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A STUDY ON THE SHIFT FROM PHYSICAL TO FACELESS TAX ASSESSMENTS IN INDIA

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Abstract: Through the introduction of the Faceless Assessment, a major reform has emerged in the Indian income tax system. This reform has replaced the traditional assessment system. It is a technology-driven, electronic system designed to overcome the shortcomings of the physical assessment system. The main objective of this scheme is to bring greater transparency to the government's assessment process, reduce human interaction, improve the effectiveness and efficiency of tax administration, enhance the department's image, and increase public trust in the income tax department. Additionally, it aimed to completely eliminate cases of corruption and bribery. This paper studies the entire transition process from the traditional physical assessment system to the Faceless Assessment scheme. It covers the concepts, objectives, working mechanism, benefits, and challenges of the Faceless Assessment scheme. It also compares the physical assessment system and the Faceless Assessment system and discusses how both taxpayers and tax authorities perceive this shift.

Key-Words: Faceless Tax Assessment, Tax Digitalization, Tax Administration, India

Introduction:

In the way that income tax holds the most significance in direct taxes, similarly, tax assessment in income tax is a crucial part. Tax assessment is a process in which the tax department scrutinizes the income tax return filed by the taxpayer. If any errors or discrepancies are found, the tax department issues a notice to the taxpayer seeking clarification, and thereafter, the taxpayer responds to that notice to fulfil its demand. This entire process is called assessment. Earlier, in the traditional assessment system, that is, the physical assessment system, when a notice was issued by the income tax department, the taxpayer had to go to the income tax office personally to submit all the necessary documents and details, explaining the reasons behind the transactions and asserting that no tax evasion had taken place. This physical assessment, or traditional system, had many shortcomings, which made both the government and the taxpayer feel that this system needed a change. In the old assessment system, there were often cases of bribes, corruption, and graft, which raised questions about the image of the income tax department and the government. There was a lack of transparency; often, even after submitting a response, the taxpayer did not know for many days what progress was being made. Many income tax officers misused their power, taking bribes from taxpayers even in cases where no tax evasion occurred, to close the matter. Keeping all these issues in mind, the government introduced a completely digital-based Faceless Assessment scheme and reformed the assessment process significantly. This paper details the transition from the physical assessment system to the digital assessment process, and the aim of this paper is to enhance transparency and improve the efficiency of tax administration.

Review of Literature:

(Deepti & Dr. Goel, 2022) have provided very good information regarding the changes made in assessment processing from the beginning until now. First, they provided phase-wise information about how PAN allotment used to happen previously versus how it is done now. Along with this, they specifically gave detailed information about the changes that occurred in income tax assessment. In their paper, they mentioned Phase 1, during which computerization was introduced in tax administration for the first time; this was the period from 1984 to 1989. After that came Phase 2, in which the PAN system was implemented and online processing of bank challans began. Following that, they provided information about Phase 2, and then Phase 3, in which Section 285BA was introduced for scrutiny assessment, allowing us to view information on important taxpayers. Subsequently, in Phase 4, the e-filing of TDS returns was launched. In Phase 5, for the first time in India, the e-filing of income tax returns was introduced in the year 2006. After that, in Phase 6, the Central Processing Centre (CPC) was established in the year 2008. In Phase 7, a very major change was introduced, which we can also call a 'game-changing' move—the launch of TRACES in the year 2012. Following that, Phase 8 was initiated – Faceless Assessment scheme, covering the period from 2017 to 2020. In the conclusion of paper, it is noted that the Indian government has continuously introduced reforms in income tax since 1991, and these reforms have shown positive impacts. One of the most significant of these reforms is the Faceless Assessment Scheme, which stands out. The government needs to consistently bring innovation to it and further streamline it.

(Deb, 2024) has compared the previous taxation system with the current one. It is mentioned that, earlier, there was what was termed as tax terrorism, and honest taxpayers felt that whenever an income tax notice was issued, they had to face a lot of difficulties. There was no accountability fixed on the income tax officers, leading to frequent disputes. However, with the introduction of the Faceless Assessment, these disputes are expected to decrease. Moreover, the government has repeatedly introduced tax amnesty schemes to build trust, such as the one announced in the Union Budget of 2020 and extended until August 31, 2021, which aimed to settle 1,32,000 tax disputes amounting to ₹99,765 crores. Thus, the reforms implemented by the government have increased taxpayer trust and improved the image of the government and the department, as highlighted in this paper.

