

173

ASSESSMENT PROCEDURE— SUMMARY AND SCRUTINY ASSESSMENT

MINISTRY OF FINANCE
(Department of Revenue)

HUNDRED AND SEVENTY-THIRD
REPORT



LOK SABHA SECRETARIAT
NEW DELHI

HUNDRED AND SEVENTY-THIRD REPORT

PUBLIC ACCOUNTS COMMITTEE (1989-90)

(EIGHTH LOK SABHA)

ASSESSMENT PROCEDURE—
SUMMARY AND SCRUTINY
ASSESSMENT

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)



Presented to Lok Sabha on 11-8-1989

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**LOK SABHA SECRETARIAT
NEW DELHI**

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Corrigenda to the 173rd Report of the Public
Accounts Committee (8th L.S.) on Assessment
Procedure - Summary and Scrutiny Assessment.

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*Not printed. One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library.

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(1989-90)

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*Elected w.e.f. 3-8-1989 vice Sarvashri Bh. Vijaykumar Rajui, S. Jaipal Reddy and Saifuddin Choudhary resigned from the Committee w.e.f. 10-5-1989, 12-5-1989 and 5-6-1989 respectively.

(iv)

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21. Vacant£
22. Vacant£

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2. Shri K.K. Sharma —*Director*
3. Shri A. Subramanian—*Senior Financial Committee Officer*

**Due to resignation by Shri Parvathaneni Upendra from membership of the Committee w.e.f. 12-5-1989

£ Due to resignation by Sarvashri Jaswant Singh and Virendra Verma from membership of the Committee w.e.f. 15-5-1989.

INTRODUCTION

I, the Chairman of Public Accounts Committee as authorised by the Committee do present on their behalf this 173rd Report on Paragraph 3.1 of the Report of C&AG of India for the year ended 31 March, 1987, Union Government (Revenue Receipts—Direct Taxes) relating to Assessment Procedure—Summary and Scrutiny Assessment.

2. The Report of the Comptroller and Auditor General of India for the year ended 31 March, 1987, Union Government was laid on the Table of the House on 25 April, 1988.

3. The Committee have noted that as a result of amendment to Section 143 of the Income-tax Act effective from 1 April, 1971, the assessing officers were authorised to rectify arithmetical errors, allow/disallow deductions, allowances, reliefs etc. and finalise assessments in a summary manner in cases to be decided in their best judgment. However, by utilising the administrative powers vested in Government under Section 119, the CBDT gave instructions in May 1985 to the effect that only the arithmetical accuracy of computation of total income and taxes will be ensured, liabilities for penalty, interest, C.D.S. etc. will be checked and that “no other checking of any sort will be necessary” in majority of the cases prescribed thereunder for summary assessment. Subsequently by a Communication in July 1986 Government directed that assessment once done under Section 143(1) should not be disturbed and by another communication of 26 August 1987, Government ordered stoppage of all action on audit findings in summary assessment cases.

4. The Committee have strongly deprecated the action of CBDT for the exercise of executive powers in such a way that the legal provisions themselves are eroded and have recommended that appropriate action be taken against those responsible for issue of such instructions which amended the basic structure of law itself. The Committee have also recommended that all such instructions which are inconsistent with law must be withdrawn forthwith and that all such instructions should be vetted by Ministry of Law before issue. The Committee have also recommended that in respect of all cases commented in the audit paragraph, follow-up action may be taken and a compliance report furnished.

5. Taking note of the past performances by the assessing officers, the Committee have not accepted the stand of the Ministry that an assessing officer is capable of doing only 100 scrutiny cases, that balance has to be taken under summary scheme without any scrutiny and that for conducting scrutiny in all cases as many as 70,000 assessing officers would be needed. The Committee have recommended that a work study team of the Department of Personnel may be entrusted with an objective

study on the workload of assessing officers by an actual watch on their performance, the expected turnover of assisting staff and to draw up the requirement of staff in an objective way.

6. The Committee have strongly recommended that the effectiveness of the summary assessment scheme may be re-examined preferably by reputed experts in the field including economists (but not by the concerned Ministry/CBDT). Pending such an examination the Committee have recommended that the extent of coverage under scrutiny assessment scheme should be substantially increased.

7. The Public Accounts Committee, (1988-89) examined the Audit Paragraph at their sittings held on 30 November and 1 December, 1988 and 24 January, 1989. The Public Accounts Committee (1989-90) considered and finalised this Report at their sitting held on 13 July 1989. The minutes of the sitting form Part II* of the Report.

8. For facility of reference and convenience, the observations and recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Annexure 6 to the Report.

9. The Committee would like to express their thanks to the Public Accounts Committee (1988-89) for taking evidence on the Audit Para.

10. The Committee would also like to express their thanks to the officers of the Ministry of Finance (Department of Revenue) and to the representatives of the All India Federation of Income-tax Gazetted Services Association for the cooperation extended by them in giving information to the Committee.

11. The Committee also place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

P. KOLANDAIVELU,

Chairman,

Public Accounts Committee.

NEW DELHI ;

July 28, 1989.

Sravana 6, 1911 (Saka)

*Not printed. One cyclostyled copy laid on the Table of the House and 5 copies placed in Parliamentary Library.

REPORT

ASSESSMENT PROCEDURE FOR INCOME-TAX—SUMMARY AND SCRUTINY ASSESSMENTS

1. *Introductory*

1.1 Section 143 of the Income-tax Act recognises two specific procedures for disposal of income tax returns submitted to the assessing officers by the assesseees. Under the first procedure [dealt with in sub-section (1) thereof], the assessing officers have been authorised, subject to certain conditions, to finalise the assessments with reference to the returns filed by the assesseees without calling for additional documents and/or presence of assesseees for clarification on contents of the returns; assessments finalised under this sub-section are termed "summary assessments". Under the second procedure [dealt with in sub-section (2) of Section 143], the assessing officers are authorised to call for additional documents and/or presence of the assesseees for examining the returns before finalising the assessments; return finalised under this sub-section are categorised as "scrutiny assessments."

1.2 To achieve expeditious disposal of ever increasing income tax returns, the legal provisions in Section 143 have been amended on more than one occasion since 1970 so as to vest increased discretionary powers with the assessing officer for finalisation of cases under summary assessment procedure. In addition, Government have also been issuing various instructions on the scope and extent of applicability of Section 143(1). Such instructions are reported to have been issued under powers vested in them under Section 119, which provides that the Board may, from time to time, issue such orders, instructions and directions to income-tax authorities as it may deem fit for the proper administration of the Act.

1.3 The implementation of the summary assessment and scrutiny assessment procedures, as in force from time to time, has been reviewed by Audit whose findings are incorporated in paragraph 3.1* of Report No. 6 of the Comptroller and Auditor General of India for the year ended 31st March 1987 on Union Government (Revenue Receipts—Direct Taxes). *Inter-alia*, Audit has pointed out that (i) despite substantial reduction in cases to be covered under scrutiny assessment, pendency had remained practically as high as before, (ii) the guidelines, issued in 1985 for categorising assessments into summary and scrutiny cases, made the exercise cumbersome, time consuming and error prone, (iii) the annual disposals were not uniform but picked up generally during the last quarter of a year, (iv) the prescribed sample scrutiny procedure for watching success of relaxed summary assessment scheme did not act as an effective deterrent against tax evasion or understatement of income, (v) test audit revealed substantial cases of irregularities, indicating lack of adequate supervisory control, (vi) test check of

*Reproduced in Annexure I.

cases finalised under modified summary assessment schemes revealed escapement of tax to the tune of more than Rs. 8 crores in 580⁰ cases; etc.

1.4 This report of the Public Accounts Committee is based on the above findings of Audit.

2. Legal provisions from time to time and administrative instructions thereunder

2.1 Prior to 1 April 1971, Section 143(1) of the Income-tax Act read as under :

“Where a return has been made under Section 139 and the Income-tax Officer is satisfied without requiring the presence of the assessee or the production by him of any evidence that the return is correct and complete, he shall assess the total income or loss of the assessee, and shall determine the sum payable by him or refundable to him on the basis of such return.”

2.2 It will be seen from the above provisions that the Act authorised the assessing officer to complete an assessment, accepting the income or loss declared in the return if he was satisfied, without calling the assessee or without examining any evidence, that the return was correct and complete. He had no power to make any adjustment whatsoever in the declared income or loss.

2.3 The Taxation Laws (Amendment) Act 1970 (effective from 1 April 1971) introduced certain changes in sub-section (1) of Section 143 and empowered the assessing officer to make some adjustments and complete the assessment without calling the assessee or without examining any evidence on his behalf. The amended Section 143(i), as operative from 1 April 1971 read as under :—

- (1) (a) Where a return has been made under Section 139, the Income-tax Officer may, without requiring the presence of the assessee or the production by him of any evidence in support of the return, make an assessment of the total income or loss of the assessee after making such adjustments to the income or loss declared in the return as are required to be made under clause (b), with reference to the return and the accounts and documents, if any accompanying it, and for the purposes of the adjustments referred to in sub-clause (iv) of clause (b), also with reference to the record of the assessments, if any of past years, and determine the sum payable by the assessee or refundable to him on the basis of such assessment.
- (b) In making an assessment of the total income or loss of the assessee under clause (a), the Income-tax Officer shall make

the following adjustments to the income or loss declared in the return, that is to say, he shall—

- (i) rectify any arithmetical errors in the return, accounts and documents referred to in clause (a) ;
- (ii) allow any deduction, allowance or relief claimed in the return which, on the basis of the information available in such return accounts and documents, is, *prima facie*, admissible but is not claimed in the return ;
- (iii) disallow any deduction, allowance or relief claimed in the return which, on the basis of the information available in such return accounts and documents, is, *prima facie*, inadmissible ;
- (iv) give due effect to the allowance referred to in sub-section (2) of Section 32, the deduction referred to in clause (ii) of sub-section (2) Section 33 or clause (ii) of sub-section (2) of Section 33A or clause (i) of sub-section (2) of Section 35 or sub-section (1) of Section 35A or sub-section (1) of Section 35D or sub-section (1) of Section 35E or the first proviso to clause (ix) of sub-section (1) of Section 36, any loss carried forwarded under sub-section (1) of Section 72 or sub-section (1) of section 74 and the deficiency referred to in sub-section (3) of Section 80J as computed, in each case, in the regular assessment, if any, for the earlier assessment year or years.”

