

# Analysis of Faceless Assessment System Implemented by Income Tax Department - Some Practical Observations

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## Abstract

The Government of India has implemented Faceless Assessment system to replace manual scrutiny in Income Tax Department. The issues raised in scrutiny are verified virtually based on available materials. As human interface is reduced, communication gap is a major issue between assessee and assessing officer. Various court verdict has reversed the decisions given by the assessing officers. The aim of this study is to analyse the perception of the assessee pertaining to Faceless Assessment. The study also checks the transparency concerns as compared to the earlier system. The key findings of the study depicts that the themes like communication and transparency majorly impact the assessee's perception of the FAS. Along with the positive & negative perception it also includes a suggestive perception. The present study contributes to a body of knowledge by suggesting an all-inclusive categorization of assessee's perception about the FAS. It also investigates the possible ways for smooth functioning of the system and productive revenue generation. The present study is limited to only two dimensions, i.e., communication and transparency.

**Keywords:** Income Tax, Faceless Assessment, Scrutiny Assessment, Assessee, Communication & Transparency

## Introduction

### Income Tax In India - Revenue Collection

Revenue for running the economy is collected by the Income Tax Department through various ways like self-assessment tax (SA Tax), tax deducted at source (TDS), assessment u/s 143(1), scrutiny assessment u/s 143(3), etc. Initially, the hearing of the scrutiny assessment was done manually. Taxpayers had to be present before the Assessing Officer (A.O.) for the explanation called for

under the scrutiny assessment scheme. The assessee or the representative of the assessee explained the facts and figures submitted in the Income Tax Return (ITR). The supporting documents related to the ITR were also submitted manually. As per the judgment of the A.O., the assessment order was passed, and additional revenue was determined, which was collected thereafter.

### Reformative Steps Taken by the Government

The Income Tax Department has been updating processes with the latest developments in the field of technology. The government of India has taken several steps to digitize the tax assessment process and modernize tax administration. E-filing is a step taken by the Government in 2004, the effect of which has been impacted on the next steps (Paramasivan et al., 2018). These steps aimed to reduce human intervention, improve transparency, and enhance the efficiency of the income tax assessment process.

The use of digital interface and AI in the scheme has enhanced the transparency, efficiency, and accountability in the Indian tax litigation system, but is facing many challenges both by officers and assessee (Tygai & Mongra, 2022). In some cases, the judiciary also has raised concerns about the transparency and accountability of the system.

### Introduction of the Faceless Assessment System

The Faceless Assessment Scheme (FAS) under the Income Tax Act, 1961, was launched by the Government of India in 2019. In the Budget 2019-2020 speech by Nirmala

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Sitharaman, she remarked, “The existing system of scrutiny assessments in the Income-tax Department involves a high level of personal interaction between the taxpayer and the Department, which leads to certain undesirable practices on the part of tax officials. To eliminate such instances, and to give shape to the vision of the Hon’ble Prime Minister, a scheme of faceless assessment in electronic mode involving no human interface is being launched this year in a phased manner. The scheme aims at enhancing efficiency, transparency, and accountability in the income tax assessment procedure.” It was a significant step towards achieving “Transparent Taxation- Honouring the Honest”, a platform launched by the Prime Minister in 2020. Phase I of the Scheme was inaugurated in October 2019 and has been fully implemented since 13<sup>th</sup> August 2020. The scheme marks a paradigm shift (Goel, n.d. 2022) in the enforcement of direct taxation in India.

## Features and Procedure of the Faceless Assessment System

FAS, 2020 has been launched in the Income-Tax Department to reduce the interface between the A.O. and the assessee. As per Section 143(3A) of the I.T.Act, the faceless assessment was introduced by the Finance Act, 2019, where the Central Government can empower the new assessment procedure with advanced technology and minimum human interface. The FAS aimed to abolish territorial jurisdiction, whereby the return filed by a taxpayer would be scrutinized anonymously anywhere in India. It will narrow down the scope of human intervention resulting in the possibility of reducing corruption.

