

COLUMN

Revisit tax assessment practices

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GENERALLY, income taxes are currently assessed at three levels: a) filing tax return with and assessment order issued by deputy commissioner of taxes (DCT), b) appeal with commissioner of taxes (appeals), and c) income tax tribunal. In addition, reference application is filed in the High Court if the assessment is not satisfactorily delivered by tax department. In essence, the proceedings of DCT are mainly the fact finding, verification and finally issues assessment orders. Appeal commissioner and income tax tribunal mainly address the grounds taken by aggrieved taxpayers against order of the DCT and finally, High Court for mainly law points involved in the assessment procedures. In reality, assessments are not always completed as expected and these are explained in the subsequent paragraphs. Universal self-assessment system is an addition to tax assessment procedures subject to fulfillment of certain conditions. Under this system, tax returns so filed are considered as final assessment unless the return is taken up for audit. Once it is picked up for audit, the special privilege attached to it is redundant and assessment is completed in usual process. Alternative Dispute Resolution (ADR), an independent body, has been enacted from the current tax year. In order to support the tax assessment and collection procedures, provisions for withholding tax are in place broadening the scope of tax collection. Every business entity is currently required to file tax returns even if it is a tax exempted or tax holiday entity. These are the usual process but what happens in reality? In a majority of the cases, the

assessments are done in the following manner:

- Returns filed under universal self-assessment are audited at the convenience of the tax authority according to the guidelines of the National Board of Revenue (NBR). But in practice, what criteria is actually followed is not very clear raising the question as to its transparency keeping the taxpayer in dark about the system;
- In a majority cases, income reported for tax purposes are rejected under some pleas and the assessing officers estimate the sales for arriving at gross profit at a higher level and also estimate expenses and then work out taxable profit. This is far from reality and has no basis;
- Hearing notice is served giving a general requisition for information and documents like all books, vouchers, bank statements, evidence of all purchases, sales etc. It may be mentioned here that many of the business houses keep their records through computers and electronically and these books are not visible. Further, volume is so high and for argument's sake, if the hard copies are produced, it is not possible for the assessing officer to scrutinise and get any positive point out of it. This is no doubt an impractical approach that leads to harassment of taxpayers;
- Assessing officers are recruited through PSC and mostly having limited knowledge about accounting and business in particular. This result in raising irrelevant and impractical queries at the time of assessment proceedings and failing to answer those queries satisfactorily result in harassment



or imposition of huge tax unjustifiably. If the taxpayer is clever and influential, loss of revenue by government cannot also be ruled out;

- If the negotiations do not take place properly or the assessing officers do not want to go in-depth of the assessment, huge arbitrary add-backs without assigning any specific reasons are made causing enormous sufferings to the taxpayers;
- In many cases, unlawful and arbitrary assessments are enforced giving no chance to the taxpayers for self-defense. Mere issuing an arbitrary assessment order and in some cases by misusing the powers lying with the assessing officers does not help in a broader perspective. It may be helpful in a few isolated cases -- not on a global basis;
- There is existence of mistrust; a lack of mutual respects and threats to taxpayers are also noticed and, in no way, these can be help-

ful to creating a conducive environment for raising tax collection on an overall basis; and

- It has been seen that tax department disallows a huge amount or makes arbitrary assessments orders imposing a huge tax. Knowing full well that these are not ultimately recoverable but the department targets the amount to be paid at the time of filing appeal with tribunal and that they consider their ultimate achievement.

It has been noticed that at appeal level, disallowances are reduced in a smaller amount and most of the decisions of the assessing officers remain as it is resulting in no reduction of sufferings and no major reliefs to the taxpayers. At the tribunal level, they are supposed to provide interpretation and guidance from legal perspective. However, it is seen that they interfere in disallowances and it is reduced on a lump sum basis. Ultimately, in a num-

ber of cases, reference applications need to be filed with the High Court.

It is an admitted fact that there are huge numbers of tax evaders in our country and corruptions are reportedly evident in tax department. This needs to be addressed with due care and importance. Taxpayers in defaults need to be handled strictly but, in no way, should be equated with genuine taxpayers. It is very important that there must be clear distinction between the genuine taxpayers and tax evaders or willful tax defaulters.

It is very important that a good relation needs to be maintained between taxpayers and revenue collectors. It must be kept in mind that taxpayers pay their hard earned money and any adverse actions and attitudes towards dealing with them, especially genuine taxpayers, are not desirable. It is reiterated that there is a widespread complaint that genuine taxpayers suffer more and face

more challenges than tax evaders or willful tax defaulters. This issue needs to be addressed after a thorough study and research.

The limitations of tax department, especially for shortage of manpower and logistic support, are fully recognised. Knowledge gap of assessing officers and increased number of taxpayers and volume of business are also important factors to be considered.