2.4 As a result of these amendments, the assessing officers have been authorised, without calling the presence of the assessee or additional documents, to make the following prescribed adjustments to the income or loss declared in the return ;

- (a) rectify arithmetical errors in the return and the accounts and documents accompanying the return ;
- (b) allow any deduction, allowance or relief which on the basis of information available in such return etc. is *prima facie* admissible though not claimed in the return ;
- (c) disallow any deduction, allowance, relief claimed in the return but which on the basis of information available in the return etc. is *prima facie* inadmissible ;
- (d) give effect to the deduction on account of brought forward unabsorbed depreciation, unabsorbed development rebate, development allowance, unabsorbed losses, deficiency in “tax holiday” profits etc. etc.

2.5 In the Finance Act 1980, sub-clauses (ii) and (iii) in Section 143(1)(b) were withdrawn. As a result, under summary assessment,

the powers of the assessing officer, either to allow unclaimed deductions, allowances or relief though admissible or to disallow such deductions though claimed but not admissible were withdrawn.

2.6 Under the Direct Tax Laws (Amendment) Act, 1987*, (effective from 1 April, 1988) further modifications were effected in the provisions of Section 143, both in regard to summary and scrutiny assessments.

2.7 Asked to indicate the assessment procedure in vogue since 1 April 1971 from time to time, the Ministry, in a note furnished to the Committee, gave the following information :

“The Summary Assessment Scheme initially covered non-company cases with income upto Rs. 25,000/- (Rs. 50,000/- for Bombay and Calcutta). The income limits were first raised in 1977-78 to cover registered firms with income upto Rs. 50,000/-. The income limits were thereafter raised in 1981-82 and remained constant upto 1983-84 and covered the following cases :

- (i) Non-company cases with income upto Rs. 1 lakh.
- (ii) Company cases where income returned was Rs. 10,000/- or less, or loss and the paid up capital of the company was Rs. 5 lakhs or less.

In 1984-85, the company cases were taken out from the purview of summary assessment scheme. Simultaneously the income limits in respect of non-company cases were reduced to cover only :—

- (i) Summary cases with income upto Rs. 50,000/- and
- (ii) Other non-company cases with income upto Rs. 25,000

In 1985-86, the income limit under the scheme for non-company cases was again raised. Further, the company cases were also brought within the scheme. The scheme thus covered :—

- (i) All cases, other than company and trust cases, with returned income/loss upto Rs. 1 lakh;
- (ii) Company cases with returned income/loss upto Rs. 25,000 and paid up capital not exceeding Rs. 5 lakhs; and
- (iii) Trust cases and cases of Charitable Institutions having income upto Rs. 1 lakh before applying the provisions of Section 11 provided that the corpus of the trust does not exceed Rs. 5 lakhs.

In 1986-87, the income limit under the scheme for both company and non-company cases were increased. The scheme thus covered :

- (i) Non-company cases having returned income/loss upto Rs. 2 lakh;
-

- (ii) Company cases with a returned income|loss upto Rs. 50,000.
- (iii) Trust cases and cases of charitable Institutions having income upto Rs. 1 lakh before applying the provisions of Section 11 provided that the corpus of trust does not exceed Rs 5 lakhs.

In 1987-88, the summary assessment scheme covered :

- (i) Non-company cases (including cases of trusts and charitable institutions) with returned income|loss upto Rs. 2 lakhs;
- (ii) Company cases with returned income|loss upto Rs. 50,000.

Under the summary assessment scheme, the assessing officers were authorised to complete the assessment without requiring the presence of the assessee or the production by him of any evidence in support of the return. The procedure did not require the verification of the correctness and completeness of the return. However, upto 31-3-1980, the Assessing Officers were authorised to make certain adjustments to the returned income even under the 'summary assessment' scheme. Under sub-clause (ii) of section 143(1)(b) of the I.T. Act, the Income-tax officer was authorised to allow any deduction allowance or relief which, on the basis of the information available in the return, accounts and documents was prima-facie, admissible but was not claimed in the return. Like-wise under sub-clause (iii), the I.T.O. was authorised to disallow any deduction, allowance or relief claimed in the return which, on the basis of the information available in such return, accounts and documents was, prima-facie inadmissible. The Assessing Officer could also carry out any rectification of arithmetical error and could also give effect to set-off carry forward losses, unabsorbed depreciation. With the deletion of these two sub-clauses w.e.f. 1-4-1980 the Income-tax Officers were precluded from making even such adjustments.

In 1985, it was decided that the Assessing Officer shall check only the arithmetical accuracy of computation of total income and taxes and liability for penalty interest CDS, etc. if any, will also be checked. No checking of any sort will be necessary.

In the scrutiny assessment, the Assessing Officers are required to verify the correctness and completeness of the return of income by calling the assessee or his representative and/or required the production of such books of accounts and documents as the Income-tax Officer may require to produce".

2.8 In effect, there were frequent revisions in monetary limits and other standards, as a result which accumulations of arrears in scrutiny cases were shifted to summary category, so as to facilitate early liquidation of the arrears in assessment.

2.9 In regard to the rationale behind the various instructions, the Ministry stated as under :

"The basic rationale|objective behind the introduction and liberalisation of the Summary Assessment Scheme from time to time

has been to manage the Department's ever increasing work with the limited man power resources with the least loss of revenue re-deployment of the existing man-power resources to more important areas of work i.e. intensive scrutiny of important cases where concealment of income is suspected to be involved. Detailed scrutiny in such cases coupled with the deterrence of high penalties and prosecution is expected to improve compliance in cases which are to be completed under the Summary Procedure. It may also be stated that the PAC in its 217th Report (83-84) at Para 5.14 observed as under :

"5.14 The Committee would further like the Board to examine matter in all its aspects and take all necessary steps with a view to liquidation of pendency of assessments in the shortest possible time. The Committee would await the steps taken in this regard, together with the outcome, thereof.."

In liberalising the Summary Scheme from time to time the Board also kept in view the observations of the PAC quoted above."

2.10 Asked to indicate the safeguards available under the Act to guard against any misuse or abuse of the provisions of the Act and the scheme evolved by the Board, the Ministry stated as under :

"It was a conscious decision on the part of the Government to introduce the summary assessment scheme and the Government was aware of the fact at the time of taking the decision, that such a procedure may lead to some loss of revenue. However, to guard against any misuse or abuse of the summary assessment scheme, the Department simultaneously introduced the system of selection of cases for scrutiny on random sampling basis. The Department also took to more intensive surveys 133A and searches 132 of the I.T. Act. It also directed the Commissioners for streamlining of their central information branches so as to coordinate and collate the various types of information received by these branches and detect cases of concealment. In fact in order to achieve uniformity and effectiveness in the working of the Central Information Branches, these have now been put under the charges of Directors General/Directors of Income-tax (Investigation)."

2.11 According to instructions issued in May 1985* the Assessing Officers have been authorised to check only the arithmetical accuracy of computation of total income and taxes, and liability for penalty interest, CDs, etc. if any, would also be checked. It was also directed that no other checking of any sort would be necessary. In July 1986** instructions were issued to the effect that assessments once completed under this scheme, shall not be disturbed under Section 143(2) (b) (Notice for verification

*Annexure 3.

**Annexure 4.

of the correctness and completeness of return and production of evidence etc.) or Section 154 (rectification of mistakes) under any circumstances. In their subsequent instructions of 1-4-1987 * the Board stated that wherever computers had been installed and if the summary assessment had been made by the computers, the assessment might be reopened under Section 143(2)(b) for the purpose of sample scrutiny.

2.12 Audit has pointed out that the Act does not specify the category of cases on the income or the loss limit which will determine the category of cases to be decided under the summary assessment procedure and that these are prescribed by the Board under instructions issued from time to time. Asked to specify the power of the Board in this regard, the Ministry stated as under :

“It is a fact that the Income-tax Act does not specify the category of cases or the income/loss limit which will determine the category of cases to be decided under the Summary Assessment procedure. These have been prescribed by the Board in exercise of its power u/s 119(1) of the Income-tax Act. Under this Section the Board is authorised to issue such orders/instructions and directions to other income-tax authorities, as it may deem fit, for proper administration of the Income tax Act and such authorities and all other persons employed in the execution of this Act, shall observe and follow such orders, instructions and directions of the Board.”

2.13 Asked to state whether the instructions of May 1985 are not contrary to law, the Ministry stated :

“The instructions of the Ministry issued on 18-5-1985 (Instruction No. 1617) saying that in the summary assessment cases, the arithmetical accuracy of computation of total income and taxes will be ensured and liability for penalty, interest, etc. if any, will also be checked and that no other checking of any sort will be necessary, cannot be said to be contrary to law. In fact, it was a conscious decision of the Department; even at the risk of some possible small loss to revenue for the expeditious disposal of assessments specified under the summary assessment scheme, after a thorough consideration of the fact that 100 per cent checking does not lead to any considerable addition to the revenue.”

