

## Self-Assessment System of Taxation as a Challenge for India

Gurpreet Kaur

Research Scholar, Department of Distance Education, Punjabi University, Patiala, Punjab, India.

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### Abstract

Economic resources of government can be effectively utilized by the government through an effective implementation of tax administration system which largely depends upon tax assessment system having two types one is Official Assessment System (OAS) and another is Self-Assessment System (SAS). In OAS taxpayers are only required to file their annual tax returns when tax official's issues the notices of assessment to tax payers whereas under Self-Assessment System (SAS) tax payers are required to assess their tax liability and to file the tax return properly. Most of the countries namely Sri Lanka, Pakistan, Indonesia, Australia, New Zealand and the United Kingdom have implemented the SAS and are availing the forthcoming opportunities in this regard. So it is suggested that India should review the practicality of this system and the present system should be revised keeping in view the Self-Assessment System.

**Keywords:** Self-Assessment System (SAS), Official Assessment System (OAS), tax payers, tax assessment.

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### 1. Introduction

Resources of government are utilized for economic development and these resources are raised from taxation income. So, tax constitutes an important source of revenue to government. Higher the revenue leads betterment of an economy. It can be possible through an effective implementation of the tax administration system which works on tax assessment system. Tax assessment system is of two types one is Official Assessment System (OAS) and another is Self-Assessment System (SAS). In OAS tax payer has to file his tax return through an official assessment system. In OAS where by taxpayers are only required to file their annual tax returns when tax officials issues the notices of assessment to tax payers whereas under SAS tax payers are required to assess their tax liability and to file the tax return properly.

This paper briefly reviews the literature on SAS in the countries worldwide in relation to personal taxation. The objective of this paper is to introduce the SAS and its benefits. How it is becoming a global challenge for India.

On 1 January 2005, in order to promote voluntary tax compliance, the Inland Revenue Board Malaysia (IRBM) has implemented the self-assessment system of (SAS) on individual taxpayers (Chong & Wong, 2011). As a result, taxpayers must have sufficient tax knowledge in order to assess their tax liability correctly and to file tax return forms on time (Chong & Wong, 2011)

The SAS requires taxpayers to keep records and documents properly, fill the returns correctly, compute the tax accurately and finally submit the return form on time with the final payment of tax (if any) (Mahmood, 2012). With regard to the filing process, taxpayers first have the options of using the electronic return form, whereby assessment is completed electronically through the e-filing system, printing a pre-printed form from IRBM's website; or obtaining a hard copy from the IRBM office (Mahmood, 2012). Taxpayers are required to calculate their taxes and furnished the return to IRBM as per the due date mentioned in the Act according to the categories of taxpayers (Mahmood, 2012)

### 2. Review of Literature

Wood, C. William and Doyle M. Joanne (2002), studied economic literacy among employees of the Business Roundtable Project's member corporations in U.S.A. Such corporations are public advocacy organizations that aimed at promoting policies for sustainable, non-inflationary, long-term growth in the U.S economy. Researcher conducted telephone survey of 1000 employees of seven large corporations. Research revealed that greater economic literacy was associated with more overall education, study of economic subjects during college course, high level of income and being male.

Loo and Ho (2005) <sup>[5]</sup>, examined the competency of Malaysian salaried individuals in relation to Self-Assessment System. They measured the tax knowledge of individuals in terms of chargeable income, exemptions, reliefs, rebates and tax credits. For the purpose of their study they concluded that tax knowledge of the respondents incompetent to work for Self-Assessment System.

Kamaluddin and Madi (2005), measured the level of tax literacy among salaried individuals in Sabah and Sarawak states of Malaysia. The results of the study indicated that salaried taxpayers in Sarawak are more tax literate as compared to Sabah's employees. Their study concluded that salaried taxpayers in both states were not prepared for SAS in 2004 as reflected by low percentage of 'very literate' category. Thus efforts must be made to raise the level of tax literacy among Malaysian taxpayers.

Mustascu Mihai and Danultetiu Dan (2011) "The Literacy Impact on Tax Revenues" examined the relationship between tax revenues and taxpayer's literacy level, using panel model approach from the period 1996-2010 by including 123 countries. Nonlinear approach was used for performing estimates. The level of tax literacy vary from one taxpayer to another taxpayer and one country to another. The study indicated that low literacy is associated with reduced tax revenues.

### 3. Rationale behind the Implementation of Self-Assessment System in Malaysia

The concept behind this system is simple. In a formal assessment system, the Inland Revenue assess and calculate the tax based on the income tax form submitted by a taxpayer. Theoretically, in the self-assessment system, the taxpayer must do the calculation of their tax liabilities. This system impacts significantly on the taxpayer's to comply with the taxation law. To understand self-assessment, we need to see the underlying factors of the system. Basically, the closure to a self-assessment system consists of two important pre-conditions where the assessment form received by the Chief Director is subjected to intensive post-assessment activities. These activities include, inter alia, post-assessment checks and auditing activity (Wong, 1999; Abdul Rahim, 1998). The two pre-conditions are referred to as the primary and secondary function by Barr *et al.* (1997). According to Barr *et al.*, primary function is a taxpayer's responsibility. It is the logical base for income tax operations such as calculation of total income, tax exemption income, taxable income and taxes to be paid.

