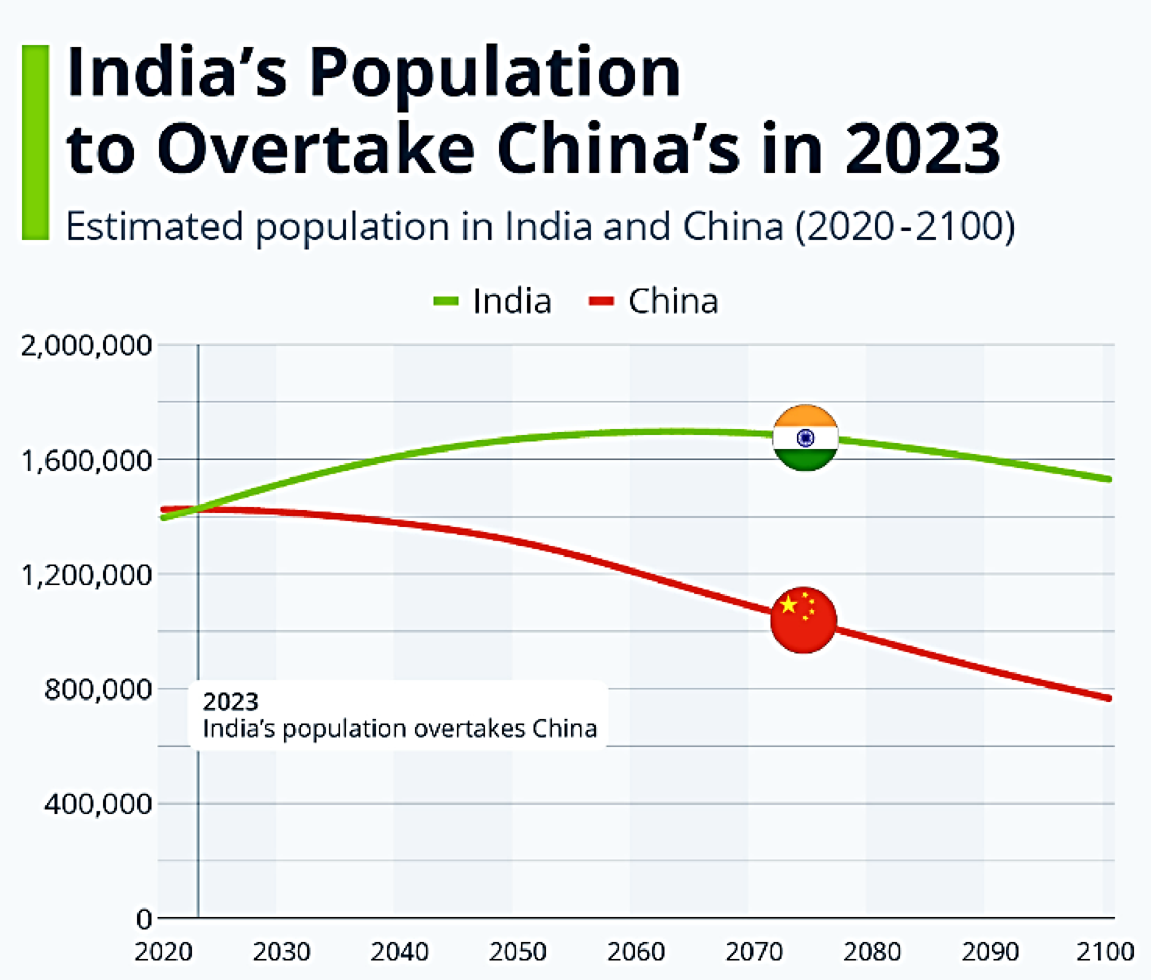
Survey on income-tax digitalisation in India

19 May 2023

Context

Indian economy – select attributes



- 2023 estimated @ $3.7 T
  - 5th largest in the world
- GDP growth @6%
- Tax to GDP ratio @11.7% and climbing
- 100% electronic filing of all taxes
- YoY growth in GST @12% and direct taxes @10.5%
- **Still only ~6% of individuals pay income tax**

Sources: United Nations, IMF, Press Information Bureau of India

Tax authorities are making tax digital

Manual computation
- Type written
- Manual workings and filings

Electronic filing (XML, XBRLs initiative)
- FY 2004-05: E-TDS Return
- FY 2006-07: E-ITR for Corporates
- FY 2012-13: E-ITR for Individual

