

AN EXPLORATORY STUDY ON THE IMPACT OF CENTRALIZED LEDGER TECHNOLOGY FOR CLAIMING INCOME TAX DEDUCTIONS BY PUBLIC HEALTHCARE NGOS

Manoj Pandey, Amity University Madhya Pradesh
CA Manav Vigg, Amity University Madhya Pradesh
Devendra Kumar Pandey, Amity University Madhya Pradesh
Anand Kumar Shrivastava, Amity University Madhya Pradesh

ABSTRACT

Introduction: India has more than 3 million Non Government Organizations (NGOs) spread across various domains like animal rights, healthcare, disaster relief and so on. The Government of India gives impetus to these NGOs by providing tax deductions & reliefs on the donations & grants made by donors to them. While some of these NGOs are thriving & making a difference in the lives of people yet a majority of them suffer due to lack of trust & transparency on part of the donors. This is despite the fact that these NGOs also enjoy tax benefits from the Government.

Objective: The objective of this paper is to recommend the introduction of a new tab pertaining to donations & deductions where donors can click and submit the details of the donations made to the NGO. This tab will be built on a centralized, distributed ledger platform and it will update the donor, donee and Income Tax Office's (ITO) books at the same time and will be linked to the PAN card of the donor as well as the donee so as to ease the donor's claim of tax deduction/relief.

Originality: The centralized, distributed ledger technology is a new revolutionary development in the field of online real-time processing and storage of data, there have been very few to Nil studies in this area.

Material & Method: Secondary data has been collected from various sources (please check References) and analyzed for effective resolution.

Results & Discussion: The evaluation shows that introduction of a unique tab for donations received and shifting to a centralized platform for linking the books of donor, donee and ITO will provide multiple benefits in terms of accounting, trust and transparency. It will not only smoothen the tracking of the ITO of all the donations received with tax benefits attached to it but will also reinstate faith in the average donor who currently hesitates in making the donation on the context of doubtful tax deductions.

Applications: Smart contracts will contain all information about the NGO including their tax registration under **Section 12A of Income Tax Act** by the ITO and the area within healthcare where they operate. These contracts will match all the relevant criteria and update the books of all the parties involved on a real time basis.

Conclusion: Centralized platformbased donation tab can ensure that all the donations are updated on a real time basis.

Keywords: Tax Deductions, Centralized & Distributed Ledger Technology, Donations.

INTRODUCTION

India has one of the largest populations globally which lives below poverty line. According to an estimate by World Data Lab, India has more than 40 million Gupta (2019) people living below poverty line and a staggering 70% Aggarwal (2019) of India's rural population has minimal access to health care services. While Government of India has taken a huge initiative in the field of basic health care by introduction of Aayushman Bharat scheme which will cost \$1.7 Billion annually to the Indian exchequer yet a lot more is still desirable. This can only be achieved if there are initiatives taken across the country.

There are currently more than 3 million Anand (2019) NGOs registered in India majority of which are in the healthcare segment. These NGOs have been given the privilege by getting them registered under Section 12A of the Income Tax Act. Any donor making a donation to these NGOs can avail tax benefits on the amount of donations made by them. But most of these NGOs still struggle to get donations from donors due to lack of trust on behalf of the donor in receiving tax benefits (Baisalbayeva et al., 2019).

These tax benefits which have been provided by the Government of India as an impetus to encourage donations are spread across various provisions of the Income Tax Act- Sec. 80G and Sec. 80GGA. But the donors do not find it trustworthy to donate money to them on the fear of rejected tax deductions as a result of which small NGOs which want to bring healthcare reforms in a specialized field or location do not get adequate resources to execute their plans.