2.14 In regard to instructions of July 1986 wherein it was mentioned that the assessments completed under the scheme should not be disturbed

*Annexure-5.

or re-opened to verify the correctness or completeness of the return, the Ministry were of the view :

“Strictly speaking, for the sake of argument the instructions issued by the Department in July, 1986 that the assessments completed under the Summary Assessment Scheme should not be disturbed or reopened, may be said to be not so consistent with the basic provisions of the Act. However, it was realised that if the assessment completed under the summary assessment scheme were to be disturbed or reopened for rectifying mistakes involving small and insignificant loss to revenue, the very purpose of the introduction of the Summary Assessment Scheme would stand defeated and the assessing officers’ time would be wasted in correcting inconsequential and petty mistakes.”

2.15 When during evidence, it was asked whether the instructions issued by the Board in this regard are inconsistent with the Act or not, the Chairman, CBDT stated :

“Section 119(1) only says that no such orders, instructions and directions shall be issued so as to require any income-tax authority to make a particular assessment or dispose of a particular case in a particular manner, or interfere with the exercise of the judicial authorities. Then, section 119(2) says : “the Board may, if it considers necessary or expedient so to do, for the purpose of proper and efficient management of the assessments and collections of revenue and so on issue from time to time, general or special orders in respect of any class of income or class of cases, setting forth directions or instructions to the guidelines, principles or procedures to be followed by other income-tax authorities in the work of collection of revenue.....”. Now, we cannot give individual directions but we can give directions for a class of income of a class of people as to how assessment is to be done. If we give individual directions, those directions would be really opposed to the law because we do not have any powers to give directions which are opposed to law”.

2.16 To a specific question what would happen if any Income Tax Officer applied section 143(1) of the Income-Tax Act in a case but wrongly calculate the tax, the witness stated :

“I pick up a return. There are two ways in which I can deal with it. One way is the procedure under Section 143(1) and the other is 143(2). Under Section 143(2), I scrutinise everything and compute the total income. But, that total income is bound to be more than what I accept. I proceed under Section 143(1). The assessee says that he has earned an income of Rs. 40,000 and he claims that his income is Rs. 40,000. When I am treating under Section 143(1), I will accept his income and calculate the tax. If you examine this return and if you

make assessment under section 143(2), then income can increase. It can be done. I might go up to a figure of Rs. 80,000. That avenue is closed to me if I am doing assessment under Section 143(1) under which I am obliged to accept the return. If you make this total income at Rs. 45,000, then the Income Tax Officer cannot be at fault. They would say that the tax on Rs. 43,000 comes to Rs. 6,000 and we calculate only Rs. 2,000 we rectify it. We issued a Circular in February, 1988."

2.17 When asked to explain why the Circular was issued as late as in February 1988, the Chairman stated :

"I explained to the Audit and I still say that if our ITO is doing the right thing by applying the Board's Circular i.e., accepting the return under Section 143(1) in summary scheme and then applying it rightly, he is right. While applying if he makes a mistake, then it is his mistake. The tax on Rs. 1 lakh is Rs. 29,000. Under the summary scheme, he has rightly paid tax on the total income at Rs. 1 lakh. If the ITO calculates the tax at Rs. 18,000, he has made a mistake in computing the tax. Even in a summary scheme, we will rectify it."

2.18 In a subsequent note to the Committee, the Ministry have explained the position that the Central Board of Direct Taxes have always taken the view that arithmetical errors in the returns submitted by the assesseees or mistakes in giving effect to various allowances mentioned in Section 143(1)(b)(iv) of the Act or errors committed by the assessing officers while framing the assessment or calculating the tax which are apparent from record should be rectified. The Ministry added that the circular of the Board issued in February 1988 was intended only to clarify the policy of the Board and to set right any doubts in this regard. The Ministry have further stated that to remove further doubts in this regard, they have issued another circular in December, 1988.

2.19 On the extent of cases being covered under summary and scrutiny assessment, as a result of various instructions issued from time to time, the Chairman, CBDT stated during evidence as under :

"At micro level we will have scrutiny of 3 per cent cases. We have a certain manpower. We fix the norms. If they handle more than that, then they cannot really make any worthwhile assessment".

2.20 The Committee note that as a result of amendment to Section 143 of the Income Tax Act effective from 1 April 1971, the assessing officers were authorised to rectify arithmetical errors, allow/disallow deductions, allowances, reliefs etc. and finalise assessments in a summary manner in cases to be decided in their best judgment; these discretions are without prejudice to the right of the assessing officers, if the circumstances of the

cases warranted, for treatment as scrutiny assessment under sub-section (2) of the same Section. The Committee also note that under the Finance Act 1980, the powers of assessing officers to allow/disallow deductions, allowances, relief etc. were withdrawn. The Committee are shocked to note that by utilising the administrative powers vested in Government under Section 119, the CBDT gave instructions in May 1985 (Instruction No. 1617) to the effect that only the arithmetical accuracy of computation of total income and taxes will be ensured, liabilities for penalty, interest, C. D. S. etc. will be checked and that *"no other checking of any sort will be necessary"* in majority of the cases prescribed thereunder for summary assessment. The Committee are of the opinion that the Instructions in 1985 underlined above are at variance with the spirit and letter of the legal provisions contained in Section 5 under which tax is to be charged in respect of the total income as compared in the manner laid down under the Act and section 143 of the Act and have eroded the powers of the assessing officers substantially.

2.21 The Committee are equally taken a back by the directive in July 1986 that assessments once done under Section 143(1) should not be disturbed. In regard to these instructions, the Ministry themselves have observed that the instructions "may be said to be not so consistent with the basic provisions of the Act". The Committee strongly deprecate the action of CBDT for the exercise of executive powers in such a way that the legal provisions themselves are eroded and recommend that appropriate action be taken against those responsible for issue of such instructions which amended the basic structure of law itself. The Committee feel and recommend that all such instructions which are inconsistent with law must be withdrawn forthwith and that all such instructions should be vetted by Ministry of Law before issue.

2.22 The Committee note that from time to time instructions have been given to enlarge coverage under summary scheme and the effect of the instructions has been to take away accumulated arrears of assessment under scrutiny scheme into summary assessment scheme. The consequence of such instructions that the treatment meted out to the assessee of same assessment year has not been uniform and varied with reference to instructions as operative when the actual assessment is taken up. As a result of such instructions, a premium has been placed over the inefficient assessing officers who have tended to accumulate arrears. On the other hand, the Committee are strongly of the opinion that a consistent set of instructions must apply for all cases relating to a particular assessment year, irrespective of the date on which the assessment is taken up by the assessing authority for examination and that it would not be proper to modify the instructions during the course of a assessment year. This would avoid differences in treatment between one set of assessee and others relating to same assessment year. In the circumstances, the Committee recommended that before the commencement of every assessment year, the instructions as applicable should be reviewed and a uniform set of instructions issued for compliance by all assessing officers for cases relating to that assessing year and that no changes should be made to these instructions thereafter for assessment of cases relating to that assessment year.

3. Objectives

3.1 The summary assessment scheme is based on the presumption that the bulk of the assessment cases involved no substantial points of dispute and the income returned was subject to only routine adjustments so as to correct obvious errors.

3.2 The main objectives behind the introduction of Summary Assessment Scheme were stated as under :

- (i) To manage the ever increasing work load of a Department with limited manpower resources with the least loss of revenue.
- (ii) To speed up the work of completion of assessments which had grown up from 47.31 lakhs in 1970-71 to 75.73 lakhs in 1987-88 without corresponding increase in the number of officers available for assessment work (2311 in 1970-71 and 2717 in 1987-88).
- (iii) To release the limited manpower of the Department for more intensive scrutiny of other important cases.
- (iv) To create trust amongst the tax payers and generate confidence in the Department thereby increasing voluntary compliance.
- (v) To prevent harassment of tax payers by ruling out the formalities of coming to Income Tax Officer, engaging lawyers, consultants, etc. and increasing expenditure on legal proceedings.

3.3 In short, the objective was to speed up the cases of general and routine nature so as to deploy the limited manpower for concentrating on more important cases.

3.4 The representative of the Ministry mentioned in this regard during evidence that the number of assessees had been increasing steadily and the work load also increased accordingly and that the only way to cope up with the scrutiny scheme was to have about 70,000 officers as against the existing staff of about 2700. He further added that the alternative before the department was either to increase the number of officers in the same proportion, (which is not possible) or to opt for 'ABC analysis' that is, important work getting more attention and comparatively less important work getting less attention. According to him, the summary scheme was in fact the application of ABC principles of management to the workload of the Department and the summary assessment scheme was accordingly started to manage workload, which had been increasing every year.

3.5 On the extent of workload *vis-a-vis* the number of officers available for the work, the Ministry gave the following particulars :

	Total assessments for disposal (in lakhs)	No. of officers available for assessment work
1970-71	47.31	2311
1971-72	49.68	2182
1972-73	49.90	2150
1975-76	57.34	2484
1980-81	65.91	2754
1981-82	72.07	2818
1986-87	85.15	2506
1987-88	75.73	2717

3.6 Audit has pointed out that despite extension of summary assessment procedure to cover increased number of cases, the pendency remained practically as high as before. On the position of outstanding assessments, following particulars were furnished by the Ministry :

Financial Year	No. of assessments pending as on 31st March (in lakhs)
1981-82	26.59
1982-83	25.80
1983-84	20.81
1984-85	12.56
1985-86	11.51
1986-87	14.59
1987-88	11.08

3.7 On the reasons for arrears, the Department stated in a note as under :

“The pendency of cases is directly dependent upon the amount of workload that the department has. If the workload records an increase because of the phenomenal rise in the number of tax payers and there is no augmentation of administrative resources of the department, the pendency of assessments is bound to increase. The following figures would however

show that there is a marked improvement in the productivity per Assessing Officer :

Financial year.	Workload (Lakhs)	Disposal (Lakhs)	No. of officers on Assessment duty	Average disposal per Assessing Officer
1978-79	52.36	40.44	2747	1205
1982-83	70.15	44.35	2832	1566
1987-88	75.73	64.65	2717	2379

It may be emphasised that since 1978-79, the workload has increased from 52.36 lakhs assessments to 75.73 lakhs assessments in 1987-88. Against this increase in workload, the strength of officers that we could employ on assessment duty has declined by 30 i.e. from 2747 in 1978-79 to 2717 in 1987-88. As stated above, in view of the increase in the workload *vis-a-vis* the available strength of Assessing Officers the department had no alternative but to increase the ambit of summary assessment scheme from time to time.....It is correct that revision of the criteria for summary assessment reduced the number for scrutiny assessments. However, it would not be correct to say that the overall pendency remained static. The idea of bringing more and more assessments under the Summary Assessment Scheme was to speed up disposal of assessments and the same was substantially achieved. The disposal of scrutiny assessments also showed improvement both qualitatively and quantitatively. It is not a correct presumption that the procedure followed for bringing more and more assessments under the Summary Assessment Scheme has diluted the quality of assessments. The opposite could be said to be true. Investigation in a limited number of cases has improved the quality of scrutiny assessments. The interest of revenue has not been jeopardised by the revised scheme for assessment. The increase in collections of income-tax from year to year showed that the conclusion drawn is not correct.

