

A CONCEPTUAL REVIEW ON THE ROLE OF ANNUAL INFORMATION STATEMENT (AIS) IN IMPROVING TAX TRANSPARENCY

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Abstract

The Income Tax Department of India launched the Annual Information Statement (AIS), a major digital initiative, to improve transparency and enable easy tax compliance. AIS gives taxpayers a thorough overview of their financial transactions, which are gathered from a variety of reporting organizations, including stock brokers, banks, mutual fund houses, and other financial institutions. The purpose of this conceptual paper is to investigate how AIS can increase tax transparency, decrease tax evasion, and encourage taxpayer voluntary compliance. A review of previous research, official announcements, and secondary data sources served as the foundation for the study. The article covers the development of AIS from the previous Form 26AS, as well as its salient characteristics, advantages, and difficulties. The evolution of AIS from Form 26AS, its main characteristics, advantages, difficulties, and consequences for taxpayers and the tax administration system are all covered in this paper. According to the results, AIS has greatly enhanced financial information accessibility, decreased information asymmetry between taxpayers and the tax department, and helped create a more open and effective tax system in India. Suggestions for future research directions and additional enhancements are included in the paper's conclusion.

Keywords: Annual Information Statement, Tax Transparency, Tax Compliance, Digital Taxation, Income Tax, Form 26AS, Financial Reporting.

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1. Introduction

One of the most important sources of funding for any government is taxation. In addition to guaranteeing sufficient revenue collection, an effective and transparent tax system fosters citizen confidence. Through digital reforms, the Income Tax Department of India has been consistently striving to improve compliance and streamline the tax filing process. The implementation of the Annual Information Statement (AIS) is one such significant change.

In November 2021, AIS was introduced as a comprehensive statement that shows a taxpayer's specific financial transaction information for a given fiscal year. The previous Form 26AS, which mainly showed Tax Deducted at Source (TDS) and Tax Collected at Source (TCS) information, was replaced and its scope expanded. By including data on interest income, dividend income,

securities transactions, mutual fund transactions, foreign remittances, rental income, the purchase of real estate, and several other high-value transactions, AIS goes well beyond TDS and TCS data. Reducing the information gap between taxpayers and the tax department is the main goal of AIS. Prior to AIS, a large number of taxpayers either purposefully or unintentionally failed to report specific incomes, which resulted in the government losing money. By providing all pertinent financial data on a single, easily accessible digital platform, AIS solves this issue. This openness deters tax evasion and promotes voluntary compliance.

Studying AIS is important because of its potential to revolutionize the Indian tax system. The importance of technology in tax administration is growing as India transitions to a digital economy. With AIS, the tax department no longer depends on taxpayers to self-report their income; instead, it has access to comprehensive financial data and expects taxpayers to reconcile their returns in accordance with that information. This change has significant effects on compliance practices, tax policy, and the governance structure as a whole.

The purpose of this study is to conceptually investigate the function of AIS in enhancing tax transparency, evaluate its salient characteristics, pinpoint its advantages and disadvantages, and recommend ways to make it even better. A review of scholarly literature, government circulars, and secondary data served as the study's foundation.

2. Objectives of the Study

The following objectives serve as the foundation for the current study.

- To comprehend the idea and development of the Indian tax system's Annual Information Statement (AIS).
- To look at the main characteristics and elements of AIS and how they vary from the previous Form 26AS.
- To examine how AIS enhances tax transparency and encourages voluntary compliance.
- To determine the advantages and difficulties of AIS for taxpayers and the tax administration.
- To highlight areas for future research and offer recommendations for enhancing AIS's efficacy.

3. Review of Literature

Subsequently, a number of literature pieces have been written on the use of technology and digital tools in enhancing tax administration and compliance. This section is a summary of literature pieces that form a theoretical foundation for this paper.

In their paper titled "Challenges in Indian Tax Administration: Information Systems Perspective," Chattopadhyay and Das-Gupta (2002) focused on the problems associated with Indian tax administration and emphasized the use of information systems that could bridge the gap between actual and reported income. They also emphasized that better information flow from third parties could reduce tax evasion to a great extent. Their paper forms a theoretical foundation for understanding why tools like AIS are needed.

Priyadarshini and Thilagavathi (2016) focused their paper titled "E-Filing and Digital Tax Initiatives: Impact on Taxpayer Compliance" on understanding how digital tools could affect taxpayer compliance. They found that digital tools could make filing returns much simpler and reduce errors in filing returns.

Bird and Zolt (2008) have researched the relationship between tax transparency and governance in developing countries. The authors found that tax transparency has a positive effect on governance in that citizens become aware of their tax responsibilities and the government becomes

more accountable to its citizens. The authors' research gives us theoretical knowledge about how AIS can be used to improve governance through enhanced transparency.

