TIGHTENING THE NOOSE AROUND TAX EVASIONS

Summary

When Sowmya found a loophole in the income declaration forms, proactive problem-solving and effective data analytics helped accrue additional tax collection for the government .

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Diligence is key

Sowmya has been at it for hours. Sifting through troves of data, she is looking for incidences of improper income declaration by taxpayers. From implementing automated returns filing to predictive pre-filling of ITR forms for all taxpayers, Sowmya has worked closely with the tax department in proactively identifying leakages in national tax collection. This time, Sowmya caught a new pattern. Certain taxpayers were not declaring income from interest earned, causing huge losses to the exchequer.

Sowmya immediately flagged the find to the Additional Commissioner and prepared a detailed proposal for a possible solution. After months of planning and legislative approvals, the proposal was accepted by the finance ministry. Sowmya led a team of skilled data analysts and identified 10% of all national taxpayers who omitted the income they generated from interest earned. Following are the causes identified for the evasion:

• Lack of a mechanism to question taxpayers about non-disclosure of income, i.e., the cases where the income declared by the taxpayer did not match with the records
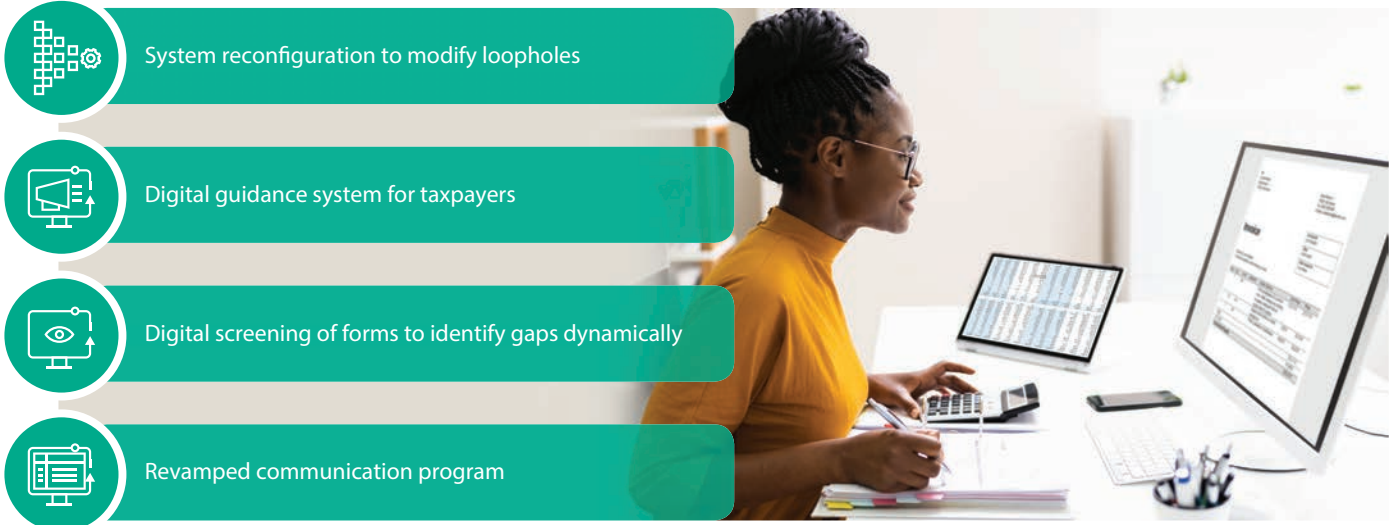
• Only 1% of the returns filed were being scrutinized for non-disclosure of income and tax evasion

• There was no systematic way to compare available taxpayer records to the income tax return filed to identify any omission

• Manual intervention for data collection was also not possible because of the automated rule-based engine

Solution is near

With the challenges identified, Sowmya's objective was clear – solving it. In consultation with the Additional Commissioner and other officers of the government department, Sowmya and her team brainstormed on possible solutions and drew up an action plan.

Approach summary

- System reconfiguration to modify loopholes
- Digital guidance system for taxpayers
- Digital screening of forms to identify gaps dynamically
- Revamped communication program

- The e-filing facility for taxpayers must be adjusted, allowing them to respond/file revised returns by correcting mistakes digitally

- A guidance system was to be created that will digitally validate the information filled by taxpayers for accuracy, preventing incorrect processing of returns

- Enabling smoother and faster communication to taxpayers to improve awareness on violations to Income Tax law, and increase compliance in the first filing attempt

However, the enormity of the national database presented a challenge for the department in terms of implementing a seamless automated experience for taxpayers. Several incorrect filings and false filings were reported due to technical glitches.

Did it help?

Having proactively plugged the glitches with AI and an analytics-based approach, the government department enabled the correction of over 3 million forms during the first year of implementing the solution framework. The accuracy and agility in identifying cases of non-disclosed income improved exponentially in the following years, while there was a rise in compliance due to timely and targeted communication pushed to relevant taxpayers.

Key benefits

- $103.5 million increase in net tax
- 724k revised returns filed
- 27.6% increase in revised returns filed

The project is now automated and is recording continued benefits for the exchequer. Sowmya, however, isn't catching a break. Having delivered the project to success, Sowmya is onto a new investigation. The objective remains the same – improving the experience of taxpayers.

Names have been altered to preserve privacy of the people involved.

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