3.8 On the extent of turnover by each assessing officer, the Secretary (Revenue) stated during evidence that an assessing officer normally does 100 scrutiny cases. Taking note of the fact that prior to extension of summary assessment scheme, there were about 2200 assessing officers doing 34 lakh cases, giving an average of 1500 cases per assessing officer, the Committee enquired on the norms adopted for staff requirement. The Secretary (Revenue) stated that the assessments were much simpler then; a Member of the Board observed that the Department have fixed a norm

of about 35 cases involving incomes of Rs. 5 lakh and above for each assessing officer.

3.9 Not satisfied on the assessment of average turnover expected of assessing officers, as intimated to the Committee, the Committee requested the Ministry to conduct a work study. The Ministry have since got one done by the DOMS (IT) and furnished a copy of the report. It is noticed that the work study has been conducted on the basis of particulars of actual work as reported to have been done by the selected assessing officers: based on those data, certain conclusions have been drawn, which are yet to be examined by the Ministry.

3.10 The DOMS (IT) has, in para 6.6 of his report made the following recommendations.

“We have to first take cognizance of the fact that all the returns will in the first instance have to be processed under Section 143(1). In the balance time available, we have to see how much scrutiny work an officer can do. A number of permutations and combinations are possible. We would, however, suggest the following mixes under the new and old law respectively :

TABLE I

	DC	AC	ITO
(i) Assessment time available (in hours) .	1254	1204	1204
(ii) No. of returns to be processed under sec. 143(1)	397	484	3512
(iii) Time required to process cases under section 143(1) (in hours)	496.25	242	643.86
(iv) Time left for 143(3) assessments (in hours)	757.75	962	560.14
(v) Time taken for one scrutiny assessment (in hours)	13.30	9.41	7.00
(vi) No. of scrutiny assessments possible in given time (iv) divided by (v)	56.97	102.23	80.02
(ROUNDED OFF TO)	57	102	80

3.11 The Committee note that the bulk of the assessment cases do not involve substantial points of dispute and that the income returned is to be subjected to only routine adjustment so as to correct obvious errors. The Committee also note that in the past, the average number of cases handled

under scrutiny was about 1500 by each assessing officer. In the circumstances, the Committee are not convinced with the stand of the Ministry that an assessing officer is capable of doing only 100 scrutiny cases, that balance has to be taken under summary scheme without any scrutiny and that for conducting scrutiny in all cases as many as 70,000 assessing officers would be needed. The Committee consider it unfortunate that the work study in this regard which has been conducted is based on statistical data furnished by the assessing officers themselves, the Committee do not consider this basis for work study acceptable. The work study has also failed to take note that the assessing officers are assisted by subordinate staff like inspectors who carry out a large part of routine and clerical work in examining the returns. The Committee consider it unfortunate that an objective assessment of the work load has not been done. The Committee do not approve of the manner in which the study was conducted and recommend that a work study team of the Department of Personnel may be entrusted with an objective study on the workload of assessing officers by an actual watch on the performance, the expected turnover of assisting staff and to draw up the requirement of staff in an objective way. In conducting the study, the Committee recommend that past performances as in operation prior to relaxations of summary assessment scheme may be duly taken note of and conclusions related to those facts also.

3.12 The Committee are surprised at the same time to note that as against 2764 assessing officers in 1980-81 to deal with 65.91 lakh assessment, the number of assessing officers in 1987-88 stood at only 2717 to deal with 75.73 lakh assessments. As failure to provide additional staff to cope up with increased work load can only result in dilution of quality of work, the Committee recommend that a study of the staff needs of the Income Tax Department might be conducted for ensuring proper administration of the Act.

3.13 The Committee are deeply concerned to note that despite substantial relaxations made in the treatment of assessment cases as summary assessments whereby over 97 per cent of cases are stated to be covered under summary scheme, the pendency of assessment which was 12.56 lakh cases in 1984-85 has only marginally come down to 11.08 lakh cases in 1987-88. Having regard to the diluted checks expected in respect of Section 143(1) assessments, the Committee find no justification for such a large number of arrears and recommend that the Ministry may conduct an investigation on the reasons for such large outstandings and take appropriate measures under intimation to the Committee, to liquidate the arrears.

4. *Achievements*

4.1 According to the Ministry, as already observed, the Summary procedure was essentially introduced, for the optimum utilisation of the limited manpower resources and also to increase the revenue. The Ministry contended that this was the only method by which the Department could increase the pace of disposal of assessments, carryout sustained and detailed investigations in selected revenue yielding cases, broaden the tax base, increase tax collections and improve public relations.

4.2 On the achievements after introduction of the summary assessment scheme, the Department is stated to have conducted searches and seized assets in various years as per particulars below :

Year	No. of searches conducted	Value of assets seized (Rs. in crores)	Average seizure per search (Rs. in lakhs)
1983-84	4332	27.99	0.64
1984-85	4345	25.07	0.57
1985-86	6431	50.32	0.73
1986-87	7054	100.70	1.42
1987-88	8464	145.02	1.71

4.3 The number of prosecutions launched is also reported to have increased as per particulars below :

Year	No. of Prosecutions launched for		
	Tax Evasion	Other offences	Total
1983-84	671	1085	1756
1984-85	812	1299	2111
1985-86	1676	2403	4079
1986-87	1426	3832	5258
1987-88	562	6799	7361

4.4 A large number of new assesseees is reported to have been added as a result of surveys conducted by the Department as indicated below.

Year	No. of Premises surveyed	No. of New Assesseees
1983-84	6,08,165	2,81,788
1984-85	1,80,693	1,41,617
1985-86	1,65,911	1,05,638
1986-87	2,30,410	6,55,653
1987-88	6,00,918	5,23,376

4.5 The Ministry also claimed that that increase in tax collections (as indicated in table below) is an evidence of the success of the summary assessment scheme :

Financial year	Tax collections
	(in crores of rupees)
1983-84	4191.87
1984-85	4483.66
1985-86	5374.30
1986-87	6038.01
1987-88	6644.00 (provisional figures)

4.6 On the growth of Income tax collections, the Ministry gave the following data for the last 13 years :—

Year	(In crores of rupees)			
	Corporate Tax	Income Tax	Total	%increase
1975-76	861.70	1214.36	2076.06	...
1976-77	984.23	1194.38	2178.61	4.94
1977-78	12720.77	1002.02	2222.79	2.03
1978-79	1251.47	1177.39	2428.85	9.27
1979-80	1391.90	1340.31	2732.21	12.49
1980-81	1377.45	1439.93	2817.38	3.12
1981-82	1969.97	1475.50	3445.47	22.29
1982-83	2184.51	1569.72	3754.23	8.96
1983-84	2492.73	1699.14	4191.87	11.66
1984-85	2555.90	1927.76	4483.66	6.96
1985-86	2865.30	2509.00	5374.30	19.86
1986-87	3159.96	2878.05	6038.01	12.35
1987-88 (Provisional)	3488.00	3156.00	6644.00	10.04

(Note : Figures for 1975-76 to 1986-87 have been adopted as per Budget papers for 1987-88 figures are provisional).

4.7 On the extent of diversion of staff for more important works relating to searches and unearthing black money, the Ministry stated as under :

“Department’s efforts to unearth black money and to curb its generation by taking resort to search and seizure operations have also yielded quite substantial results. The man power released from doing small cases and routine assessments has been deployed for detecting areas of tax evasion, identifying them, collect intelligence regarding tax evasion and give feed back to Directorate of Investigation and the Commissioners of Income-tax for taking appropriate action in those cases where *prima-facie* there are indications of concealment and furnishing of incorrect particulars of income. Thus search operations were intensified and there was qualitative improvement in terms of seizures made during search operations”.

4.8 Asked to justify the basis on which the Ministry claimed that the increase in collection, disclosures etc. was essentially attributable to the summary assessment scheme, as implemented, the Chairman CBDT conceded during evidence that increases could be due to a variety of

reason. Subsequently, the Ministry in a note conceded that no final figures of collections linking them with the justifications for the summary assessment scheme could be given as no such statistics were maintained by the Department.

On the other hand, the All India Federation of Income-tax Gazetted Services Associations in a note to the Committee has observed that the summary assessment scheme as implemented failed to result in reciprocation of tax papers and observed as under :

“Though this summary asstt. system was introduced in 1971-72 yet thereafter the CBDT has come forward with the following scheme :

- (i) Spot Asstt. Scheme of 1973.
- (ii) Voluntary Disclosure Scheme of 1976 (w.e.f. 8-10-75).
- (iii) Bearer Bond Scheme of 1980 (Black Bonds).
- (iv) Amnesty Scheme of 1985 extended upto March 1987.