In view of the foregoing, considering the inherent limitations of the tax department, it is suggested that following measures can be considered for arriving at the win-win situation for both taxpayers and tax collectors resulting in less sufferings for taxpayers, more tax collections, more transparent and ultimately improving the overall scenario:

- There should be provision for certifications, preferably in the prescribed forms, of certain items including sales, major expenses such as salary, local major purchases, royalty and technical fees, remittance made to overseas except imports, identifying unusual and extraordinary payments, transactions within group companies, payments applicable for withholding tax, questioned costs etc. In addition to audited accounts, such an exercise can be done with the help of independent professional firms. It is very important to note that tax officials shall deserve the authority to reexamine the points mentioned in the certifications and if any major negligence of the issuers of certificates are identified, the penalty provisions need to be inserted as well;
- Attachment of bank account

should not be resorted to unless the taxpayers are proved to be defaulter after exercising all required provisions of laws and availing self-defense;

- Notice issued must be delivered in due time and any anomalies need to be investigated with provision for punishment for officials responsible;
- Audit for selection of tax returns need to be more scientific and transparent;
- Assessing officers and field staff need more training on business and accounting aspects;
- Requisition for information and documents in general does not help and it should be more specific and realistic. Only those documents should be asked for which are practically reasonable and fully verifiable by assessing officers. Further, assessing officers need to realise that data processed and documents are generated through computer systems and in applicable cases, requisition should be raised from that perspective.

With the changed business practices, recording procedures, application of computerised system, volume of business, attitudes of both potential taxpayers and officials, tax assessment procedures warrant revision to serve common interest of government and taxpayers. It is an admitted fact that existence of anomalies, lapses, irregularities and corruption cannot be avoided fully but if it is within a tolerable level, this can be accepted for the time being.

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Greeks fearful of euro exit as crisis gathers

AFP, Athens

GREEKS fear that if their country is forced out of the eurozone, and much of the speculation is that it will be, then they will face soaring prices with the return to a drachma which must fall sharply.

Greece goes into a second election in six weeks on June 17, with the vote shaping up as a straight choice -- accept the tough conditions of an EU-IMF debt bailout and stay in the euro bloc, or refuse them and face the consequences.

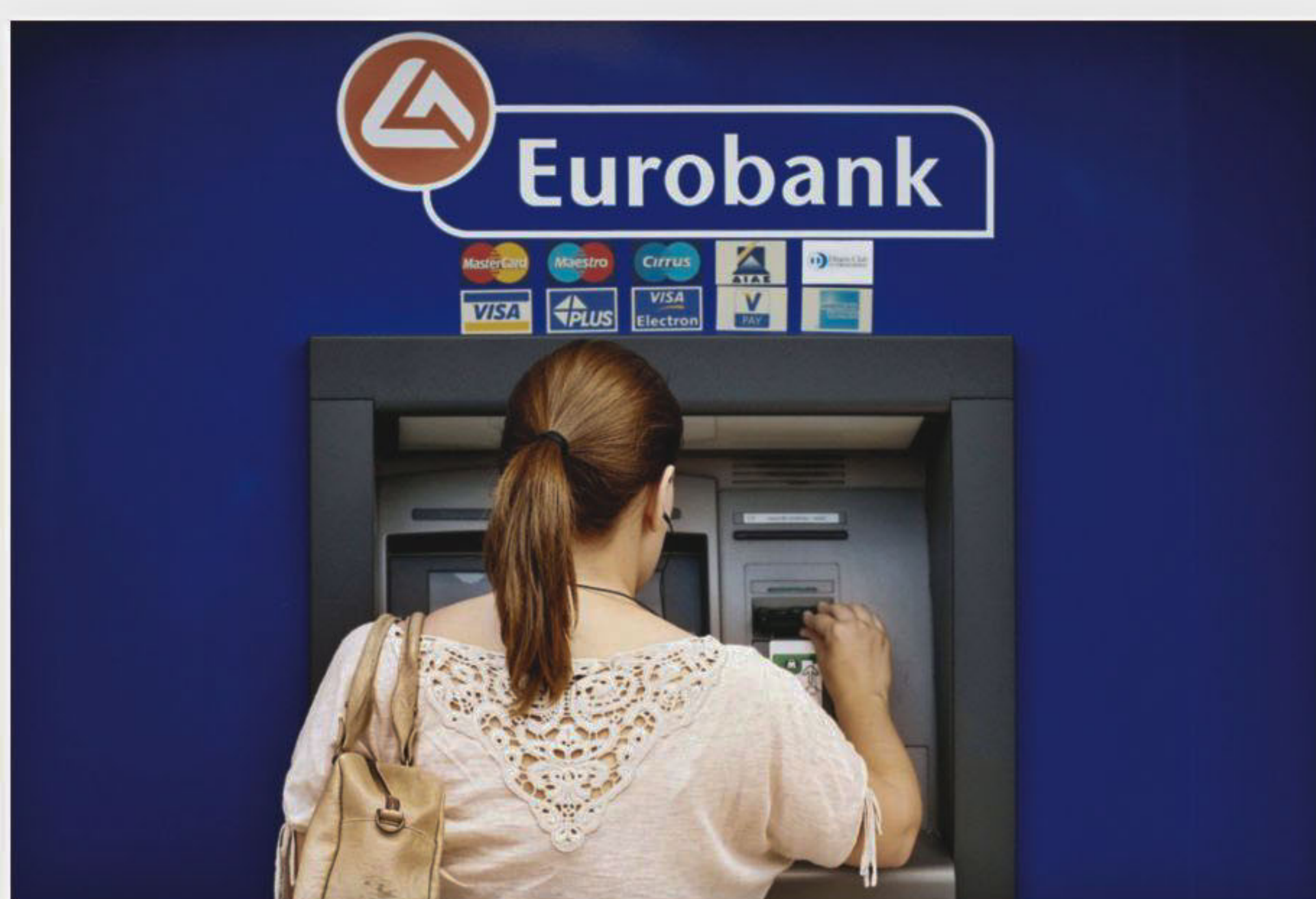
Inconclusive May 6 polls saw a majority vote against the bitter medicine of spending cuts and tax hikes but if the choice is narrowed down, analysts believe the country will opt to stay in and hope some terms can be softened.