CBDT initiates Paperless Assessment using email communication as a pilot project

Goods and Services Tax (GST)
- Transaction level reporting of sales and purchases
- Reconciliations for input tax credit

Faceless Assessment scheme

1980 | **1990** | **2005** | **2010** | **2015** | **2016** | **2017** | **2018** | **2019** | **2020 and onwards**

- 2006: e-payment of excise duty and service tax for large taxpayers; e-filing of VAT returns
- 2007: e-payment of custom duty
- 2011: e-filing of service tax returns

Project Insight launched with a vision to curb Tax evasion

- Faceless Appeal scheme
- Income tax portal 2.0
- E-invoicing

Survey findings

Income-tax digital administration

Industry perspective of key transformation initiatives undertaken by the tax administration

- **E-filing 2.0** has been well received by respondents across the board as pre-filled ITRs and AIS/TIS information have reduced the time spent in data collation and in errors.
- Respondents are appreciative of the improved **income-tax portal** for its user-friendly interface and e-documentation trail maintenance; the portal received the highest ranking (1 or 2) across companies.
- Respondents from companies with a turnover of INR 500-3,000 crore appreciated **computer-based scrutiny selection** the most; while also welcoming the **speedy processing of returns and refunds.**
- **Faceless assessments** have been appreciated the most by respondents from companies with a turnover of INR 3,000-6,400 crore.

Potential areas of using technology in tax administration

- **Two-thirds of the** respondents and **84 percent** respondents from companies with a turnover of more than INR 6,400 crore, highlighted that reduction in the number of income-tax **compliance by utilising filings made by taxpayers under other regulations,** including GST returns, annual return filing with MCA, and FEMA reporting, can drive tax digitalisation.
- **Simplifying reporting under tax regulations,** such that reconciliations are quicker and more efficient, was another key ask from respondents, especially from larger companies.
- **Sixty-four percent of** respondents from companies with turnover of less than INR 500 crore, suggested **streamlining TDS/TCS compliance** with technology.

Income-tax digital administration: The Deloitte perspective

1. Prefilled tax filings for corporates
2. Data validation
3. Enhanced user experience through dashboards
4. Use of data analytics for targeted reach
5. Speedy refunds for corporates
6. Revamping faceless assessments
7. One size doesn’t fit all
8. Standard Audit File for Tax (SAF-T)
9. Leveraging filings under other regulations
10. Simplifying data reporting
11. Consistency rather than frequent changes in laws / reporting
12. Digital tracking of litigation and refund disposal