The response to these schemes was beyond expectations every time. The CBDT may be asked to furnish figures which will speak for itself as the response was mostly from those who were covered under Summary Asstt. Scheme.

Similarly, search and seizure conducted revealed that a good number of assesseees who were subjected to search and seizure belong to the summary assessment scheme groups”.

4.10 On the inability of the scheme to encourage voluntary disclosures and unearth black money, the federation has observed as under :

“This scheme not only failed to curb the tax evasion, rather generated more black money in this country. A large number of files have been created in tax in India in the name of ladies, minors and other persons who have no exact source of income. Such files have been created with a view of capital formation and cross verification. It is our experience that while dealing with a big income case, wherever cross reference has been made for verification of credits etc., nothing has been found on the record which has been dealt under Summary Assessment Scheme because the Assessing Officer has not to call for any information but to accept the return. The assessee in turn did not furnish any such basic information. Even the *prima-facie* mistake resulting into loss of revenue could not be rectified under Board instruction F. No. RA-I/86-87/DIT dated 26 August, 1987 Circular No. 176 which is reproduced :

“No remedial action is necessary in Summary Assessment cases, as the revenue loss if any is consciously suffered by the

Government to utilise resources for scrutiny and investigations of larger cases. In such cases, CIT should only inform Audit that the cases are completed under the Summary Assessment Scheme."

There can be no better surprising instructions than the above. Of course, this instruction has now been modified *vide* CBDT's instruction dated 26-12-1988 (F. No. 237/5/84/PAC-11). But what about the revenue lost."

4.11 Taking note of the fact that as on 31 March, 1987, about 47 lakh assesseees fell within taxable limits and that about 46 lakhs out of them fell within income limit of less than Rs. 1 lakh, the Committee felt that most of the taxpayers fell in the first slab of income tax at 25 per cent. The Committee enquired in this connection whether it maintained records to indicate how many assesseees fell only in the first slab of I.T., how many in first and second slabs, how many in first, second and third slabs. Though the Chairman, CBDT told the Committee that such information was available and would be furnished for the last 3 years, the Ministry in a subsequent note stated that the requisite particulars and break-up was "not readily available".

4.12 The Committee note that the Ministry have attributed the increases in prosecution, survey, number of assesseees, tax collections etc., to the implementation of the summary assessment scheme. On the other hand, when asked to identify the increase in assessment cases and tax collections as attributable to the scheme, the Ministry have expressed inability to support their claim with facts and figures. The Committee disapprove the practice of the Ministry in making claims of success without any basic data to support the claims.

4.13 The Committee note, on the other hand that

- (i) most of the assesseees appear to fall in the lowest taxable slab of taxable income and hence increase in assesseees is more attributable to increases in level of income rather than the Scheme.
- (ii) the highest percentage of increase in collection was reached in 1986 in which year a special scheme for voluntary disclosure was brought into operation;
- (iii) the reported diversion of staff for search and seizure has not resulted in any noticeable increase in income because value of assets seized was only Rs. 145.02 crores (tax effect not given) in 1987-88, which worked out to hardly 2 per cent of tax collections of that year.
- (iv) the very officers who are to implement the scheme have no faith in the scheme and are highly sceptical of its achievements as revealed from the representation received from All India Federation of Income Tax Gazetted Services Association.

The Committee, hence strongly recommend that a relook into the effectiveness of the scheme may be conducted preferably by reputed experts

In the field including economists (but not by the concerned Ministry|CBDT). Pending such an examination the Committee recommend that the extent of coverage under scrutiny assessment scheme should be substantially increased.

4.14 The Committee consider it unfortunate in this regard that whereas the Chairman, CBDT informed the Committee during evidence that the Ministry possessed details of tax payers relating to various slabs, the Ministry have failed to give the data when called for stating that the data is "not readily available". The Committee recommend that the Ministry| CBDT may compile appropriate details without delay, conduct a critical study on extent of increases in assessee etc. and give comprehensive data to the Committee.

5. Random Sampling of summary assessments

5.1 To guard against misuse or abuse of the summary assessment scheme, the Ministry is reported to have introduced the system of selection of cases for scrutiny on random sampling basis. The CBDT's instructions in June 1984 and 1985 provided that 5 per cent of the cases assessed in a summary manner will be taken up for a thorough scrutiny on a random sample basis and that the required number of cases would be selected in the month of August as prescribed. Based on test check in certain circles on compliance of these instructions, Audit has pointed out that :—

- (i) Cases that were selected for sample survey included assessee whose assessment had not been completed;
- (ii) the average percentage of selection fell below the prescribed percentage, less than 3, 2 and 1 per cent even;
- (iii) the disposals against the selected cases were still less;
- (iv) no sample scrutinies were conducted in several units;
- (v) the prescribed registers to record cases of sample scrutiny and findings thereagainst were either not maintained or maintained incompletely and failed to serve any purpose.

5.2 Further during their Study tours to Bombay, Calcutta, Trivandrum etc., the Study team of the Committee enquired from the Commissioners of Income Tax the results of the random sampling checks. Beyond stating that the action required to be taken in the reviewed cases was initiated, none of the Commissioners could give any idea on their assessment of the effectiveness of implementation of the summary assessment scheme. The Ministry stated in this regard, "by and large the procedure laid down for the selection of such cases and subsequent assessment in such cases after due scrutiny has been followed in the Department. However, it may be that such procedure has not been strictly followed at certain places/charges."

5.3 On the checks exercised by the Board to avoid non-observance of instruction by the assessing officers or assessees, the Board stated as under :—

“The Controlling officers i.e. Chief Commissioners|Commissioners of Income-tax|Deputy Commissioners exercise control from a day to day by checking the abuse of the Summary Scheme by the departmental officers. The Board also exercises due control in this respect by way of regular and vigilance inspections by the senior officers and inspection by the Inspection Division of the Board.

As regards the abuse of this Scheme by the assessees, the Board exercises control through the Scheme of selecting cases for scrutiny in subsequent years. It also exercises control over such abuse, misuse by the unscrupulous assessees through increased surveys, searches/seizures and consequent resort to prosecution.”

5.4 The Ministry have claimed that to guard against misuse or abuse of summary assessment scheme, a sample scrutiny system for 5 per cent of cases covered under the summary assessment scheme was introduced in 1984 (reiterated in 1985). The sample scrutiny in the opinion of the Committee can also help in assessing objectively the utility and effectiveness of the summary assessment scheme both by the Commissioners in their respective jurisdiction and by the Ministry based on reports from the Commissioners. While the Committee deplore the failure of the Commissioners to implement the directives, what is more perturbing to the Committee, is the apathy shown by the Ministry in conducting a review of the scheme based on such random sampling checks. The Committee consider the observations of Ministry in this regard (viz. “it may be that such procedures has not been strictly followed at certain places/charges”) as highly unfortunate and one lacking in accountability for successful implementation of the scheme. The Committee recommend that, notwithstanding the lapse of sufficient time, the Ministry may ensure implementation of the instructions by all Commissioners by a time bound programme. For all past periods obtain the results of such implementation and make an assessment of the scheme, based on such sample survey reports. The Committee also recommend that the results of such assessment may be intimated to the Committee within a period of six months. The Ministry may also intimate the action taken against those who failed to implement the instructions for so long.

6. Results of Audit

6.1 The internal audit parties of the Income Tax Department have been instructed by the CBDT in 1981 not to conduct any audit in the cases which have been completed under the summary assessment scheme. According to the Ministry, such instructions were issued because the manpower available for internal audit was found to be sufficient to cover all scrutiny cases where major mistakes are expected to arise.

6.2 In regard to statutory audit, the Ministry have stated that the statutory audit parties were free to look into summary assessment cases

that the issue regarding audit in such cases was discussed in March 1986 with Audit and that based on the discussions, Audit has also confirmed the following arrangements in its letter dated 21st March 1986.

“You indicated that the scheme “is a deliberate decision at the highest level” taking into account the load on the Income Tax Department and the revenue involved, with a view to take up more investigation work of large revenue cases. You also pointed out that random selection of summary assessment cases for detailed scrutiny was likely to be done through computers in the near future thereby ensuring comprehensive coverage. I mentioned that in the context of these steps the “audit observations on summary assessment cases would be communicated to the concerned C.I.Ts in the form of consolidated reports every six months and that a further annual report thereon would be made to the Board. Further no replies would be insisted upon from the I.T.Os in respect of these objections.” You agreed that such a procedure would enable the Board also to have a feed-back on the working of the scheme and to find out whether there was gross abuse. Monitoring of the scheme on the basis of information furnished would also enable the Board to take up timely and adequate steps to curb such abuses, if any. “We have issued necessary instructions to our field officers on these lines.” In addition I shall bring to your notice from time to time any special and interesting points coming to our knowledge in the scrutiny.”

The Ministry have stated that the procedure agreed upon is being followed.

6.3 However in the Audit paragraph under consideration, Audit has pointed out that a test check of summary assessment cases in various circles, revealed escapement of tax to the tune of more than Rs. 8 crores in 5800 cases. The mistakes detected by Audit fell broadly under the following categories.

Nature of irregularity	No. of cases	Tax effect (in lakhs of rupees)
(i) Arithmetical errors in return, accounts and documents	283	36.56
(ii) Omission to disallow any deduction, allowance or relief, prima facie inadmissible but claimed in the return	4,437	626.43
(iii) Irregular set off and carry forward and set off of unabsorbed losses, depreciation etc, and certain other relief	264	32.15 (and excess carry forward and set off losses of Rs. 17.09 lakhs).
(iv) Other irregularities viz., incorrect adoption of status non adoption of correct share of income, income escaping assessment, irregular refunds, non levy of interest, penalty etc.	852	142.65

6.4 No action was, however, taken on the cases reported by Audit and in this connection, attention of the Committee has been drawn by the Federation of Association of Gazetted employees to the instructions given CBDT on 26 August 1987 to the effect that no remedial action is necessary in summary assessment cases as the revenue loss, if any, is consciously suffered and that the Commissioners should only inform Audit that the cases were completed under the summary assessment scheme.