If they find themselves ejected, everyone agrees there could be chaos as a new drachma would almost certainly lose at least half its value in days, likely bringing the banks down and the country to its knees.

Once a taboo subject, the idea Athens could quit the bloc has gained ground slowly as the crisis has rumbled on from a first insufficient bailout of 110 billion euros in 2010, to the contagion problems which sank Ireland and Portugal in 2011 and then the latest 240 billion euros rescue agreed late last year.

Germany in particular takes a hard line, insisting Greece stick to the terms of the debt rescue although as the focus has changed recently to the need for growth rather than more austerity in Europe, others have stressed the desire to keep Athens on board.

"Most analysts think that Greece is going to leave the eurozone and



A woman withdraws money from a branch of Eurobank in central Athens.

have to devalue so as to get its economy going again, cut the external deficit, and that that will not be too serious for the bloc," said Patrick Artus of Natix investment bank.

In a report, Artus said that a devaluation would not help Greece, far from it, because it has little industry and is a major importer, especially to cover its food needs.

"A devaluation's main effect would be to increase the price of imports," he said, with a consequent spike in inflation pressures.

For Miranda Xafa, head of EF Consulting, "a return to the drachma will bring only pain and be of no benefit in solving Greece's two key problems -- an unsustainable debt burden and an uncompetitive

economy".

European parliament chief Martin Schulz warned Friday against any Greek exit from the eurozone, saying the country's economy could collapse within days if it abandoned the single currency.

"Many people believe that it would be the end of a negative cycle but for me it would be the beginning of an even more negative cycle," Schulz said during a visit to Athens.

"I am not saying this option does not exist, but I consider it very risky," Schulz added, predicting the Greek economy "would collapse within days" and see European countries called on to give billions more in emergency funds.

Constantinos Michalos, head of

the Athens Chamber of Commerce, was blunt -- leaving the euro would bring "total chaos".

"An exit from the eurozone would mean depression for Greece but a long deep recession for the rest of Europe," he said.

"People who are now complaining of austerity measures run the risk of losing ... their salaries and pensions because there will not be any state income to pay them," he warned, painting a bleak picture with no upside.

"We would be knocked back 25 or 50 years," said Giorgos, a shopkeeper in Kolonaki, the upmarket shopping district in central Athens.

"But if we go under, you go under too," he told AFP.

In or out of the eurozone: Greece's options

AFP, Brussels

FROM the darkest to the least damaging, following are different options for Greece and the eurozone.

EXIT:

- Long taboo, what economists call "Grexit" is back on the table after inconclusive Greek elections this month that gave anti-austerity and anti-EU parties the majority but failed to produce a working coalition.

Should Greek voters return a working coalition of anti-austerity parties at a re-run of the elections on June 17, and should those parties refuse to adopt reforms demanded in March in exchange for a second EU-IMF bailout, it will be game over and exit from the euro for Athens.

Greece then would find itself with a devalued drachma currency once more, facing a sharp spike in inflation, even higher unemployment and the danger of a vicious circle of depression, even if exports became more competitively priced.

REFUSAL OF AUSTERITY REFORMS, BUT EURO MEMBERSHIP HELD ANYWAY:

- In this scenario, an anti-austerity coalition takes power in Greece but decides to remain in the eurozone, according to the wishes of three out of four Greeks.

But this would quickly end in an impasse as the financial lifelines offered by the European Union and the International Monetary Fund -- to replace prohibitively expensive money-market finance -- would quickly be halted.

Triggering default, Greek and other eurozone banks would suffer badly and there would be a risk of contagion to members like Spain that ultimately could result in eurozone implosion.

AN EASING OF BAILOUT CONDITIONS:

- Formally ruled out so far, and a hard sell to public opinion in countries which have shelled out on successive Greek rescues but who now face recessions of their own.

Nonetheless, there is scope for debate on adjustments in timetables for meeting individual conditions -- as suggested by eurozone leader Jean-Claude Juncker of Luxembourg. This could help pro-EU parties improve their score in the June repeat polls, according to one EU source.

FULL IMPLEMENTATION OF REFORMS:

- The ideal scenario for eurozone partners would see Greece re-emerge from debt repayments with a leaner and meaner reformed economy after implementing reforms demanded by its international rescuers.

This is a long, long way off at best, say analysts.