

Fake Entries, Bogus Invoices of Cos Under Taxman's Lens

Tax department scrutinising financial statements to check for evasion

Sachin.Dave@timesgroup.com

Mumbai: The direct tax department has started scrutinising invoices of companies to check for tax evasion even as the indirect tax department continues its aggressive drive against tax dodgers.

The income tax department has started scrutinising financial statements of companies to check if there are any fraudulent transactions or false entry that could result in low payment of taxes.

The tax department is questioning certain transactions where it suspects either the sale has not happened or in cases where it's difficult to verify details of companies or clients, said people in the know.

The tax department suspects that several companies are forging financial statements so that they have to pay fewer taxes.

The tax department is relying on a newly inserted section in the tax regulations that refers to a "false entry (accounting entry) or omission of an entry" for evading taxes.

The tax department would also start scrutinising sale and purchase invoices of companies and whether this corresponds with the financial statements and taxes paid.

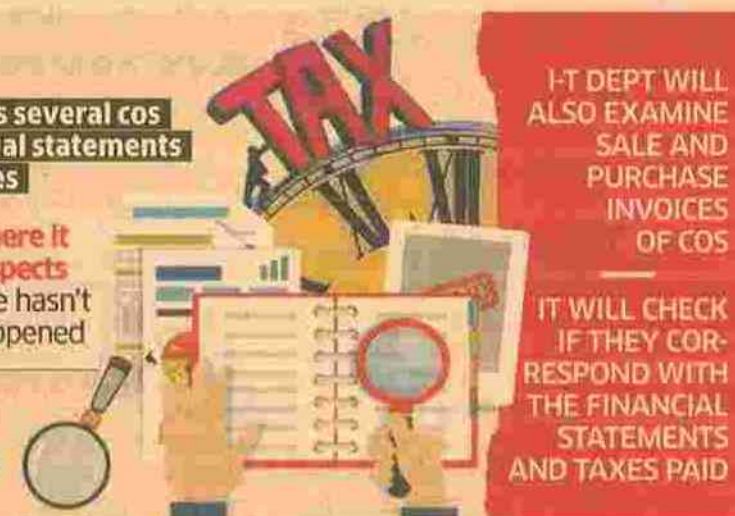
This comes at a time when the indirect tax department is going out of its

Tax Scan

Tax dept suspects several cos of forging financial statements to pay fewer taxes

Taxman questioning transactions Where it suspects sale hasn't happened

Cases where verifying details of cos or clients is difficult



I-T DEPT WILL ALSO EXAMINE SALE AND PURCHASE INVOICES OF COS

IT WILL CHECK IF THEY CORRESPOND WITH THE FINANCIAL STATEMENTS AND TAXES PAID

way to nab companies that are availing input tax credit based on fake invoices. Input tax credit mechanism under the Goods and Service Tax (GST) framework allows companies to set off part of the tax paid against future tax liabilities.

Tax experts point out that the income tax department's scrutiny could also cause issues for several small companies that may depend on old ways of business or that may not be maintaining proper financial records.

Also the way the new regulation is defined could cause some issues, they say. "False entry has been very widely defined and it even covers the transactions which are not for evading income-tax li-

ability. Every person and company may be required to maintain documents establishing the identity of buyer or seller," said Paras Savla, partner, KPB & Associates, a tax advisory.

Tax experts say that penal provision is enacted to combat fraudulent transactions and they are in addition to any other penalty whether prescribed under income-tax or other laws like GST.

The sudden spurt in investigations by the tax departments also comes at a time when the government is looking to increase its revenue amidst Covid pandemic. Tax officials are given annual targets they have to achieve in order to be eligible for professional growth.