The various units in this system are as follows:

**Table 1: Various Authorities with Unit Name and Their Main Functions in FAS**

Authority	Name of Unit	Main Function
NFAC	National Faceless Assessment Centre	This is the nodal authority to monetize the FAS.
ReAC	Regional e- sssessment Centre	Regional authority for monitoring FAS in the region.
AU	Assessment Unit	AU analyses of the material submitted by the assessee, and the assessment order has been passed.
VU	Verification Unit	This unit performs the inquiry and cross verification of records submitted by the assessee.
TU	Technical Unit	It performs the function of providing technical assistance, such as valuation of property, in any legal aspect.
RU	Review Unit	The Review Unit reviews the draft assessment orders, brought to the records by A.O.

Source: Prepared by the authors based on Income tax records.

## Review of Literature

The AO sometimes takes decisions only based on the documents, which leads to erroneous assessment orders, generating vague revenue, which can’t be recovered in further proceedings as the assessee goes in appeal. The Madras High Court ordered that “the e-assessment procedure can lead to erroneous assessment if officers cannot understand the transactions and statement of accounts of an assessee without a personal hearing” (Sree, 2021). There are various other appeals filed before different courts (Golden Tobacco Limited, Vs National Faceless Assessment Centre, 2021, Mantra Industries Ltd. Vs National Faceless Assessment Centre, 2021) arguing for giving the opportunity of being heard by the AOs, and

courts have given verdicts in favour of the assessee. A communication gap is being created between taxpayers and the Assessing Officer that arises from several court cases (Jones, Alice, 2023). Further, the faceless scheme has many conflicts from a jurisprudential, constitutional, and legal perspective (Pradhumna Malpani & Damodar M. Hake, 2022). Common grounds on which violation of natural justice is argued in judicial forums by assesseees are the lack of sufficient opportunity on hearing and the not understanding the intention behind the transaction on the part of AOs while passing the assessment order (Chavan, 2022). A strong case is that the assessee should be granted a personal hearing (Mundra, 2022). The Digital India platform is a way ahead in digitalizing government services. There are still some challenges

to the implementation of the Digital India Scheme (Goswami, 2022). Part of the same is also reflected in the Income Tax Department, with the implementation of the Faceless Assessment System in August 2020. Another important factor is the transparency between the A.O. and the assessee. There are different facets of transparency in information sharing between tax administrations and taxpayers across jurisdictions (Rao, 2022). Transparency is a fundamental factor in building confidence in the tax system. It is believed to offer authorities a valuable opportunity to improve taxpayer compliance. If taxpayers perceive a lack of transparency, they may be inclined to evade taxes. In contrast, authorities expect transparency and compliance from taxpayers in their dealings and adherence to tax laws (Mohammed Saleh Al-Maghreb et al., 2022).

The reviewed literature offers important insights of Faceless Assessment System in India, particularly regarding the violation of natural justice, lack of opportunity for personal hearing, and communication gap between the assessing officers (AOs) and assessees. Several court cases and judicial pronouncements have highlighted issues such as erroneous assessments due to inadequate understanding of documents, the absence of personal hearings, and lack of application of mind by AOs. Various research papers have discussed the legal, constitutional, and jurisprudential challenges associated with the faceless scheme.

However, despite these valuable contributions, there remains a significant gap in the empirical investigation of how assessees perceive the faceless assessment system in practice especially in terms of trust, communication quality, procedural transparency, and their overall satisfaction with the system. While the legal implications have been extensively examined, there is limited research that captures the experiential dimension of the stakeholders involved, particularly from the assessee's point of view. Further, the relationship between communication effectiveness, transparency, and the perception of fairness in faceless assessments has not been studied systematically using qualitative approaches. There is a lack of in-depth research assessing how the

absence of face-to-face interaction impacts compliance behavior, trust in the system, or the perceived legitimacy of the tax authority's decisions.

This research intends to fill that gap by exploring assessee perceptions using interviews, thereby contributing fresh insights to both academic literature and public policy on digital tax governance.

## Objectives of the Study

- To analyse the effectiveness of communication between the A.O. & the assessee during the scrutiny process under FAS.
- To analyse the transparency in decisions while passing the assessment order in the FAS.

## Research Methodology

In this study, the research design is descriptive and exploratory in nature. As the FAS is newly implemented in the Income Tax Department, exploratory research is used to better understand the concept. The qualitative approach is used to predict the assessee's perceptions about the FAS.