Blockchain & Distributed Ledger Technologies- A Technical Background

In our paper, we have tossed the most exciting term, which is going to be the future of the financial sector. It's popularly called is distributed ledger technology (DLT). This can be implemented with the help of blockchain computing. The blockchain technology got famous after the success of many cryptocurrencies like bitcoin. Blockchain uses many tools like "*smart contracts*", which automates the entire manual process of compliance and claims processing. It helps the user to perform transition without the help of middlemen and provides data as and when required irrespective of the geographical location. In DLT, the independent computers are called nodes that perform transitions, share, and synchronize electronic ledgers. In this technology, the data is kept in different places so that tracing is very difficult. While in centralized ledgers, data is kept at specific nodes that makes data vulnerable and also makes it difficult to access and update. In blockchain technology, the transitions are performed in a peer-to-peer(P2P) manner without any central control. The transaction includes the transfer of money, securities, identity, health information, and other personal data. DLT has the capability to change the face of the financial sector completely and make the system more robust, efficient, and reliable. Since technology is in its nascent stage, therefore a lot of possibilities are available in this field. Many companies are putting this in their organization as a pilot project and identifying its applications. The DLT and blockchain require reconsideration in terms of consumer protection, financial integrity, legal and technical issues as well.

MATERIAL AND METHODS

This is a recommendatory research based on a study of current & recommended process of availing deductions under the Income Tax Act. The tax deduction availing process of both the current and processes have been taken into consideration along with an evaluation of the costs involved as well as time saved.

RESULTS AND DISCUSSION

In the current scenario at the time of income tax return filling, we have to fill details like amount, eligibility criteria, PAN of donee etc for availing deduction under section 80G manually. Many a times at the time of return filling donor misplace the details and is not able to avail the deduction (Dulaney, 2019).

Our suggestion is to move to a centralized ledger platform as a solution for the same. It will include introduction of a new tab pertaining to deductions which will further integrate with Income tax online return filling portal (Thailand Testing, 2018).

There will be three parties for this platform who will participate-

1. Donor
2. Donee
3. Income tax Department

Suggested process flow is as follows:

1. On the basis of criteria defined in Sec 80G of Income Tax Act, classification of donee will be stored in the platform linked to their PAN number.
2. One tab of donation under Sec. 80G & Sec. 80GGA will be created on Income Tax Site that will be visible after login.
3. At the time of donation only donor will fill the details like PAN of donee and amount given.
4. After donor's submission data will flow to the platform.
5. After that one auto generated mail will be send to donee and he will confirm the receipt of payment.
6. Once confirmed by both the donor as well as the donee, the amount of donation along with its eligible tax deduction will be stored on the system in the books of all the three parties concerned.
7. Now amount of donation will become visible on income tax return of the donor with correct criteria and amount.

CONCLUSION

Many of us at some point in our lives have thought of giving to charity and doing something for society. It is a remarkable job for making a difference and also makes you feel good that we are able to return to the society as whatever we earn comes from the society only. Given the nobility of this gesture, the government extends its full support towards charitable services by providing deduction under Income Tax Act (Jurowiec, 2019).

Sometimes at the time of making donation donor has a doubt about whether he will be able to avail the benefits of deduction under Section 80G in case of particular trust or NGOs. Moving this system to a centralized & transparent platform will ensure that the donors get tax benefits for sure and there is no duplication of data or manual search of donation related documents (The Times of India, 2019).

This platform, being a decentralized, transparent & immutable ledger will revolutionize the way donors will donate funds and avail tax benefits. Its Triple Entry accounting system will make sure that all the donation & deduction related records are maintained with all the three parties involved- Donor, Donee and Income Tax Office. It will help NGOs especially smaller ones to win the confidence of donors and generate donations for effective functioning and implementation of their plans. It also safeguards the donors as well as the donees from any kind of duplication or false claims made by fake donors by providing an individual code known as Hash to each transaction (Taylor, 2019).

The tax authorities all over the globe are rapidly moving to this platform for reasons of faster & efficient tax collection, easy reconciliation, transparency and fraud prevention. This will help restore the confidence of the tax payers as well as the regulatory authorities.