(Ahirwar & Shrivastava, 2025) A study was conducted on the impact of income tax reform on the Tax Assessee and the Tax Authority. The main objective of the study was to study the impact of income tax reform on the Tax Assessee, the improvement in administrative efficiency, and the challenges faced by the Tax Assessee and the Income Tax Officer. Systematic and Structural Research Methodology was used in this paper. Qualitative and Quantitative Approach was used to develop comprehensive understanding. Descriptive and Analytical Research Design was used in this paper. Primary Data was collected in this paper. Individual Tax Assessees, Chartered Accountants, Tax Practitioners, Income Tax Officers, and Income Tax Staff were covered in this paper. 50 Respondents were included in this paper. 25 Tax Assessees and 25 Tax Authorities were included. Non-Probability Convenience Sampling Method was used. In the questions, first of all, the awareness of the income tax reform body, ease of compliance, the experience of filing, the interaction with the income tax authority, the satisfaction of faceless assessment, transparency, and challenges related questions were asked. In which, for data collection, Google Form, Telephonic Interview were also used. If we talk about tools, percentage analysis, mean score analysis, bar chart, and histogram were also used. In this study, from 2010 to 2024, the period was covered. And, salaried and self-employed, both were covered. When it comes to the conclusion, the benefits of this scheme include increased transparency from the government, improved accountability, and promotion of the digital economy, enhanced administrative efficiency, and better tax collection. On the other hand, the challenges include difficulties faced by individuals with low digital literacy, the complexity of tax procedures, compliance challenges for MSMEs, and concerns related to cyber threats and data privacy. These challenges have emerged alongside the benefits.

Objectives of the Study:

The following are the objectives of the study.

1) To study the faceless assessment scheme in taxation.
2) To compare traditional (physical) assessment with faceless assessment.
3) To measure benefits and challenges of the transition.

Research Methodology:

This study is based on a descriptive research methodology. It uses only secondary data, such as government orders, government circulars, CBDT notifications, the Income Tax Act 1961, Income Tax Act 2025, Income Tax Rules 1962, Income Tax Rules 2026, research articles, journals, office reports, reports published by government departments, and articles by senior chartered accountants on the Faceless Assessment scheme. Using all this literature, the study examines the benefits and challenges associated with the physical assessment system, and it also tries to understand the necessity of the Faceless Assessment scheme.

Descriptive Study about Shift from Physical to Faceless Tax Assessments in India:

- **Physical Tax Assessment System in India:**

  In the traditional assessment system, also known as the physical assessment system, whenever a taxpayer received a notice from the Income Tax officer, they had to go in person to their own jurisdiction's Income Tax office and provide all the required information. All demanded documents had to be physically submitted. The entire process was manual, and any response from the taxpayer had to be written down and submitted to the Income Tax officer. If the officer was not satisfied with the documents, they could give the taxpayer another hearing date and request further information or documents. Thus, on the next date, the taxpayer again had to physically go to the Income Tax department and submit all documents and information. This entire process was very time-consuming, as the taxpayer had to wait for the specific date provided by the Income Tax officer. Often, if another taxpayer's hearing was ongoing, the taxpayer had to wait a long time, and only when their turn came could they provide their documents and information to the Income Tax officer.

- **Introduction of Faceless Tax Assessment:**

- The Faceless Assessment is considered the biggest e-governance initiative of the Income Tax Department. It can also be seen as part of Digital India. The Faceless Assessment scheme is regulated under Section 144B of the Income Tax Act, 1961. In this scheme, all conduct is done by the National Faceless Assessment Center, and there is no direct contact between the taxpayer and the Income Tax officer. When any case is selected in income tax, it is automatically allocated to an assessment unit, which can be any Income Tax office across India. Thus, the taxpayer, regardless of location—for example, if the taxpayer is from Gujarat, their assessment could be done by an officer in West Bengal—can be assessed anywhere. This entire process is based on dynamic jurisdiction. All communication happens online. Whenever the Income Tax officer needs information from a taxpayer, they issue an online notice, and the taxpayer submits the response online. A deadline is given for this online submission, so the taxpayer can provide their response at any time, from anywhere, before the deadline. Additionally, if any supporting documents need to be attached, they can also be uploaded online. Thus, the taxpayer does not have to visit the Income Tax Department, nor does the officer have to make physical arrangements, since all procedures are online, which increases accountability and transparency.