The authors approached seven chartered accountants to share details of assessee who went through their scrutiny through a faceless assessment. Accordingly, 57 respondents were part of the study. The sample size of 57 was deemed sufficient as saturation was achieved; subsequent interviews did not yield new themes, indicating adequate coverage of the subject matter (Guest, Bunce & Johnson, 2006).

Interviews were conducted in the office of the chartered accountants. A questionnaire for the study was developed based on a literature review. The chartered accountants then vetted it. Based on the inputs from experts, the questionnaire was refined (Table 2). 6 open-ended questions related to the objectives of the study, along with 5 basic questions related to the demography of the respondents, were prepared. The data collection period was from February 2024 to May 2024.

**Table 2: Questions Asked to the Respondents During the Interview**

<i>Sr. No.</i>	<i>Questions</i>	<i>Factor Studied</i>
1.	How was your experience regarding the communication of the assessing officer during the scrutiny process under faceless assessment?	Communication
2.	Have you requested a video conference (VC) for your explanation after receiving the Show Cause Notice (SCN)? If yes, then was it effective from your point of view?	
3.	Express your views regarding clear explanations for any decisions or adjustments made to your final assessment order in Faceless Assessment by the assessing officer.	
4.	Do you think that Faceless Assessment has increased the transparency in the scrutiny process?	Transparency
5.	From your point of view, has corruption been reduced after the implementation of the Faceless assessment system?	
6.	Please mention any challenges and difficulties you faced while working with the faceless assessment system.	

Source: Prepared by authors.

## Data Analysis and Discussion

### Profile of the Respondents

Table 3 presents the profiles of the respondents. Each interview lasted 30-40 minutes. The interviews were documented on paper and later used for data analysis.

**Table 3: Profile of the Respondents**

<i>Sr. No.</i>	<i>Criteria</i>	<i>Sample Profile</i>	<i>Sample No.</i>	<i>% of Samples</i>
1.	Gender	Male	33	57.90
		Female	24	42.10
2.	Age Group	Up to 30 years	12	21.05
		30-45 years	27	47.36
		45-60 years	18	31.59
3.	Income Group (Yearly in INR)	5 Lakh- 7 Lakh	10	17.54
		7 Lakh -10 Lakh	29	50.87
		Above 10 Lakhs	18	31.59
4.	Occupation	Private Employees	36	63.15
		Government Employee	9	15.78
		Self-Employed/Business	12	21.07

Source: Primary Data.

57.90 percent of the respondents identified themselves as male, while 42.10 percent were female. The majority of the respondents (47.36 percent) were in the 30 to 45 age group, followed by 31.59 percent in the 45-60 age group. 50.87 percent of the respondents had a yearly income in the range of 7-10 lakhs, followed by 31.59 percent in the range of above 10 lakhs. The majority of

respondents in our study were private employees (63.15 percent).

### Development of Research Model

The assessee's perceptions are grouped into positive perception, negative perception, and suggestive perception based on their responses.

### Positive Perception of the Assessee's

The perception of an assessee is considered positive if the responses collected from the respondents are satisfactory about the FAS and on the positive side. Multiple factors are responsible for the positive expressions, such as effective communication between the assessee and A.O., satisfaction with the transparency and the system, etc. If the assessee has good experience with the FAS or the assessee successfully convinces the A.O. regarding the point raised in scrutiny, which FAS completed, it is considered effective communication from the assessee's point of view. The same is treated as a positive perception of the assessee about the FAS.

Excerpts:

"...my experience regarding the communication with the assessing officer was good as whatever I have communicated with him was really considered and the assessment order was passed accordingly" (Respondent No. 7).

".. Oh yes, it was a nice experience of communication without sitting across the table. It saved my time as earlier I had to come to the tax office to attend the hearing in scrutiny cases" (Respondent No. 23).

Similar thoughts were expressed by the Respondents Nos. 1, 16, 27, 39, and 53.