6.5 During evidence, the Committee enquired on the practical difficulties in taking follow-up action on audit comments. The Chairman, CBDT stated :

“Assuming that we have to take remedial action, in that case, ITO has to act under Section 143(1). Remedial action here would mean that ITO would call for records under Section 147 because he has to say that income has escaped assessment. Then he will have to restart the whole case and ask for further returns and make the assessment under Section 143.”

6.6 Since it is obligatory to investigate irregularities of all kinds, the Committee enquired why Ministry gave instructions not to go into all the aspects raised by Audit. The Chairman, CBDT then stated that the Board's instructions in this regard have since been revised and that any mistake in the application of Section 143(1) would be rectified. In a subsequent note to the Committee on action taken, the Ministry stated as under :—

“Action has been taken in respect of the majority of the cases referred to in paragraphs 3.1.16 and 3.1.18. Two statements relating to the cases mentioned in these two paragraphs have been prepared and are enclosed. These statements would indicate that in cases where remedial action was called for has already been taken. In none of these cases, action has become time-barred. In respect of other cases, we do not have the information immediately but it could be presumed that appropriate remedial action must have been taken even in respect of these cases also in accordance with the Board's instructions on the subject.”

6.7 Some of the cases cited by Audit included cases where tax deduction certificates given by persons not borne on the books of the Department were accepted and even refunds allowed. Asked to indicate the action taken, the Ministry stated as under :—

“The position in respect of para 3.1.19 of the Audit Report has been clarified in the earlier replies sent to the Audit. The procedure relating to issue of Tax Deduction Certificate had been in vogue in the Department for past many years and Department's experience in respect of many past years had been that the system worked properly. However, in the course of past few years some instances have come to the

knowledge of the Department which indicate that some unscrupulous taxpayers in collusion with some of their tax advisers and also some black-sheeps in the Department managed to put claims on the basis of forged certificates relating to tax deduction. As soon as such instances came to the Department's notice, action were initiated against persons who were a party to such frauds and steps were also taken to examine the existing procedures with a view to see that in future no such instances occur."

6.8 Income Tax Audit, whether it is done by internal audit wing of the CBDT or by statutory audit by the Comptroller and Auditor General is based only on the returns submitted by the assesseees and records already available with the tax authorities; in other words, neither internal audit nor statutory audit involves summoning of additional records and/or the assesseees themselves. In the circumstances, the irregularities, under assessments etc. that are pointed out by Audit, in the opinion of the Committee, can have nothing to do with scrutiny assessment under Section 143(2), but on the other hand, are directly indicative of the failures of the assessing officers in carrying out the summary assessments in a proper way. The Committee are not, therefore, able to appreciate the stand of the Ministry on its unwillingness to take follow-up action nor on the provocation for the arrangement detailed in Audit's letter of March 1986. The Committee, however, note that the arrangement as agreed to in March 1986 by Audit did provide for Audit to convey a gist of objections to the Commissioners concerned, the implication being that the Commissioners would take follow-up action. Notwithstanding this, the Committee are shocked to note that CBDT directed in August 1987 that no follow-up action should be taken in any of the cases. The directions of the CBDT, to say the least, are highly improper and irregular, apart from the fact that such directions compromised loss of revenue to the extent of over Rs. 8 crores, in only 5800 cases. Though in response to Committee's enquiry, in respect of cases cited by Audit, some action is reported to have been taken, the information as given, has failed to indicate in how many cases, follow-up action has been taken, to what extent, additional revenue has been raised, etc. The Committee recommend that in respect of all cases commented in the audit paragraph, follow-up action may be taken and a compliance report duly vetted by Audit, furnished within a period of six months.

6.9 The Committee note that the irregularities were noticed by Audit in the very records subject to assessment by the assessing officers. The Committee desire that the instructions of 26 August 1987 for stoppage of all action on audit findings in summary assessment cases be withdrawn forthwith. The Committee strongly deprecate the issue of such instructions and recommend that exemplary action be taken against those responsible for the issue of such improper circulars and a report be given to the Committee within a period of three months.

6.10 The Committee are equally shocked to note that even refunds of revenue were granted on cases covered under summary assessment schemes without verifying the fact regarding actual remittance of the tax by the claimants. What is more surprising is the tacit support given for the irregularity by the Ministry. The Committee strongly deplore the stand of the

Ministry and recommend that in no case refund shall be authorised without ensuring the actual remittance of the tax. The Committee also recommend that all the cases commented by Audit in this regard must be fully investigated and result intimated.

6.11 As over 97 per cent of assessment cases are now being dealt with in a summary manner, the Committee consider it imperative that the manner in which such cases are dealt with, will have to be subjected to both internal and statutory audit. The Committee recommend that the arrangement for both internal and statutory audit may be reviewed in consultation with the C&AG and both audits for summary assessment cases placed on a sound footing.

7. Intensive scrutiny of top 100 cases

7.1 According to B-CBDT's instructions in November 1983, the Commissioners and inspecting Asstt. Commissioners should actively associate themselves in pre-assessment scrutiny in some selected cases; this would include watching of the important events in 100 top cases. The Board has also instructed the Director General (Investigation) to watch the progress made in the top 100 cases of the country for efficient supervision and control over the work.

7.2 On the implementation of these directives, Audit has pointed out as under :—

“The information regarding the list of the top 100 cases were not produced to audit in 6 Commissioners charges test-checked. One Commissioner of Income-tax reported that no separate record is being maintained about the various instructions issued by the Inspecting Assistant Commissioners to Income-tax Officers in the completion of the assessments. In three other Commissioners' charges the required number of cases was generally not selected and there was also no proper follow-up action taken regarding issue of instructions in respect of the cases selected.

7.3 Clarifying the position in this regard, the Ministry stated as under :—

“Keeping in view the working of the Department, no interference in the day-to-day functioning of the Assessing Officer is either necessary, possible or desirable. Monitoring of cases is done only to see that investigation is on proper lines and no mis-handling of bigger cases takes place. Senior officers do take care to see that the work progresses in the right direction. It may be correct that in some offices registers and records might not have been maintained properly and strictly. It may be added that the Assessing Officer is a quasi-judicial authority and he cannot be directed to make the assessments in a particular manner. In fact, the higher authorities are precluded from giving such a direction, except u/s. 144A of

the Income-tax Act. As such, there has not been a practice of seeking formal|written directions as to the manner in which the assessments should be made. For this very reason, there would not be much correspondence on such issues between the Assessing Officer and his controlling officer. The control by CIT|Dy. Commissioner may not be exercised by approving the draft orders. Legally speaking, such a procedure as also the assessment made after such a formal approval can be challenged in a court of law. In fact, in the past it has been done. As such the correct position in regard to the maintenance of dossiers of 100 cases wherein assessments are to be monitored by the controlling Officer is that such monitoring is being done by the senior officers but proper records and correspondence in respect thereof might not have been maintained”.

7.4 The Committee are concerned to note that while on the one hand for summary assessment cases, the Commissioners have failed to take action either to ensure prescribed percentage of sample survey or to follow up audit findings, on the other hand, the prescribed data for important scrutiny assessment cases, are not properly maintained. The Committee are not fully convinced by the clarifications given and feel that the administrative machinery needs to be revamped so as to ensure accountability for compliance of instructions. The Committee fervently hope that the Ministry will take appropriate positive steps to see that its directives are complied, both in letter and in spirit.

8. Conclusions

Having considered (i) the audit paragraph, (ii) the material furnished by the Ministry from time to time, (iii) the evidences tendered by the officials of the Ministry, (iv) on the spot study by the Committee at Calcutta, Bombay and Trivandrum, (v) the representations received by the Committee, etc. the Committee are convinced that the applicability of the summary assessment scheme has been enlarged beyond the scope envisaged in the Act, by use of the administrative powers vested in Section 119 of the Act. In doing so, the Committee are concerned to note that the only basic objective which has guided the Ministry to take decision has been “to manage the ever increasing work load of the Department with limited manpower resources” and that the decision is not also based on any reliable data or scientific study and has failed to take note of the substantial loss of revenue. It is a matter of deep regret that in doing so, the Ministry even failed not only to provide adequate counter checks so as to control, if not totally avoid, leakage of revenue by possible concealment of income, but also to ensure that even the limited checks which were provided under the scheme, were properly implemented. It is equally important that the summary assessment cases should not have been taken out of the purview of internal audit and appropriate action ought to have been taken on the findings of statutory audit. The consequence has been that evasion of tax to the extent of over Rs. 8 crores in about 5800 cases test-checked, was allowed to remain without remedial action. The Committee are equally concerned to note that the reported diversion of staff to intensive scrutiny, search,

seizure etc. so as to unearth concealed income, black money, has also failed to achieve their objective to any noticeable extent. In the circumstances, the Committee consider it imperative that a review of administrative action on the legal provisions may be taken and appropriate remedial measures taken.

NEW DELHI ;

July 28, 1989.

Sravana 6, 1911 (Saka)

P KOLANDAIVELU,

Chairman,

Public Accounts Committee.

ANNEXURE 1

(Vide para 1.3 of the Report)

Test of Paragraph 3.1 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 1987 No. 6 of 1988 Union Government (Revenue Receipt—Direct Taxes) regarding Assessment Procedure—Summary and Scrutiny Amendments.

3.1 Assessment Procedure—Summary and Scrutiny Assessments.

Introduction

Summary assessment procedure

3.1.01 With effect from 1 April 1971, the procedure of regular assessments under the Income-tax Act was streamlined and a new procedure was evolved whereby the Income-tax Officer is empowered to complete a regular assessment in a summary manner on the basis of income or loss returned by making the prescribed adjustments. The new procedure does not require the verification of the correctness and completeness of the return. The assessment under the scheme, described as summary assessment scheme, is generally final, but the tax payer may object to such an assessment or it may be reopened by the Income-tax Officer for a de novo regular assessment.