Assessing the impact of digitalisation

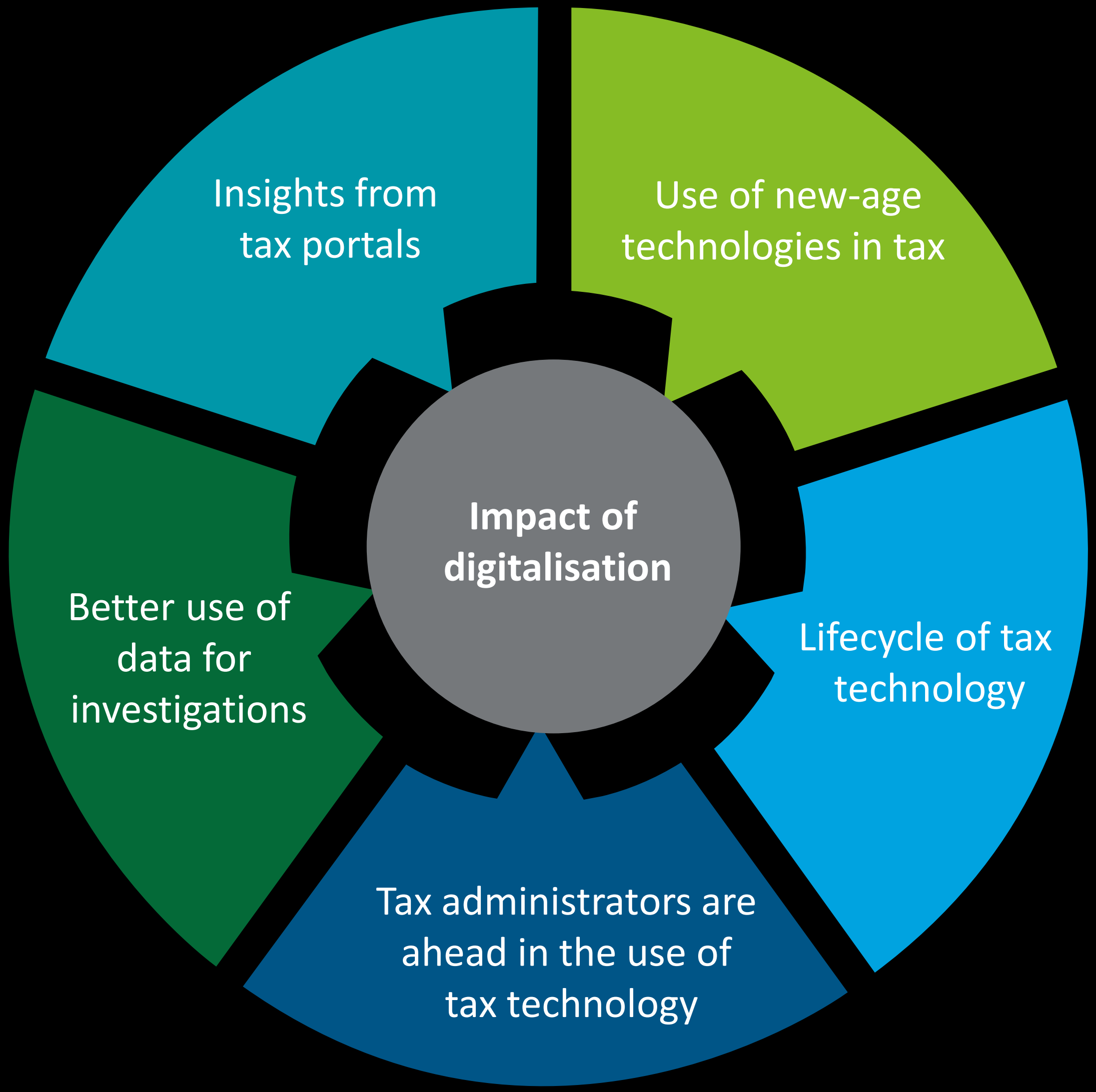
Assessing the impact of digitalisation initiatives by tax administrators

- More than half of the overall respondents expressed that **data availability and accessibility on the income-tax portal** had a positive impact on their businesses. The score increased with the size of the company; **65** percent respondents from companies with an annual turnover of above INR 6,400 crore, attest to the benefits of data accessibility on tax portals.
- Contrasting to the above, where the benefits were felt more by relatively larger companies, the benefits of **reduced time spent on compliance was** recognised by companies, irrespective of their size.

Digital tax administration fuelling operational transformation

- **All companies** indicated that digital tax administration has led to **some increased use of tax technology.**
- **Twenty-six percent** respondents believe that the increased use of tax technology is **very significant**, and **40 percent believe** it is **significant.**
- Use of tax technology significantly/very significantly increased among **92 percent** companies with a **turnover of INR 6,400 crore and above, and 84 percent companies with a turnover of INR 3,000-6,400 crore.**

Assessing the impact of digitalisation: The Deloitte perspective



Tax compliance and technology use

Time spent on compliance by direct tax teams

- **Eighty-six percent** respondents from companies with **a turnover of more than INR 6,400 crore** indicated that tax teams spend **more than 50 percent of their time on compliance; 43 percent** of them indicated spending more than **75 percent** of their time.
- The trend reverses for companies with a **turnover of less than INR 3,000 crore**. Nearly 2/3rd of respondents from these companies indicated they spend **less than 50 percent** of their time **on compliance; more than 20 percent** indicated that **time spent** is less **than 25 percent**.

Use of technology and automation in the tax function

- Overall, **six out of ten respondents** believe that their tax functions **highly operate on technology solutions.**
- **Eighty-five percent** organisations with a **turnover of INR 3,000 crore and above** reported **high or significantly high** use **of technology in tax.**
- Meanwhile, **14 percent** respondents have **low technology use within their tax function**, signalling that the adoption of technology in the tax function is still not universal, especially amongst **relatively smaller companies.**

Tax technology in use

- **Three-fourth of all respondents** are utilising **specially configured ERPs** for tax compliance; interestingly, **every company** with a **turnover over INR 3,000 crore** uses **ERP** as one of the primary systems for tax compliance.
- **Tax software,** either customised or third party, is **effectively used by all organisations** across the board for tax compliance.
- The importance of **Excel and other systems is relatively low;** only 26 percent respondents indicated their usage for tax compliance.