Gupta (2019) has researched the importance of Form 26AS in the Indian income tax system and its scope for improvement. The author found that although Form 26AS was useful in providing information to taxpayers, it was limited in scope in that it only provided information about TDS and TCS. The author has recommended that the scope of Form 26AS should be enhanced to include other financial information, which has been achieved through AIS.

Mukherjee (2020) has discussed how data analytics and information sharing are important in tax administration in modern times. The author found that tax authorities worldwide are increasingly using third-party information to verify information provided by taxpayers. The author has emphasized that combining all information into one platform can greatly improve information symmetry.

4. Methodology

The research design for this study is descriptive and conceptual research. The research is purely based on secondary data, which has been collected from various sources such as government notifications, circulars, and guidelines issued by the Central Board of Direct Taxes, reports published by the Income Tax Department, research papers, journals, books, etc.

In this study, there is no primary data collection, and there is no use of statistics for research purposes. The study is purely based on the review of literature, which provides a comprehensive understanding of the research topic, i.e., AIS. The reason for choosing the conceptual research design for this study is that AIS is a new initiative, and there is less data available for quantitative research purposes, which can be used for analysis purposes. The study can be conducted on the basis of the holistic understanding of the research topic, i.e., AIS, by taking into consideration multiple aspects of the research topic.

5. Analysis and Discussion

AIS is a comprehensive statement that contains a wide range of financial information. The key components of AIS can be broadly categorized into several groups.

The first key component of AIS is related to TDS and TCS Information. It contains details of taxes deducted and taxes collected at source by various entities such as employers, banks, etc. This was the primary component of the earlier Form 26AS.

The second key component of AIS is related to Specified Financial Transactions (SFT). It contains details of specified financial transactions reported by financial institutions and other entities as per Section 285BA of the Income Tax Act. It contains details of transactions related to the purchase or sale of immovable properties, time deposits in banks, credit card transactions above a specified limit, purchase of shares, debentures, mutual funds, receipt of cash, etc., and buy-back of shares.

The third key component of AIS is related to Payment of Taxes. It contains details of advance taxes, self-assessment taxes, regular assessment taxes, and other taxes paid during the financial year.

The fourth category of information is related to the 'Demand and Refund' information, where the taxpayer can see the demand raised by the department on the taxpayer.

The fifth category of information is 'Other Information,' where the taxpayer can see the information regarding the income earned from interest, income earned from dividends, transactions of securities such as the sale/purchase of equity shares, mutual fund transactions, foreign remittances through the Liberalised Remittance Scheme, GST, etc.

One of the most important features of AIS is the feedback mechanism. The taxpayer can see his/her AIS and give feedback on the information displayed in the AIS for each transaction. If the taxpayer feels that the information displayed in the AIS is incorrect, the taxpayer can give feedback stating that the information displayed is not correct, the information displayed is related to some other person/year, the information displayed is redundant, or the information displayed is denied by the taxpayer. This is one of the most important features of AIS, as it has improved significantly in comparison to the old system, where the taxpayer could not participate in the verification of the information displayed in the AIS.

- **Role of AIS in Improving Tax Transparency**

Tax transparency can be defined as the measure of how accessible information on tax obligations, tax payment, and financial transactions is to both the taxpayer and the tax department. AIS has a critical role to play in improving tax transparency in a number of key aspects.

First and foremost, AIS contributes to tax transparency by reducing information asymmetry. In the pre-AIS era, there existed a huge information asymmetry between what the tax department knew about a particular taxpayer's financial transactions and what the taxpayer knew and reported to the tax department. This information asymmetry led to tax evasion and underreporting of income by taxpayers. This information asymmetry has been reduced by AIS, which has made it possible to create a single platform for consolidating information on financial transactions.

The second role of AIS is that it promotes voluntary compliance. Once a taxpayer is aware that the tax department has information on their financial transactions, they will always be encouraged to report their income accurately. This creates a self-reinforcing cycle of transparency and trust.

The third contribution is in relation to the facilitation of accurate filing. AIS, in conjunction with TIS, helps in the pre-filing of income tax returns. This minimizes the chances of error and omission in the filing process. Accurate filing is thus facilitated.

The fourth contribution is in relation to reducing tax disputes. With the provision of accurate financial data, AIS minimizes discrepancies between the data provided by taxpayers and that available in the department's records. Disputes are thus reduced.

The fifth contribution is in relation to enhancing accountability for reporting entities. AIS is not only beneficial for taxpayers but also for reporting entities such as banks, mutual fund companies, and stock brokers. AIS makes these entities accountable for accurate data reporting. This is a check and balance mechanism for ensuring accurate data.