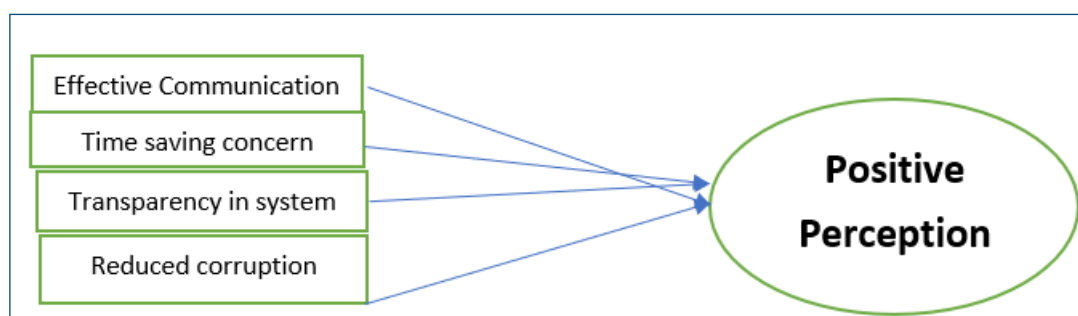
Apart from this, most of the respondents had a positive perception of transparency. The respondents want transparency in government sectors, including the Income tax procedure. Most of the respondents agreed that transparency has increased after the adoption of the FAS.

Excerpts:

"...Honestly, I feel less harassed now. There's a reduced scope for arbitrary actions by tax officials, which makes the whole system feel much more transparent" (Respondent No. 5).

"...Corruption was prevalent in Income tax offices in earlier days. Some staff of the department were caught by CBI officials for bribery practices, but as of now, things are proceeding digitally, and corruption has been reduced. Of course, transparency has increased" (Respondent No. 49).

In line with the perceptions of respondents no. 5 and no.49, respondents nos. 8, 11, 19, 24, 43, and 52 have expressed similar thoughts.



**Fig. 1: Factors Indicating Positive Perception**

### Negative Perception of the Assessee

The output of the content analysis reflects that any statements expressing negative thoughts or complaints refer to a negative perception of the assessee about the FAS. The main factor responsible for the negative perceptions is a communication gap between the assessee and the A.O. It leads to an addition in the assessment order and an increase in the assessee's tax amount, even if it is genuinely not true. Respondent No. 3 mentioned that

Excerpts:

"...in my case, the officer can't understand the clarity of the transaction I gave in scrutiny assessment through faceless, so an addition was made in my order. I appealed against the assessment order. I have also seen such cases about my friends" (Respondent No. 14).

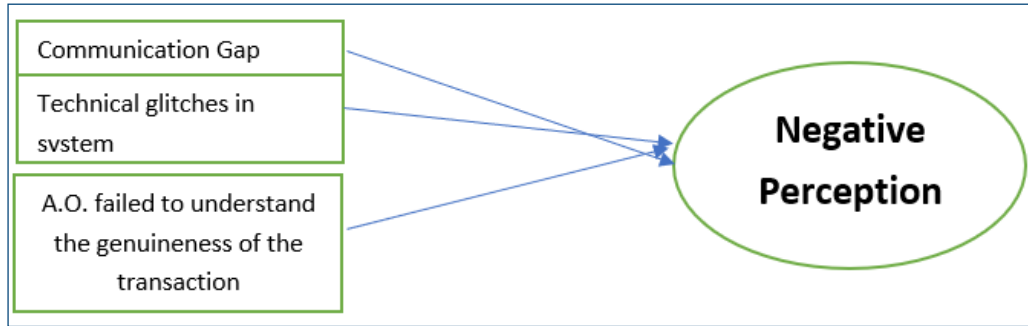
Even though most of the illustrations express positive perceptions about transparency, a few statements don't follow this positive trend.

Excerpt:

“I have experienced multiple instances where the lack of direct interaction with assessing officers makes it challenging to understand the rationale behind certain decisions, which raises the question about the transparency

and confusion of the assessment process. There were some technical glitches while navigating on the system” (Respondent No. 44).

Respondent Nos. 12, 19, 21, 37, and 56 have expressed similar thoughts.



**Fig. 2: Factors Indicating Negative Perception**

**Suggestive Perception of the Assessee**

The end users, i.e., assessees, have noted certain barriers or challenges in FAS. They hope these barriers will be removed in the future. They also give some suggestions for improving the system.