- **Objectives of the Shift to Faceless Assessment:**

  The main objective behind introducing the Faceless Assessment was to reduce corruption and eliminate the direct contact between the Income Tax officer and the taxpayer. At the same time, the government aims to promote Digital India through such a reform, encourage ease of doing business, and ensure that no taxpayer or businessman is wrongly harassed. The government wants to develop a taxpayer-friendly system so that more people comply with tax rules, save their time, build trust in the Income Tax Department, adopt technology-driven processes, which in turn will increase tax collection, boost investment in the country, and ultimately improve the image of the country. These are all the efforts being made with this aim.

- **Working Mechanism of Faceless Assessment:**

  When we talk about the working mechanism of the Faceless Assessment scheme, the notice is generated electronically by the National Faceless Assessment Center through a centralized system. As soon as the notice is generated, it immediately appears on the taxpayer's Income Tax portal in real time. This resolves the earlier issue of delays, where notices sometimes took a long time to arrive by post or never reached the taxpayer. In the Faceless Assessment scheme, four different units work together: the assessment unit, verification units, technical units, and review units. Each of these units is assigned specific functions so that the work can be carried out smoothly, with proper communication between them and a seamless flow of the entire assessment process, all overseen by the National Faceless Assessment Center.

- **Benefits of the Shift to Faceless Assessment:**

  If we look transition of the scheme from the physical assessment scheme to the faceless assessment scheme, the biggest benefit of this transition has been that the taxpayer's convenience has increased. In the old system, the taxpayer had to go to the Income Tax Department themselves, and often had to deal with various moods of Income Tax officers. There was often a need to wait as well. However, in this faceless assessment scheme, the taxpayer can reply to the Income Tax notice at any time, from their preferred place, at their convenience. Thus, the convenience has improved. Another biggest benefit is that, in the old system, often in a case where there was nothing, the Income Tax officers would still take some bribe or engage in corruption to pursue something. But, because this entire process is online, in the faceless assessment, this is almost impossible. Thus, corruption, bribery, and all of that have reduced. Thus, we can say that this shift has taken India forward towards a modern Income Tax administration system.

  Challenges and Limitations:

- The faceless assessment scheme has many benefits, but it is still facing numerous challenges. For example, the digital infrastructure of the Indian Income Tax Department, along with the taxpayer's digital literacy, can be seen as the biggest limitations or challenges. Also, it is very difficult to explain complex cases online. In the physical assessment, you could meet the Income Tax officer and explain the small business-related details in person. If they didn't understand, you could clarify it right there or correct any misunderstandings. But online, even though the taxpayer is presenting their case, the Income Tax officer might misunderstand it, and this causes psychological stress for the taxpayer. Additionally, extensions are often not allowed, and language is also a major issue, as the entire process happens only in English. For taxpayers who are more proficient in their regional language, this scheme poses difficulties.

- **Impact on Taxpayers and Tax Administration:**
  The Due to this shift in the assessment scheme, the relationship between the taxpayer and the tax authority can be said to have improved. Now, an honest taxpayer no longer faces wrongful allegations by an Income Tax officer without cause. Similarly, an honest Income Tax officer no longer has to face the stigma of being a corrupt officer, because earlier, all Income Tax officers were stereotyped as being corrupt, and even an honest officer had to bear that burden. However, due to this scheme, the relationship between the taxpayer and the Income Tax officer is more balanced and better, and with more awareness and training, this scheme can be made even more beneficial.

Conclusion:

At the end, it can be said that this change is being seen as a positive shift by taxpayers, Income Tax officers, and corporates alike. This reform will bring more transparency to the Income Tax Department, increase efficiency and effectiveness, reduce harassment faced by taxpayers, and improve government tax collection. All these benefits are being viewed with a positive mindset for the future. However, along with this good reform, some challenges remain, such as technological constraints, digital infrastructure, digital literacy, and difficulty for elderly people in using the Income Tax portal. Concerns about natural justice also arise. If all these issues are managed properly, and necessary training and awareness are provided in this faceless assessment scheme, then the scheme can perform even better, and the government's intention behind introducing it can be fully realized.

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