The sixth contribution is in relation to supporting data-driven tax policies. The data accumulated through AIS is valuable for the government in relation to understanding financial behavior and creating effective policies.

- **Benefits of AIS**

The benefits of AIS can be seen from two different angles: one is the taxpayer's viewpoint, and the other is the viewpoint of tax administration.

From a taxpayer's viewpoint, AIS offers a single location to view every single financial transaction, eliminating the need to manually track and compile financial information across multiple sources. The pre-filing option minimizes effort and time spent on filing returns. The feedback option empowers taxpayers to correct wrong information, enabling them to maintain correct information. Transparency also increases trust levels because a taxpayer can clearly see what information is held by the department about them. The facility can also be used as a financial planning tool because a taxpayer can get a comprehensive view of their financial information.

From the tax administration's perspective, AIS can help to improve the identification of cases involving underreporting and tax evasion through cross-referencing information from different

sources. AIS can improve the efficiency of the process of assessment and scrutiny through a rich data set. It can help to reduce administrative costs involved in sending information requests and notices to taxpayers. AIS can help to improve the process of risk assessment through the identification of taxpayers with major discrepancies between AIS and tax return information. It can also help to improve the overall goal of increasing the tax base through the identification of potential taxpayers who are not in the tax net.

- **Challenges and Limitations of AIS**

In spite of the advantages that AIS offers, there are a number of challenges and limitations that need to be addressed.

Firstly, there is a challenge in the accuracy of data provided by third-party sources. AIS is based on data provided by third-party sources, and there are instances where the data provided is not accurate or has been duplicated or attributed to a taxpayer wrongly. Though there is a feedback mechanism in place, where taxpayers can notify if there is a discrepancy, the mechanism is cumbersome.

Secondly, there is a digital literacy and awareness issue that needs to be addressed. There are a number of taxpayers, especially in rural areas, who are not even aware of AIS or are digitally illiterate and cannot access AIS.

Thirdly, there is a data privacy and security issue that needs to be addressed. AIS contains data that is sensitive in nature, and if there is a breach in data security, it can have severe implications for taxpayers.

The fourth challenge is related to the interface's complexity. Some individuals and tax professionals have noted that the interface of AIS is complex and hard to work with, especially when there is a large volume of transactions. This is an aspect that needs to be worked on to enhance the user interface and experience.

The fifth challenge is related to delays in updation. There can be delays in reporting and updation of financial information by reporting entities. This can cause confusion and may require individuals to contact reporting entities to clarify.

The sixth challenge relates to the scope of feedback. While it is possible for individuals to give feedback on information presented on AIS, it is not always clear if their feedback has been accepted or not. There may be a lack of updates on the status of feedback received.

6. Conclusion and Recommendations

Suggestions for improvement of the effectiveness of AIS, on the basis of the above analysis, are as follows.

First, the Income Tax Department should invest in improving the accuracy of the data. This can be achieved by implementing more rigorous validation of the data submitted by the reporting entities and penalizing them for inaccurate reporting.

Second, the government should launch an awareness campaign for AIS, especially for rural taxpayers, senior citizens, and new taxpayers who have to file their tax returns for the first time.

Third, the feedback process should be improved by providing the taxpayer with information on the time taken to resolve their feedback and updates on the status of their feedback.

Fourth, the user interface of the AIS should be improved to make it more user-friendly and intuitive for the taxpayer.

Fifth, the security of the data should be improved to prevent hacking of the sensitive information of the taxpayer. The security of the data should be upgraded regularly to prevent hacking of the

data. Encryption of the data and two-factor authentication should be implemented to ensure the security of the data.

Sixth, the department should look into the possibility of linking AIS to other government databases such as the GST database, property registry, and corporate databases to develop a more cohesive financial information system.

The Annual Information Statement (AIS) is a major leap forward in the digitalization and modernization of the tax system in India. The AIS has revolutionized the tax system in India by bringing together financial information from different sources into one platform, thus improving tax transparency, reducing information asymmetry, and improving voluntary compliance among taxpayers in India. The research has identified that AIS has some advantages for both taxpayers and the tax administration in India.

Despite the advantages of AIS, it also has some disadvantages that need to be addressed to unlock the full potential of AIS in India. The suggestions provided in the research can help address the disadvantages of AIS in India, such as improving the level of data validation, awareness, feedback, and improving the level of data security.

As India moves forward in its quest for a fully digital and transparent tax system, AIS will be at the forefront in playing its part in the process. Further research could be carried out to determine the empirical effect of AIS on compliance rates, revenue generated, and satisfaction levels through primary research and analysis.

To conclude, AIS has tremendous potential to revolutionize the relationship between taxpaying citizens and the tax authorities in India. With continued improvements and implementation, AIS has tremendous potential to aid in creating a transparent taxation system in India.

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