Objectives

3.1.02 The scheme was introduced in the Act as the bulk of the assessment cases generally involved no substantial points of dispute and the income returned was subject to only routine adjustments so as to correct obvious errors.

The twin objectives envisaged under the scheme were :

- (i) the new procedure would speed up the work of completion of regular assessments.
- (ii) it would save time for a more intensive scrutiny of other important cases with a view to guard against any leakage of revenue by possible concealment of income.

Institution of the Inspecting Assistant Commissioners (Assessment)

3.1.03 In their 186th Report (1975-76) (Fifth Lak Sabha), the Public Accounts Committee, while expressing concern over the inadequate role played by the Inspecting Assistant Commissioners as Inspecting Officers, hoped that if Assistant Commissioner of Income-tax were given assessment power to assess directly cases of over five lakhs of rupees, the standard of

performance would improve and the possibility of mistakes would be reduced. In their 187th Report (1975-76) (Fifth Lok Sabha), the Committee urged that these recommendations should be dealt with on priority basis and implemented forthwith.

Pursuant to the recommendations of the Public Accounts Committee, by an amendment to the Income-tax Act the work of assessment in important assigned to senior officers of the rank of Inspecting Assistant Commissioners from the year 1978.

Scope of audit

3.1.04 Noticing that there was no preciable reduction in the pendency of assessment even after the introduction of the summary assessment procedure, the Public Accounts Committee in their 217th Report (1983-84). (Seventh Lok Sabha) had expressed the hope that the enlargement of the scope of the scheme would resort in substantial reduction in pendency in the future and that the Central Board of Direct Taxes would take positive steps to prevent the large scale evasion of taxes in high income cases. The committee also noted that according to a study conducted by the Board, the summary assessment scheme was not being abused so as to cause loss of revenue and the revenue benefit by conversion of a summary assessment into scrutiny assessment was marginal.

On the institution of the Inspecting Assistant Commissioner (Assessment), the Committee felt that it had not played the meaningful role expected of it and recommended a study on the functioning of the institution in all its aspects.

The object of this review is to make an assessment of the procedure of summary and scrutiny assessments and to make an evaluation of the working results of the system. In doing this it is not the intention to criticise the policy of the government to simplify the assessment procedures but only to help in improving the system so that while on the one hand the tax payer is not harassed, on the other hand there is no loss of revenue.

Prescribed Procedure Law

3.1.05 The summary assessment procedure originally provided for the following adjustments :

- (i) rectification of any arithmetical error.
- (ii) allowance of any deduction, allowance or relief *prima facie*, admissible, though not claimed.
- (iii) disallowance of any deduction, allowance or relief so claimed which is, *prima facie*, inadmissible.
- (iv) giving effect to certain expenditure, set off of carried forward losses, unabsorbed depreciation, etc.

From 1 April 1980, the adjustments relating to allowance of the admissible unclaimed deduction, allowance or relief and disallowance of similar wrong claims, were deleted on the consideration that such adjustments were few in number and the speedy completion of assessments as envisaged under the scheme was not being achieved.

Summary assessment cases

3.1.06 The Income-tax act does not specify the category of cases or the income or loss limit, which will determine the category of cases to be decided under the simplified procedure. The types of cases in which summary assessments should be made are decided under executive instructions issued by the Central Board of Direct Taxes from time to time. A small percentage of the assessments so finalised is subjected to a detailed scrutiny on random sampling basis as prescribed by the Board.

Scrutiny assessment procedure

3.1.07 In June 1985, the Board issued instructions that there should be intensive scrutiny and relentless investigation of cases under the scrutiny assessment procedure so as to unearth possible concealment of income and to ensure that the increasing faith reposed on the tax payers on voluntary compliance was not abused.

Highlights

3.1.08 (i) The tax assessment procedure was streamlined in the year 1971 providing for an assessment of the income returned by tax payers in a summary manner by carrying out only routine adjustments and without any detailed scrutiny as for other regular assessments. The assessment machinery was also restructured during the year 1978—1984 and the assessment of important cases with income of Rs. 5 lakhs or more was entrusted to senior officers in the rank of Inspecting Assistant Commissioners (Assessment). These changes were expected to bring down the pendency in assessments and result in fair and correct assessments and augment Government revenues. The test-check in audit revealed that the pendency remained practically as high as before and many assessments were not final due to disputes and appeals.

(ii) Keeping the main objective of summary assessment scheme as reduction in the pendency, the Central Board of Direct Taxes substantially revised their instructions in June 1984 and May 1985, and brought within its fold also company cases with higher income/loss upto Rs. 25,000, all trust cases and cases where, *prima facie*, incorrect deductions and exemptions were claimed and even first assessment cases, with certain exceptions. The instructions also stated that the returns would be linked with the assessment records and having checking of the arithmetical accuracy of the computation of total income and taxes and liability for interest, penalties etc., no checking of any other short was necessary. These liberalisations on summary assessments had not led to any appreciable reduction in the pendency in summary assessment cases.

The revision of standards of summary assessment scheme from year to year, especially in March 1985 resulted in the conversion of a number of scrutiny cases pending as on that date into summary cases and consequently in an automatic reduction in the pendency in scrutiny assessments. The scheme of Inspecting Assistant Commissioner (Assessment) was extended to many more charges from October 1984. The position of pendency nevertheless, continued to be static at the end of 1985-86.

The scheme had evidently not succeeded in reducing the pendency in summary or scrutiny cases.

(iii) The Economic Administration Reforms Commission (1982-83) had observed that the controllable accumulation of arrears lead to ever increasing demand for additional manpower which simply could not be met and an attempt to tailer the work-load according to the available manpower and material resources by streamlining the existing practices and procedures were called for. The 1985 guidelines for segregation of summary and scrutiny assessment subject to many conditions and exceptions, made the exercise cumbersome, time-consuming and error-prone and the application of the scheme more laborious than the assessment proper.

(iv) The Central Board of Direct Taxes had fixed targets for disposal of summary and scrutiny assessment cases through Annual Action Plans. Instructions also exist that there should be no rush of assessments towards the end of a year and time-barring assessments should not wait till the last moment. The test audit revealed that the annual disposals were far below the targets fixed and there was no control over the annual disposals or over a time-bound programme of even disposals during the 12 months of a year. The disposal of assessments including time-barring assessments, generally picked up during the last quarter of a financial year.

(v) The success of summary assesment scheme is required to be evaluated by the results of the sample scrutiny and the extent of compliance of the procedure prescribed. The review results in the number of assessments selected for sample scrutiny and the number of scrutiny assessments completed out of such assessments, showed that the procedure for sample scrutiny had not been followed or had casually been observed, which showed that the inspection machinery of the Inspecting Assistant Commissioner and the Board had failed to ensure strict compliance. Also there was no element of secrecy kept in the principles of selection of cases for sample scrutiny. Besides, the basic register prescribed for monitoring and control of sample scrutiny was not maintained in many charges or was not in proper form wherever maintained.

The sample scrutiny procedure appaantly did not act as an effective deterrent against tax evasion or under-statement of income by dishonest assessees.

(vi) According to the Board's instructions, the Commissioners of Income-tax are expected to control and inspect the Inspecting Assistant Commissioner (Assessment) work by a test-check and the Inspecting

Assistant Commissioner and Commissioners of Income-tax should keep a watch over 100 top cases in each unit of assessment. However, no records or information were produced to audit evidencing the prescribed checks being exercised regularly and systematically. The substantial irregularities noticed in test-audit in scrutiny assessments of big assesses would indicate lack of adequate supervisory control.

(vii) In the field of assessment the accent in recent years has been on voluntary compliance. Elaborate instructions have been issued regarding the area of operation of the summary assessment scheme and wide publicity has been given to the scheme to attract voluntary compliance. In May 1985, the Board instructed that no checking of any sort was necessary except correction of arithmetical errors in income and tax levy of interest. In June 1985, the Board issued further instructions that the liberalisation in the limit of summary assessments was one limb of the policy to ensure voluntary compliance. In July 1986, the Board issued instructions that the assessments completed under the summary assessment scheme should not be reopened to verify the completeness or correctness of the returns or to correct apparent mistakes by correlation with previous years' returns and other information in accounts and documents.

These instructions of the Board led to the assessing officers to treat the summary assessment cases in a routine manner and to accept the incomes as returned without any check. This also encouraged a large number of assesseees to resort to tax evasion by deliberate under-statement of income.

The types and extent of irregularities noticed during test-audit revealed that the omissions were, by and large, apparent from records or deliberate under-statements by assesseees taking advantage of the scheme and could have been corrected by reference to the return and the accompanying documents. The Income-Tax Act also provided for adequate remedial safeguards to set right such omissions. The instructions of the Board of July 1986 were, apparently, not consistent with the provisions of the Act as they frustrated any possible retrieval of revenue.

Even the limited test check conducted by Audit revealed escapement of tax to the tune of more than Rs. 8 crores in 5,800 cases.

(viii) The Finance Minister in his Budget speech (1985) felt that in order to make effective use of administrative machinery in reducing tax evasion, the emphasis in tax assessments should shift from routine examination of a very large number of returns to a thorough scrutiny of a sample of cases and where tax evasion is detected, the penalties should be swift and severe. The Finance Act, 1985 restructured the rate schedule for personal and corporate incomes and reduced the incidence of tax to ensure better tax compliance. In June 1985, the Board issued instructions that the total policy package to voluntary compliance, which reposed increasing faith in the tax payers and sought to ensure that this faith was not abused, envisaged intensive scrutiny cases while completing scrutiny assessments

including sample scrutiny cases and relentless investigation. The Board also spelt out the twin objectives of scrutiny assessments as being—

- (a) there should be no error in the assessment so that audit objections and the need for rectifications do not arise;
- (b) each assessing officers should be able to process about half-a-dozen cases from the prosecution angle.