The secondary function executed by the Inland Revenue officers is more inclined towards verifying and checking the income tax returns. This is also known as tax auditing. However, this function is not the main operation within the Inland Revenue, but it is essential to support the primary function. The secondary function is solely performed by the Inland Revenue; In Malaysia, the new system was tabled during the 1999 national budget presentation. It is to be implemented on a step-by-step basis as follows; 2001 for companies, 2003 for partnerships, sole proprietors and corporations, and 2004 for individual income taxpayers. Introduction of the self-assessment system is seen as a new era for the Malaysian taxation system. Unsurprisingly, difficulties exist in its implementation, for instance, from the aspect of acceptance, perception, views and negative attitudes among taxpayers who are reluctant to change to a new system. According to Abu Sofian (1997), introduction of the self-assessment system to replace the formal assessment system requires a transition for the Inland Revenue and taxpayers. Under this system, concentration of tasks is focused on checking income tax forms and tax calculations to auditing and investigation task. On the part of the taxpayers, they have to accept the responsibility to calculate their own income taxes; a job which they will never do in the formal system.

### 4. Impact of Self-Assessment System on Individual Tax Payers in Malaysia

With the introduction of SA, most of the taxpayers reported being more fearful of being audited. Taxpayer felt that it would be unfair to penalize taxpayers for the commission of unintentional errors. Taxpayers become aware and able to comply the tax matters easily. Taxpayer become more careful when filing their income tax returns to ensure that they only paid the tax required and that penalties were not imposed for non-compliance. The findings of this study could also serve an important reference to other tax jurisdictions looking to implement self-assessment particularly in developing countries where literacy levels among taxpayers are marginally lower compared to developed countries.

### 5. Self-Assessment System in Other Countries

Countries such as Sri Lanka (1972), Pakistan (1979), Indonesia (1984), Australia (1986-1987), New Zealand (1988) and the United Kingdom (1996-1997) are nations that had practiced the self-assessment system of taxation. Wong (1999), stated that self-assessment was introduced in these countries for several reasons as follows:

- a) To encourage taxpayers to abide by the taxation voluntarily.
- b) To ensure efficient usage of tax administrators cost and resources.
- c) To ensure consistent performance in all assessment branches.
- d) To improve and increase tax collection.

In Malaysia, the self-assessment system is introduced to achieve three main targets which are to reduce tax collection costs, to enhance tax collection and reduce uncollectable taxes, and to increase the rate of taxpayers performing their tax obligations (Abdul Rahim, 1998).

Self-assessment refers to an assessment procedure based on the assumption that all information reported by the taxpayer is correct and need not be checked by the Inland Revenue officers. A self-assessment system, on the other hand, refers to a system whereby the taxpayer has to be more responsible in ensuring that the correct information is provided in the Income Tax form and the Inland Revenue accepts it in full trust that the content is correct and true (Kasipillai *et al.*, 1999). The form is unquestionably accepted by the Inland Revenue unless when there is doubt as to the authenticity of the information given.

### 6. Present Scenario of Tax Administration System in India

Some problems that Indian tax administration is facing like

- a) Lack of focus on taxpayer service
- b) No dedicated personnel for taxpayer services
- c) No taxpayer segmentation
- d) Multiple agencies for registration
- e) Absence of taxpayer surveys
- f) Inadequate fund allocation. Taxpayers express helplessness

Against rude or arbitrary behaviour of officers with little assigned accountability in practice: The confusing, if not arrogant, environment that they have to face on a daily basis was reported by high finance officials of major Indian corporations who are some of the largest Indian taxpayers. This occurred during the consultations at five Indian metros – Bengaluru, Chennai, Delhi, Kolkata and Mumbai. It is true that numerous Aayakar Seva Kendras are being set up at locations all over India so that a taxpayer can register a question and follow how the matter is progressing through the system. However, selected visits indicated a wide variation in implementation. Second, through installed ICT software, a taxpayer can log in to see whether and how much his tax deduction at source (TDS) has been credited. However, many lacunae remain in terms of non-matching and the system has been slow in correcting anomalies. Third, other than TDS, there are significant cases of mismatch between the ICT-based Centralized Processing Centre (CPC) and the information percolating from there to a taxpayer's Assessing Officer (AO). Although the taxpayer suffers as a result of the mismatch, the lack of responsibility or accountability, leave alone timeliness in resolution.

### **7. Self-Assessment System: Global Challenge for India**

Public institutions, including government departments across the world need fundamental reform at least every decade. Tax administration is one such institution. Some countries have developed the practice of subjecting their tax administration structure to occasional external examination to facilitate and introduce corrective measures. India had not taken such measures in the past and the tax administration has experienced lowest efforts that do not necessarily reflect global movement. As the above mentioned countries have implemented the SAS and availing the forthcoming opportunities. So it is suggested that India should review the practicality of this system and the present system should be revised keeping in view the Self-Assessment System.

### **8. Conclusion**

In Malaysia, the self-assessment system is introduced to achieve three main targets which are to reduce tax collection costs, to enhance tax collection and reduce uncollectable taxes, and to increase the rate of compliance among taxpayers.

The concept behind this system (SAS) is simple. In a formal assessment system, the Inland Revenue assess and calculate the tax based on the income tax form submitted by a taxpayer. In the self-assessment system, the taxpayer must do the calculation of their own taxes. Countries such as Sri Lanka (1972), Pakistan (1979), Indonesia (1984), Australia (1986-1987), New Zealand (1988) and the United Kingdom (1996-1997) are nations that had practised the self-assessment system of taxation. India had not taken such measures in the past and the tax administration has experienced modest improvement that do not necessarily reflect global movement. As the above mentioned countries have implemented the SAS and availing the forthcoming opportunities. So it is suggested that India should review the practicality of this system and the present system should be revised keeping in view the Self-Assessment System

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