Status of automation in specific areas

- **60 percent** companies have **completed the automation for transaction tax and annual tax compliance**, and the **rest** are in the **process of doing so.**
- Similarly, **53 percent** companies have **automated data reconciliations**, whereas **45 percent** are on the **path of automation.**
- **Data extraction from ERPs** is another **key area that has been picked up for automation** by organisations.
- **Larger companies are more keen** on **digital tracking of compliance and litigation**, tax **data analytics** and **customised tools for tax processes.**

Tax compliance and technology use: The Deloitte perspective

Status of automation

- Different facets of automation
- Customised solutions for data
- Increased focus on tax analytics
- Growing user base of third-party tax technology software

Time spent on compliance

- Large organisations spend more time on compliance
- Organisations are looking for reduced compliance and simplified reporting

Tax technology in use

- Increased use of tax-sensitised ERPs
- ERP configurations
- Move from the tax software to ERP
- Evolution from spreadsheets to technology tools
- A new era for tax technology

Use of technology and automation

- Large organisations report greater use of technology
- Income-tax automation is yet to be explored in depth
- Use of technology beyond compliance

Future of technology in tax

A

Transforming into a technology-driven tax function

- **Seventy-nine percent** companies believe that their internal tax functions will be **technology-driven in the next five years.**
- **Thirty percent** respondents from companies with a **turnover in excess of INR 3,000 crore** believe that their **tax function is already technology-driven**, and another **42 percent** believe that they will achieve this in the **next 1-2** years.
- **Only twenty-one percent** companies believe that it will take **more than** five **years** for their **tax functions to be technology driven.**

B

Key roadblocks to transformation

- The largest impediment to technology adoption is **integration with current systems**.
- **Changing mindsets** of individuals is one of the **top two roadblocks identified by all companies**, regardless of size.

C

Budget for tax transformation and automation

- **Fifty-two percent** respondents from companies with a **turnover in excess of INR 3,000 crore** reported a **significant increase in budget for tax transformation and automation.**
- **Sixty-seven percent of respondents** reported an **increase in the budget** for tax transformation and automation.
- **Nearly half of** the **respondents** from organisations with a turnover up to INR 3,000 crore mentioned that their budget for tax transformation increased moderately.

Future of technology in tax: The Deloitte perspective

Technology-driven tax function	Accelerating change	Developing skill and talent
Emerging talent in tax technology	Integrating technology	Increased budgets and investment for tax transformation
Future of tax function must be tech-enabled	Building tax budgets	IT functions are aiding tax functions

Transformation of the Tax function

Conclusion

Conclusion

The tax administration has been ahead of taxpayers in using and implementing technology in tax. This is reflected in taxpayers' responses, who accept that a digital-friendly tax administration has acted as a catalyst for technology uptake in tax. India Inc. has been proactively adopting digital/automated tools in their tax functions. The next step in such transformation would be data extraction with automation, which can encompass unified solutions in reconciliations and computations, ultimately leading to tax filings. **The following are some key themes from the survey:**

Tax administration takes the lead: Numerous transformational initiatives have been introduced to streamline tax compliance and for better data tracking and availability for taxpayers and administrators. These efforts have been appreciated by the taxpayer community, which has resulted in reduced time spent on compliance.

One size doesn't fit all: Asks from taxpayers differ depending on the size of the organisation. While the asks of large organisations are for the tax administration to use filings made under other regulations and thus, simplify tax reporting, small ones seek to streamline TDS/TCS. Large companies have evidently moved up the chain in technology adoption in tax. compliance

Digital tax tools are here to stay: About 86 percent respondents have reported active adoption of digital/automated tools within their tax functions by automating transactional taxes and annual compliance, including data reconciliations.

Tax-savvy platforms: The importance of tax-sensitised ERPs is going up significantly and tax functions will have a key role to play in any finance transformation, especially in ERP implementation or modernisation projects.

Need for custom-built technology: According to most respondents, tax teams spend at least half, if not more, of their time on compliance. Despite technology adoption, tax functions appear to spend a disproportionate amount of time on tax compliance. This underscores the need to carefully select technology tools and customise them based on specific needs.

It is pertinent to note that the tax technology trends discussed above are broadly consistent across industries. Tech-enabled and transformed tax functions are no longer "good to have" but a "must-have" attribute for all organisations.