Excerpts:

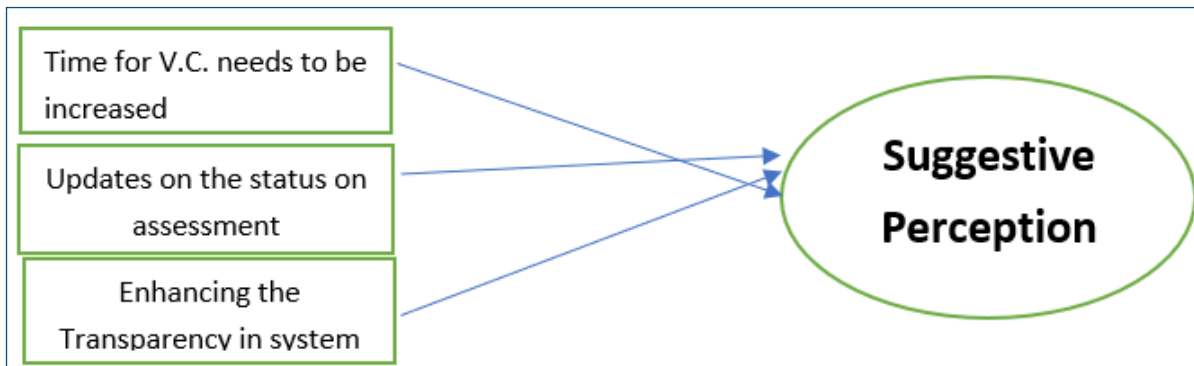
“...time given for video conference has to be increased, and technical glitches have to be removed”. (Respondent No. 2).

“The department should think of enhancing the transparency of the assessment process by providing

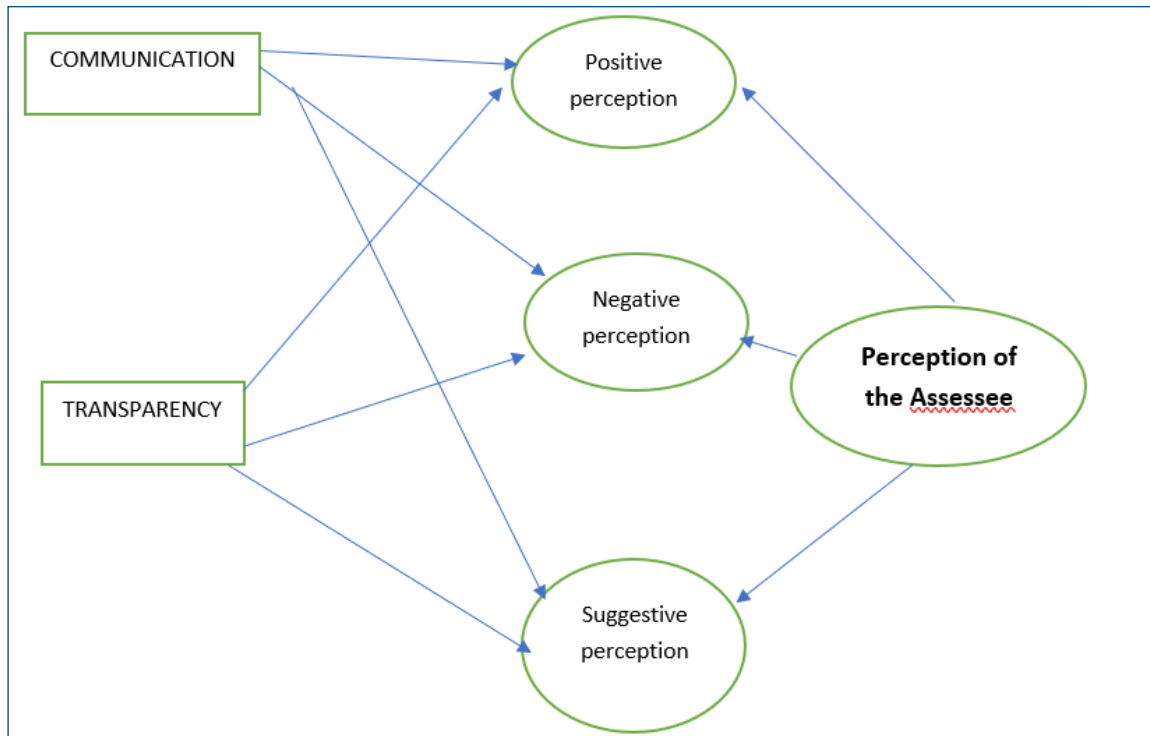
clear, step-by-step updates on the status of assessments, which would greatly reduce the taxpayers’ confusion”. (Respondent No. 38).

