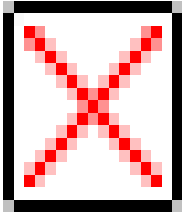


Permanent Account Number: Stories are embedded in the Numbers!

THE POLICY LAB (TPL-02)

JULY 11, 2022

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DESIGNED

as a unique identification key for tracing and tracking of financial transactions, PAN as a concept and an executive instrumentality was legislatively introduced as early as in 1976 (Taxation Law (Amendment) Act, 1975) with effect from 1-4-76 alongside Notification of its operating Rule 114 and Form 49A. Originally, cases of taxable entities and cases of entities who clock in excess of a specific ceiling as regards their sales/turnover/gross receipts were legislatively mandated to obtain PAN and have them quoted in communication with the Income Tax Department (ITD) and in respect of transactions as may be prescribed by the Board. The Board was also empowered to make Rules for specifying categories of transactions in relation to which PAN shall be quoted by every person in the documents pertaining to such transactions, and categories of documents pertaining to its business or profession in which such numbers shall be quoted by every person. Cases of taxpayers who have suffered TDS under Chapter XVIIIB and cases of sellers deducting tax under section 206C were progressively brought in the purview of compulsory PAN vide Finance Act, 2001. Finance Act, 2008 expanded scope of compulsory PAN for non-individual entities and their Managing Director, Director, Partner, Trustee, Author, Karta, Founder, Chief Executive Officer or office bearer, in case their annual financial transactions exceed a ceiling. Finance Act No 2 of 2019 empowered the Board to notify such transactions which would compulsorily entail furnishing of PAN.

As on date, (i) taxable cases (ii) cases of sales/ turnover/ gross receipts from business or profession exceeding Rupees Five Lakh (iii) section 139(4A) cases-Trusts (iv) non-individual cases and cases of their key persons including Directors and Partners when the entities are entering into financial transactions aggregating Rupees Two Lakh and Fifty Thousand and or more (v) transactions as may be prescribed by the Board in the interest of revenue (vi) as notified by the Central Government for a class of persons in whose cases income tax or any other tax or duty is payable under any other law (vii) as notified by the Central Government for any class of persons for collection of any information relevant for the purposes of Income Tax Act (viii) any case which according to the Assessing Officer (AO) after considering the nature of its transactions makes a determination that the entity ought to have a PAN (ix) cases of TDS under Chapter XVIIIB and buyer/licensee under section 206C are all deserving cases for compulsory allotment of PAN.

Rule 114B (in terms of section 139A(5)(c)) delineates the transactions entailing requirement of a PAN: sale/purchase of motor vehicle, opening of a bank account or obtaining a debit/credit card, opening a demat account, payment in cash exceeding Rs 50,000 to a hotel, payment in cash in excess of Rs 50,000 in connection with foreign travel or purchase of foreign currency, payment in excess of Rs 50,000 to a Mutual Fund for purchase of units or to a Company for purchase of bonds/ debentures, deposit of cash with a Bank exceeding Rs 50,000 on a single day, purchase of demand draft/ pay order/ bankers Cheque in cash exceeding Rs 50,000 on a single day, time deposits exceeding Rs 50,000 with a Bank, LIC premia in excess of Rs 50,000 in a Financial Year, purchase/ sale of shares exceeding Rs 1,00,000 per transaction, and sale/ purchase of immovable property exceeding Rs 10 lakhs.

Rule 114BA (in terms of section 139A(1)(vii)) delineates the following transactions: cash deposit/deposits of Rs 20 lakhs or more with a Bank, cash withdrawal/withdrawals of Rs 20 lakhs or more from a Bank, an opening of a current or a cash credit account as transactions requiring compulsory incorporation of PAN in the relevant documents.

Keeping the legislative and Rule position of PAN in perspective, the PAN base numbers have always elicited 2 questions. One is whether there is grave mismatch between the number of PAN holders and those who file their Income Tax Return (ITR). Two, whether PAN has delivered in accordance with the expectations. Questions are driven by a single statistic: that ITR filing is 69 million for AY 19-20 against 446

million of PAN Holders. For AY 18-19, it was 63 million of ITR filers against 380 million PAN holders. To answer to the first of the 2 queries, it is undeniable that bare numbers of PAN and ITR filers by itself do not suffice a conclusion one way or the other unless the actual context of governing provisions and their overall intent are comprehensively considered for any meaningful analysis.

Requirement of PAN is not linked to furnishing of ITR alone for the taxable entities, and as per section 139A(5), the requirement additionally covers PAN for specified financial transactions listed in Rule 114B and 114BA as also in separate situations given in section 139A itself. Attempting to find a convenient one-on-one correlation between PAN holders and ITR filers is more or less identical to demanding similar correlation between Passports issued and actual number of foreign travellers, or number of EPICs issued and numbers who actually voted or number of Driving Licenses issued and actual vehicles on the road. Moreover, 97% of PAN holders are individuals whose compliance and identification requirements perforce entail obtaining of PAN notwithstanding the fact that their income levels do not require filing of ITR. In far too many geographic segments in India, it may be borne in mind, before the advent of Aadhar, PAN (with its photo-ID features) as an acceptable mode of verification by many authorities has been a reality. Finally, PAN on demand as per express language of the legislation (section 139A(3):

“Any person, not falling under sub-section (1) or (2), may apply to the Assessing Officer, for the allotment of a permanent account number, and thereupon the Assessing Officer shall allot a permanent account number to such person forthwith” has played a pivotal part in expanding PAN coverage much faster than the ITRs filed.

Disaggregated data on PAN-ITR across the many taxing jurisdictions though make for interesting reading. While ITR filers among all PAN holders were 16.7% and 15.55% respectively for AY 18-19 and AY 19-20 across all categories of cases, the ratio fell to 16% and 14.9% among individual PAN holders. Within the subset of individual PAN holders and among bigger States, Assam(4.9%), Bihar (7.3%), UP (10.9%), WB (11.6%) and Kerala (12.6%) fell below the national average of conversion of PAN holders to ITR filers, while Chandigarh (33.6%), Gujarat (26.8%), Delhi (22.9%), Rajasthan (22.4%) and Punjab (21.4%) fared higher as compared to the national average. Among non-individual PAN holders, conversion of PAN to ITR filing on a pan-India basis was much higher as compared to individuals (43.25% for AY 18-19 and 42.58% for AY 19-20). Within the non-individual PAN holders, ratio of ITR filers to PAN holders were lower as compared to national average among Assam (30.1%), Andhra Pradesh (32.3%), J&K (33.9%), Kerala (34.6%) and Telangana(36.4%), while Chandigarh (61.5%), Rajasthan (58.7%), Punjab (57.4%), MP (56.2%) and Gujarat (53.8%) exceeded the national average. Disaggregated data do inspire a primary level confidence that notwithstanding all regional variations, seeding and awareness about compliance requirements of Income Tax law as manifest in citizens' behavioural practice are deeper and more nuanced than as commonly expressed in public discourses, but it may still require a more State-specific approach to maximally leverage this awareness to widen our tax net. A common approach may not suffice.

PAN as a unique instrumentality and identifier is the foundation across which the superstructure of document and information linking, matching of financial information from third party reporting entities, and all essential compliance measures are overlaid. From running of non-filer monitoring module to Annual Information System, significance of PAN to functioning of ITD can never be overstated. Depending on the creativity of ITD for employing PAN to methodically build and leverage the large assorted taxpayer data, PAN's true potential for augmenting and harvesting those data for greater public good can only be expanded in future.