S. No.	Place/Organization	Suggestion	Reference
1.	Microsoft & Price Waterhouse Coopers, Netherlands	Blockchain platform based tax compliance will lead to greater integrity & transparency, reduced cost of compliance & reconciliations and improved tax collections	https://www.pwc.nl/nl/tax/assets/documents/pwc-two-practical-cases-of-blockchain-for-tax-compliance.pdf
2.	Bloomberg, Europe	Blockchain based platform will prevent tax related fraud	https://news.bloombergtax.com/daily-tax-report-international/eu-inches-toward-blockchain-in-fight-against-vat-fraud-1
3.	China	Transparency and efficient collections	https://www.fa-mag.com/news/china-blockchain-technology-taxes-47977.html
4.	Germany	Transparent records and easy tax collection	https://blog.goodaudience.com/blockchain-applications-in-the-world-tax-regime-ea2111741f0b
5.	Thailand	Avoid tax frauds	https://www.ledgerinsights.com/thailand-blockchain-vat-anti-fraud/

CONFLICT OF INTEREST

This study is an exploratory research based upon secondary data therefore conflict of interest is hard to find out. But it can find its useful application in other socio-economic domains as well. The Government of India is warming up to the idea of using centralized ledger technology & big data in different verticals. Comparative study with other nations planning similar economic usage of this technology could be conducted.

Source of Funding: Not required

Ethical Clearance: As secondary data has been used for the research, available on public domain, therefore ethical clearance is not required. However, references required for the data have been mentioned in the study.

REFERENCES

- Aggarwal, M. (2019). World Health Day: Indian tale of unfulfilled goals [Internet]. *Downtoearth* [cited 12 December 2019], Available from: <https://www.downtoearth.org.in/blog/health/world-health-day-indian-tale-of-unfulfilled-goals-63868>.
- Anand, U. (2015). India has 31 lakh NGOs, more than double the number of schools [Internet]. *The Indian Express*, [cited 10 December 2019], Available from: <https://indianexpress.com/article/india/india-others/india-has-31-lakh-ngos-twice-the-number-of-schools-almost-twice-number-of-policemen/>.
- Baisalbayeva, K., Enden, E., Ion, V., Tsavdaris, H., Deputy, D., Aygün, C., et al. (2019). Two practical cases of blockchain for tax compliance [Internet]. Price Waterhouse Coopers, *The Netherlands*; [cited 12 December 2019]. Available from: <https://www.pwc.nl/nl/tax/assets/documents/pwc-two-practical-cases-of-blockchain-for-tax-compliance.pdf>.
- Dulaney, C.E.U. (2019). Inches Toward Blockchain in Fight Against VAT Fraud [Internet]. *News.bloombergtax.com*. 2019 [cited 11 December 2019], Available from: <https://news.bloombergtax.com/daily-tax-report-international/eu-inches-toward-blockchain-in-fight-against-vat-fraud-1>.
- Gupta, S. (2019). New data may show big cut in number of poor | *India News - Times of India* [Internet].
- Jurowiec, P. (2019) Blockchain Applications in the World Tax Regime [Internet]. GoodAudience Blog. 2018

- [cited 12 December 2019]. Available from: <https://blog.goodaudience.com/blockchain-applications-in-the-world-tax-regime-ea2111741f0b>.
- Taylor, B. (2019) China Implementing Blockchain Technology to Collect Taxes [Internet]. *Fa-mag.com*. 2017 [cited 12 December 2019], Available from: <https://www.fa-mag.com/news/china-blockchain-technology-taxes-47977.html>.
- Thailand Testing. (2018). Blockchain to reduce VAT fraud - Ledger Insights [Internet]. *Ledger Insights*. [cited 12 December 2019], Available from: <https://www.ledgerinsights.com/thailand-blockchain-vat-anti-fraud/>.
- The Times of India. (2019). Available from: <https://timesofindia.indiatimes.com/india/new-data-may-show-big-cut-in-number-of-poor/articleshow/67705787.cms>.