

Simplifying taxation

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In his budget speech, the finance minister said certain steps have been taken for simplification and modernisation of taxation system. When this budget speech is read in conjunction with Finance Bill 2011, the scenario or the reality is different in certain cases. Changes proposed for different categories of taxpayers deserve further review and reconsideration of the matters since the statement made in the budget speech does not match the reality. Let us discuss more specifically the two major issues. Major changes have been proposed in the existing systems of "Universal Self Assessment" and also assessment under section 82C where tax deducted at source would have been the final discharge of tax liabilities. However, let me elaborate those issues.

If we revisit the background of the "Universal Self Assessment" system introduced way back in 2007 and as seen from the budget speech, this was introduced "to motivate and encourage taxpayers to pay tax voluntarily". This year also, in the budget speech, the finance minister has said tax proposals are made for augmentation of income tax collection, simplification and modernisation of system of filing of income tax return and collection of tax. The system was so far going fine including audit of selected files as decided by the tax department. According to the present system, all tax returns filed under section 82BB as "Universal Self Assessment" system are subject to audit and in reality, some of them are picked up by choice for audit although presumably at random. But this year, steps have been taken to keep some of the returns out of audit putting few conditions as mentioned below. The conditions attached to "Universal Self Assessment" are that the return will not be selected for audit if it shows 20 percent higher income than preceding year and

- a) Does not have any income which is exempted from tax; or
- b) Does not have receipt of gifts; or
- c) Does not have loan other than from a bank and financial institution; or
- d) Sum of accretion of net wealth and shown expenditure is not covered by the income.

First of all, the condition of 20 percent higher income is obviously too stiff. Moreover, in the current scenario, most of the taxpayers will have capital gain from trading of shares in the stockmarket (especially this year) and many of the taxpayers will have interest income from Sanchaya Patra (not



People watch a budget speech on television, delivered by Finance Minister AMA Muhith in parliament on June 9.

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exceeding Tk 25,000), receipts of pension, gratuity, superannuation and provident fund which are tax exempt. So majority of the taxpayers will not be able to take the facility of audit exemption within the system of "Universal Self Assessment" under the proposed Finance Bill. As a result, it is not likely to make any significant impact in any quarter. The aforesaid conditions could be liberalised more to extend the facility of audit exemption to a large section of taxpayers. In fact, the power to audit the tax returns is being misused by tax authorities in many cases causing unnecessary harassment to taxpayers. Accordingly, the change proposed in the system is a welcome move but the conditions attached to keep the tax returns out of audit are not enough to bring expected benefits.

Lack of sufficient manpower is also one of the prime considerations. It was expected that if the taxation systems can be simple and modern, the existing limited manpower can devote more attention for capturing potential new taxpayers into tax net. If the existing manpower is bogged down with existing taxpayers, the tax evaders will get the advantage of it or entire efforts for improving the direct tax collection will be less rewarding and failing to meet the government's ultimate revenue collection target.

Similarly, under section 82C, tax deducted at source would have been the final discharge of tax liabilities. This year, some significant changes have

been proposed. In addition to income covered under 82C (base income), the difference of actual income and 82C base income will be taxed at normal rate. This is, in fact, a contradiction to the spirit of section 82C. Further, any disallowances in the assessment process under section 30 would be added to income and impliedly subjected to tax at normal rate. It may be recalled that section 82C was added to the tax laws through Finance Act 1998 and introduced to our tax systems the concept of final discharge of tax liability. This provision was introduced in the cases, among others, where there is no value addition in the hands of importers. Subsequently, in 1999, the National Board of Revenue issued clarification, saying that a notional amount would be worked out through back calculation as income U/S 82C and added to assessee's total income but that would not affect his tax liability. But it is reiterated that new proposal has significantly deviated from the basic idea of final discharge of tax liability. Further, in addition to income tax, surcharge is also applicable in this case. However, if these conditions prevail, the existence of 82C for simplification of tax filing and revenue collection is meaningless and the very purpose of introducing the special provision is obviously defeated.

If the finance minister, according to his judgment, thinks that these systems of "Universal Self Assessment" and special provision of assessment under section 82C are not workable

and not bringing the expected results, then these systems should be completely deleted. Keeping the systems in force with unrealistic and stringent conditions will make the process more non-transparent and cause unlimited sufferings for taxpayers, might encourage corrupt practices and ultimately, will not be conducive to development of a taxpayer-friendly environment.

Now let me discuss the general procedures of tax assessments. In general, tax returns are filed together with audited accounts (in case of corporate taxpayers), evidence of tax payments and other relevant information and supporting evidence. If the return is selected for audit, more information, documents and evidences are asked from taxpayers to satisfy the assessing officer. If the audited accounts submitted are reliable in the judgment of assessing officer, assessments are completed (with approval of higher officials in applicable cases). But in most of the cases, what happens in reality is, the audited accounts are rejected under some pretext or other and the assessing officer by using his discretionary powers estimates the income at his will and deducts the expenditures also at his will and concludes the assessment raising a huge tax demand. The basic question is -- how an assessing officer will understand the level of income and expenditures without being fully involved in business. Even sometimes the inspector of taxes has little role to play in such

