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## E-FILING OF TAXES - A RESEARCH PAPER

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### **ABSTRACT**

The Income Tax Department (ITD) of the Ministry of Finance, Government of India, is committed to provide world - class services to taxpayers in the country, making tax compliance easy and convenient. One of the initiatives of the Income Tax Department was the introduction of Electronic Filing (e - Filing) of income tax returns (ITRs) to make the filing process easier for taxpayers as well as to reduce the time required for data entry on receipt of returns. This paper deals with the importance and awareness of e-filing among the citizens of the country.

**Keywords:** e - Filing, e - Governance, e - Return intermediaries, ITR, Security, Tax, Taxpayers.

### **1. Introduction**

The department desired a system that would make the process of filing of income tax returns (ITRs) easier for taxpayers as well as reduce the time required for data entry at their end on

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receipt of the ITRs. Enabling the filing of ITRs over the Internet was the most viable answer to the department's needs. While the facility would be beneficial to the taxpayers, the department had to create an environment wherein the user would feel secure about filing his ITRs online. e - Filing helped furnishing ITRs through authorized intermediaries who were called "e-Return Intermediaries". Response time for processing the ITRs as well as claiming refund dropped significantly. Duplication of efforts was eliminated since data entered by intermediaries was already available in the system for any time use and reference. The online process did not require the taxpayers to be physically present for filing their ITRs.

## **2. Definition of e-filing**

e - Filing is a system for submitting tax documents to the Income tax department through the internet or direct connection, usually without the need to submit any paper documents. Various tax return preparation softwares with e-filing capabilities are available as standalone programs or through websites or tax professionals or from major software vendors for commercial use. "e - File is the term for electronic filing, or sending your ITR from tax software via the Internet to the tax authority".

E-filing of Income Tax Return Online refers to the process of filing Income Tax Return electronically. You no longer have to stand in long queues to file income tax returns.

Customized return forms have been devised by the Income Tax Authority which are available on the site of the Department. These forms have been devised with such details that tax payers need not file any supporting document along with. Return is submitted electronically at the site.

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It is mandatory for Firms, Individuals, Hindu Undivided Family (HUF) requiring statutory audit u/s 44AB and Companies to submit the Income tax returns electronically from AY 2007 - 08 onwards.

- Any Company/Firm, Individual, HUF requiring statutory audit u/s 44AB return submitted without e-Filing receipt will not be accepted.

The Indian government agency that runs the Income-Tax portal "incometaxindiaefiling.gov.in" has very thoughtfully provided an electronic filing facility for its citizens.

### 3. Literature Review

e - File is a system for submitting tax documents to the Internal Revenue Service through the internet or direct connection, usually without the need to submit any paper documents. Various tax preparation softwares with e-filing capabilities are available as standalone programs or through websites or tax professionals from major software vendors for commercial use[1].

According to Directorate of Income Tax - The process of electronically filing Income tax returns through the internet is known as e-Filing[2].

The embryonic world of electronic filing has certainly evolved during the past few years. Studies have concluded that electronic filing offers the potential to greatly enhance tax services. Tax software often provides automatic error checking, expert tax advice, and other services that can catch errors, cutting down on the chances of an audit[3]. Taxpayers without computers and/or Internet access at home may choose to use computers elsewhere in order to e - file, though the data indicates this is a relatively infrequent occurrence. In U.S Self - preparers may visit IRS Taxpayer Assistance Centers (TAC) or VITA locations or may utilize computers that are available to them at work or a public library. IRS Publication 17, Your Federal Income Tax, states, "Many VITA sites offer free electronic filing"[4]. The IRS list of e-file benefits includes

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“IRS computers quickly and automatically check for errors or other missing information”[5]. A 2005 survey by Anderson of 277 preparers showed that “respondents with larger practices were more likely to e-file than those with smaller practices”[6]. At present, there is very limited literature that focuses on the adoption of e-filing systems. Most of the literature related to e-filing adoption applies and extends the well known technology acceptance model (TAM) by Davis (1989) (Wang, 2002; Chang et al., 2005; Gallant et al., 2007), theory of planned behaviour (TPB) Fishbein and Ajzen(1975) (Hsu and Chiu, 2004; Hung et al., 2006) and a unified model of both theories (Fu et al., 2006) to assess the adoption intention of the e-filing system. Other literature such as Carter et al. (2008) used the Unified Theory of Acceptance and Use of Technology (UTAT), while Wang et al. (2007) used the Innovation Diffusion Theory to observe e-filing adoption among taxpayers.