Other respondents expressing similar thoughts are 4, 10, 15, 25, 26, and 42.

Based on the above discussion, the factors that determine the assessees’ perceptions of the faceless assessment system are analyzed. The illustrations expressed by the assessees’ are mixed and suggestive in nature. The themes in the statements are interrelated. The interrelationship among them is carefully examined, and the following research model is developed.



**Fig. 3: Factors Indicating Suggestive Perception**



**Fig. 4: Research Model**

## Conclusion

### General Discussion

The findings detailed above suggest that there are mixed responses about the newly implemented faceless assessment system. Different themes are developed after considering the assessee's perception. It depends on various factors that the assessee is expressing at the time of scrutiny under FAS. Here, the study chose factors such as communication and transparency.

### Analytical Discussion

The major point focused in fast is prominently on technical points such as digitalising the department and reducing the human interface between AOs and assesses to reduce corruption and save time in the assessment procedure. The present study shows that while doing so, the communication gap between the officer and the taxpayer, which is the major concern in any decision-making authority, has not been considered.

The fundamental value of the present study depicts how themes like communication and transparency impact

the assessee's perception of the FAS. The present study also considers suggestions from the respondents, which are denoted as suggestive perceptions of the assessee for the betterment of the system. Generally, any person's perception of the phenomenon is either positive or negative. The present study, comprising the above perceptions, also includes a suggestive perception. The present study contributes to a body of knowledge by suggesting an all-inclusive categorization of assessee's perception about the FAS.

### Practical Implications

The present study has several implications for academic as well as for policymakers.

### Academic Implications

This study adds to the aspect of the role of digital technology in governance. It brings attention to an important yet often overlooked issue, the gap between digital systems and human understanding. Virtual conversation may not be effective at all times, specifically for situations where decision-making authority relies on it for their decision. This research highlights the need

for more balanced approaches, where human judgment complements digital processes rather than being replaced by them. It opens a path for future academic inquiry into how such hybrid systems can be designed. The present study is an initial attempt to suggest a new way to remove the barriers in the system and look forward positively for the betterment of the system.

## Policy Implications

For policymakers, the findings of this study raise important points about how digital governance is being implemented. The Digital India initiative has brought about significant changes in how government department's function with digital up gradation, but it also brings challenges especially when decisions are made based solely on what is digitally recorded. In many cases, virtual communication may not be enough, particularly where personal interaction necessary. The study suggests that while moving forward with digital systems is essential, it's equally important to keep some space for human touch and flexibility in decision-making. Policymakers might consider designing frameworks that allow for both, technological efficiency and human discretion.

## Limitations of the Study and Scope For Future Research

Though there is unlimited scope to investigate the impact of FAS on taxpayers' compliance and behaviour, the present study is limited to only two dimensions, i.e., communication and transparency.

As the communication and transparency are playing vital role for the effective implementation of FAS, the other factors are also contributing their role for the same. Future studies may consider for the other factors like time efficiency, navigation in system, technical up gradation etc. that impact the successful implementation of FAS. FAS can be compared with similar systems implemented in other developed countries. Best practices from international experiences may be used. With the help of technology and recently developed AI and Machine Learning Programmes, the assessment process (i.e., FAS) may be reduced or modified to public centric. Tax may be collected at the time it is generated.

Quantitative research approaches could substantiate the comprehensive interpretive model of the assesses' perceptions about the FAS system.

## Acknowledgments

The authors would like to express their sincere gratitude to all participants for sharing their experiences and valuable time, which have contributed to enhancing the quality of this research. The authors also extend their appreciation to the reviewer for their constructive suggestions, which have significantly improved the quality of this paper.

## Information About Funding

The authors hereby declare that specific funding was not received for the current research, or publication of this research paper.

## Statement About Conflict of Interest

The authors hereby declare that there are no conflicts of interest related to the present research.

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