drives. Many officers argue that this is the general procedure and insist the taxpayers to resort to such practices. Then the negotiation starts for arriving at the conclusion putting the taxpayers in uncertainty. This is really unfair, unrealistic and not conducive to a friendly tax environment. Well, such a practice of estimating income and expenses can be resorted to when there is sufficient and clear-cut evidence of tax evasion and the assessee does not maintain any books and records. But unfortunately, tax assessing officers in many cases, except the Large Tax Payers Unit (LTU), have a tendency to resort to such undesirable practices at the cost of unlimited sufferings of the taxpayers. The possibility of involvement of corruptions cannot also be ruled out in any way. Unfortunately, some of the Income Tax Practitioners (ITPs) also extend their support to such practices distorting the spirit of fair and transparent assessment process. To be fair, in some cases, appeals results can make some remedies but sufferings of the taxpayers are still a lot. Now, the question is what is the solution? It has been observed recently that assessments made by LTU are backed by solid audit observations, based on documentary evidences and judicious conclusion of the issues so detected. If the tax assessment in general is to be completed in the cases, where audited accounts are rejected, the conclusion should obviously be done based on an extensive audit conducted by tax officials with or without external support. Inspector of taxes may also join the audit efforts when the issues involved are not judgmental. Based on the audit report, the assessing officer may conclude the assessment giving adequate opportunity in writing for requisition of information and documents in specific -- not in general and impractical (like to instruct to produce all books and records). In essence, in order to reform the present tax systems, in line with LTU, a) every circle should have a dedicated audit team comprising specialist(s), b) findings of audit team should be discussed with taxpayers and c) thereafter, the concluding findings should be the basis of fresh assessment. Mere completion of assessment following a bureaucratic attitude without any basis and a logical conclusion will rather increase hassle for taxpayers and existence of corrupt practices. Such a situation will never help to grow a transparent and tax-payer friendly environment.

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Why US employment figures are wrong

SARA HOROWITZ

The national employment figures are an economic bellwether. They profoundly affect US markets, consumer spending, and even the fate of national elections. With so much at stake, you'd think we would be counting the workforce accurately. Unfortunately, we're not.

The United States treats jobs as something turned on or off -- employed or unemployed -- but that binary view no longer reflects how Americans really work. Whereas in the middle of the 20th century industrial employees worked one job for one company, today, there are 42 million consultants, independent contractors, entrepreneurs and freelancers working multiple gigs for multiple clients.

Although independent workers were a full one-third of the US workforce at last count (which was 6 years ago), they aren't counted by the Bureau of Labor Statistics in a consistent and ongoing way. Current statistics tend to lump workers into one of three classes: private wage and salary workers, government workers, and the self-employed. But these groupings don't account for the nuances in how people work now and the overlap between groups. For example, on-call or contract workers might be lumped in with wage and salary workers, when really they're independent workers. As a result, our outdated numbers have led to outdated poli-

cies that no longer meet the needs of America's 21st century workforce.

Take, for example, the issue of nonpayment. W-2 employees know that their paycheck will be directly deposited into their checking account every two weeks, and don't have to worry about chasing down their employer for payment. In fact, the Department of Labor could fine your employer or send them to jail if they don't pay you. Independent workers, however, have no such protection from nonpayment, late payment, or partial payment, leaving freelancers with only two options: sue or walk away. According to Freelancers Union member survey data, that's a gamble many companies are willing to make: 77% of freelancers report having trouble collecting payment at some point in their career.

In a way, we're going back to the future. When the US economy began to shift from farms to factories in the mid- to late-nineteenth century, the state of the nascent workforce was largely unknown: there was no national unemployment rate, consumer price index, or average household income. In 1884, President Chester Arthur signed a bill creating the Bureau of Labor Statistics. The BLS produced numbers, and policies soon followed, including many we take for granted today: the eight-hour workday, child labor bans, and unpaid wage claims.

Just like back then, reliable gov-



A homeless man plays his guitar while panhandling on the street in New York City.

AFP

ernment figures on today's workforce would make it harder to ignore the many hurdles that freelancers face. Mirabai Knight, a self-employed stenographer for the deaf, found herself drawing on emergency funds just to scrape by when one of her major clients fell four months and \$9,000 behind. Without the support of the Department of Labor, she had to ask herself as it

worth the time, energy, and expense of hiring a lawyer and suing her client in court?

Freelancers are also excluded from affordable, group-rate health insurance and retirement plans. Deborah Lattimore, an author-illustrator who has published 40 books, pays an unbelievable \$32,000 a year for health insurance, and still may have to sell her house after rack-

ing up over \$150,000 in medical fees over the last five years. What's worse, as a freelancer working in a slow economy, she has not been able to collect a dime of unemployment insurance despite her history of accomplishments and steady work.

With more reliable data on independent workers like Mirabai and Deborah, we'll have a better understanding of the impact these 42 mil-

lion workers have on the economy, and the extent of the challenges they face. We'll also be able to create sound policies that meet the needs of 2011's entrepreneurial workforce not the 1940's industrial workforce. There doesn't seem to be any economic argument for not accurately counting independent workers, but rather inertia and perceived lack of urgency.

President Obama has taken a crucial step in allocating a modest \$1.6 million to count independent workers, who have not been surveyed since 2005. Economists across the political spectrum agree that reporting regularly and in more specific ways on this important sector is critical to understanding our evolving economy. It's crucial that Congress keep this money in the budget.

The founding chief of the Bureau of Labor Statistics, Carroll Wright, went on to win world acclaim and the French Legion of Honor for pioneering the fields of practical economics and sociology to document the rise of the Industrial Age. More than a century later, Congress must approve funding so the BLS can innovate again. Today, well into the Information Age, it only makes sense to accurately collect the information.

Sara Horowitz is the founder and CEO of Freelancers Union, a national non-profit membership organization. The opinions expressed are her own.