#### 4. Trends in the usage of Indian e-filing system

**Table 1 - Number of electronically filed returns**

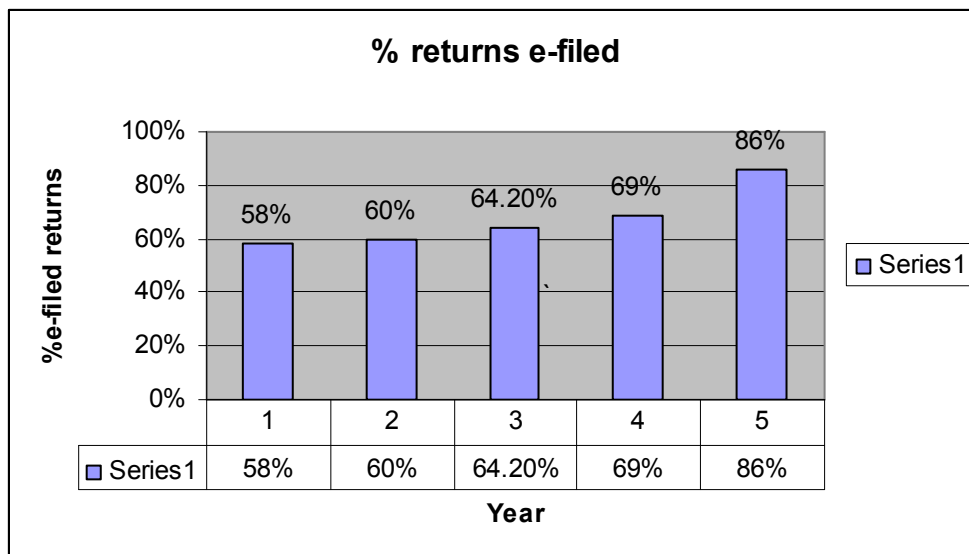
Year	%Returns e-filed
2007	58%
2008	60%
2009	64.20%
2010	69%
2011	86%

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#### 4.1 Overview: Growth in e - File Continues in 2010, but Still Well Below 80 Percent Goal

The 2010 e - file experience reflects year of continued progress. In absolute terms, the number of all major individual, business, and tax exempt returns filed electronically in 2010 is estimated to be more than seven million higher than in 2008. From a longer term perspective, globally the total number of major tax returns filed electronically has grown more than 90 million, from 29.4 million in 1998 to approximately 106 million in 2010. As illustrated in above figure, this growth has occurred every year and has been driven particularly by the electronic filing of individual tax returns, which increased from 24.6 million in 1998 to around 95 million for 2009.

This increase may be due to the benefits enjoyed by the people over manual Filing of ITRs. Filing of return electronically is easy and user friendly as user has to follow step by step instructions. It is very convenient method since user can file ITR at any time. Also, with the latest technology for internet security in use; it is very safe to e - file. There is advantage of acknowledgement from Centralized Processing Centre (CPC), Bangalore about the receipt of

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ITR. It eliminates guesswork. Tools are available in e-file software that assists you in claiming deductions and credits, including the Earned Income Tax Credit, Child and Dependant Care Expenses Credit and Business Incentives etc.

The yearly growth in individual e-file in 2009 is noticeably smaller than what occurred in 2008, when the electronic filing volume increased by nearly 10 million returns over 2007. This proportionately small increase in e-filed returns may be due to some problems faced by the people. There may be language problem faced by the people as return forms are available only in English. Forms for filing ITR are very complicated. There are risks of theft, third party risk etc. Everyone is still not aware of e-filing.

IRS has committed for an overall 80% e-file participation rate for all major individual, Business and exempt organization tax returns by 2012. However reaching this rate is difficult to achieve. For this IRS has to overcome basic challenges. Also security techniques should be updated from time to time.

## **4.2 Theoretical views on users' perception, technology acceptance, and usage of e-filing issues**

The word perception comes from the Latin words '*perceptio*', meaning "receiving, collecting, and act of taking possession, apprehension with the mind or senses," (James J. Gibson 1987). In this study, perception is the process by which people interpret and organize sensation to produce their meaningful experience of the e-filing tool in filing their tax returns. In other words, people's acceptance of e-filing is highly related to their level of technology readiness on the one hand, ease and usefulness of e-filing system as well as security and facilitating support on the other. Technology readiness is defined as people's propensity to embrace and use new technologies for accomplishing certain tasks. The people's propensity towards e-filing system

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has to do with their level of optimism, innovativeness, discomfort, and security tightening of the system. Parasuraman and Colby (2001) highlighted that technology readiness is an overall state of mind and not a mere measure of competency. They have pointed to some important issues surrounding human aspects of technology readiness. First, technology readiness varies perceptually from one individual to another. Some people can be consumer of a technology, but some may seek technology actively, whilst others may need special help or coaxing depending on the level of their readiness. Second, technology readiness can be used to predict and explain people's responses towards new technologies. Empirical findings have also indicated that technology readiness correlates with actual use and intention to use the technology-based products and services in varying degrees (Parasuraman and Colby, 2001). In addition, an individual with a higher level of technology readiness has higher usage intention and more experience in using the technology based products and services in varying degrees.

## **5. Conclusions and Recommendations**

Previous researchers have highlighted the importance of perceived risk to the adoption of e-filing. There are many benefits of e-filing. Various researchers have different opinion regarding the benefits of e-filing; however according to some researchers many challenges are there regarding adoption of e-filing by mass population. Main challenge is risk of security. The three main aspects of security include: confidentiality, integrity and availability. Confidentiality is keeping information from being seen or used by anyone who should not have permission to see or use it. Integrity is ensuring that data has not been altered or tampered with in any way by anyone. Availability is ensuring that the data is accessible at all times to those who have permission to access it. Also, technology readiness can be used to predict and explain people's responses towards new technologies. Hence main importance should be given to security of private data of customers, so that more and more people e-file their ITRs.

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