The substantial audit objections involving legal and other irregularities noticed in test audit of scrutiny assessments, the belated disposals during the closing months of a year, the post-assessment collection, and the disputed additions in the assessments of Inspecting Assistant Commissioners (Assessment) point out that scrutiny assessments did not get the expected attention as envisaged by the Government.

- (ix) (a) In nutshell, the audit review indicates that the expectations of the summary assessment procedure and the institution of the Inspecting Assistant Commissioner (Assessment) have not fully been realised;
- (b) the frequent dilution of the summary assessment scheme by raising the income|loss limit of summary assessment cases and reduction in tax rates had not promoted greater voluntary compliance by tax-payers;
- (c) contrary to the Board's claim that the summary assessment scheme was not being abused and the outcome of sample scrutiny was insignificant, the test-audit revealed substantial tax evasion by the assesseees taking advantage of the various loopholes in the scheme.
- (d) the basis of segregation of summary assessment cases by income|loss limit undermined the purpose of separate firm circles, professional circles etc. for effective tax administration;
- (e) the assessment, monitoring and control machinery had not generally proved effective.

Detailed Review

3.1.09 A review of the working of the scheme of the summary assessment procedure *vis-a-vis* the institution of the Inspecting Assistant Commissioner (Assessment) was conducted by the Audit during the year 1986-87 in selected charges. The results of the review are summarised in the following paragraphs.

Assessment

The Central Board of Direct Taxes have fixed different norms for disposal of the cases during a year separately under the summary and scrutiny assessment procedure :

Summary assessment cases 5000 cases

Scrutiny assessment cases 75 real assessments

According to the Board's instructions (December 1983) the Inspecting Assistant Commissioners (Assessment) were required to complete all pending assessments by March 1986 and the Income-tax Officers were to bring down the pendency in summary assessments substantially.

Assessments for Disposal

3.1.10 The particulars of the total number of assessments, summary and scrutiny, for disposal, the number of assessments, summary and scrutiny, for disposal, the number of assessments disposed of and the number of assessments pending for disposal in respect of the three years 1983-84 to 1985-86 are given below :

Year	Number of assessments for disposal			Number of assessments completed		
	Summary	Scrutiny	Total	Summary	Scrutiny	Total
1	2	3	4	5	6	7
1983-84	51,66,348	17,26,476	68,92,824	38,40,167	9,71,654	48,11,821
1984-85	48,28,645	18,16,310	66,44,955	42,75,692	11,13,525	53,89,217
1985-86	63,13,752	7,54,497	70,68,249	54,55,436	4,51,521	59,06,957

1	Number of assessments pending at the end of the year		
	Summary	Scrutiny	Total
	8	9	10
1983-84	13,26,181	7,54,822	20,81,003
1984-85	5,52,953	7,02,785	12,55,738
1986-86	8,58,316	2,92,976	11,51,292

The overall pendency as on 31 March 1986 was 11.51 lakhs cases, made up of 8.58 lakhs summary cases and 2.93 lakhs scrutiny cases, as against 12.56 lakh cases pending at the end of 1984-85. In terms of percentage, the pendency worked out to 17 per cent.

Summary assessment procedure

3.1.11 Since the introduction of the summary assessment procedure in 1971, the Central Board of Direct Taxes issued instructions almost every year liberalising the cases to be decided under the scheme with a view to bringing down the pendency in assessments. According to the

instructions issued in May 1983, apart from cases assigned to Inspecting Assistant Commissioners, special circles, search and seizures cases, cases of suspected tax evasion, company (with income/loss of Rs. 10,000/ Rs. 5,000 and above and with paid up capital of Rs. 5 lakhs and above) cases, all cases of trust and charitable institutions, all cases of losses exceeding Rs. 25,000 or of income of Rs. 1 lakh and above, first assessment cases with income exceeding Rs. 25,000, income-tax cases with net wealth of Rs. 5 lakhs or more, all re-opened cases and all cases where incorrect exemptions and deductions are claimed including cases of Sections 64, 40(b), etc., were to be completed as scrutiny assessments. An on-the-spot assessment scheme was also framed in June 1984 under which all returns filed before the due date were accepted across the counter without any further scrutiny where the income returned as Rs. 50,000 or less as regards salary assessment cases and Rs. 25,000 or less in other cases. In May 1985, the Board further liberalised the scheme bringing within its scope broadly all cases with income/loss upto Rs. 1 lakh other than company and trust cases and cases requiring investigation and special examination in special circles, company cases with income/loss upto Rs. 25,000 and with paid-up capital upto Rs. 5 lakhs and trust cases with corpus not exceeding Rs. 5 lakhs and with gross income of Rs. 1 lakh and above but excluding first assessments.

Disposal Vs. Target

3.1.12 Under the liberalised procedure each assessing officer with the help of an Inspector is expected to give a disposal of 5,000 cases a year.

The total number of summary assessments for disposal, the number disposed of and the number pending in respect of the three years 1983-84 to 1985-86, are :

Year	Number of assessments for disposal	Number of disposed of	Number pending at the end of the year
1983-84	51,66,348	38,40,167	13,26,181
1984-85	48,28,645	42,75,692	5,52,953
1985-86	63,13,752	54,55,436	8,58,316

The number of cases for disposal under the summary assessment procedure during the years 1983-84 and 1984-85 were 51.66 lakhs and 48.29 lakhs and the number of cases pending for disposal at the end of these years were 13.26 lakhs and 5.53 lakhs respectively. During the year 1985-86, the number of cases for disposal rose to 63.14 lakhs and the pendency at the end of that year also increased to 8.58 lakhs. Apparently the liberalisation of the cases to be covered by the summary assessment scheme contributed to the rise in pendency during 1985-86.

In 24 units in 2 Commissioner's charges in Rajasthan Circle, the test check revealed that while the disposal in 6 units exceeded the target fixed by the Board, in other units the total number of cases for disposal itself was far less than 5,000 cases. Even then, the disposal was not total in any of the units and at the end of 1985-86 there was a pendency of 17,387 out of a total of 1,10,405 for disposal. In Tamil Nadu circle, the pendency in assessments as on 31st March 1986 was 73,419 cases, registering an increase in pendency of 47 per cent over that of last year. In Gujarat Circle in 21 wards under 6 Commissioners' charges (other than Rajkot) only 1,42,852 cases were completed against 3,05,000 cases, accounting for a shortfall of 52 per cent. In West Bengal Circle, a test check of 46 units showed a disposal of 50,766 cases against 59,726 to be disposed of during the year 1985-86, leaving pendency of 15 per cent. The position in respect of Bombay, Kerala and Karnataka Circles is as given below :

Circle	No. of units Circle	No. of cases for disposal	No. disposed of	Pendency
Bombay	19	7,28,775	6,43,950	84,825
Commissioners				
Kerala	31	75,518	59,694	15,824 (-)-56*
Karnataka	39	95,258	75,454	19,804

* Transfer to other wards.

Sample scrutiny

Procedure, assessment and inspection.

3.1.13 In order to ensure that the provisions of the summary assessment scheme are not abused, the Board issued instructions in June 1984 and June 1985 according to which 5 per cent of the cases assessed in a summary manner will be taken up for a thorough scrutiny on a random sample basis and the required number of cases would be selected in the month of August as prescribed. The instructions required the Commissioner of Income tax to furnish a certificate to the Director of Organisation and Management Services (DOMS-IT) by 15 September of the year that the aforesaid selection has been made. The cases selected during a year were also to be disposed of during the year.

The scheme also contemplated that some of the cases finalised under the sample scrutiny should be reviewed by the Inspecting Assistant Commissioners during their annual inspections. The inspection division of the Board, during their tours, is also expected to verify whether the sample scrutiny procedure had been followed and submit a report to the Board.

The test-check generally revealed that the sample selection for regular assessment was far below the prescribed percentage, sometimes upto 1 per cent only, and many of the cases so selected were pending assessment at the end of the relevant year. There was hardly any effective control over the procedure prescribed by the Board for compliance. The position in various circles is indicated below:

Circle	Deficiencies noticed in sample scrutiny procedure.
Tamil Nadu	During 85-86, 2,717 cases were selected for sample scrutiny against 18,485 cases to be selected on the basis of the assessments completed under the summary assessment procedure. In the earlier two years also the percentage of selection did not exceed 1 per cent. Out of 9,885 cases selected for scrutiny for the three years 1983-84 to 1985-86, 5,534 cases were also awaiting disposal as on 31 March, 1986.
Kerala	In 29 units test-checked, the average percentage of selection was hardly 3 per cent. The disposal of the cases selected was 35 per cent (328 out of 944 cases).
West Bengal	Out of 44 units reviewed in 4 Commissioner's charges no selection was made in 4 units and in the rest selection was not made according to the quantum prescribed. In all the 40 units all the cases selected were also not finalised during the year.
Rajasthan	The number of cases to be selected for scrutiny for the three years 1983-84 to 1985-86 in 2 commissioner's charges was 20,710 whereas only 7,197 (2 per cent) cases were selected.
Madhya Pradesh	Sample selection was not done in 7 units for 1983-84 and 1984-85. There was short fall in 5 units in 1983-84 and 7 units in 1985-86 ranging from 1 to 70 per cent.
Bombay	In 13 units, no sample scrutiny was conducted and in another 14 units, the percentage applied were less than the prescribed percentage of 5 per cent.
Gujarat	In 6 units (other than Rajkot) the percentage of selection was 1.34 and 3.74 per cent during 1984-85 and 1985-86 and there was a pendency of 10,248 cases for sample scrutiny as at the end of March 1986. In Rajkot charge, out of 10,725 cases selected during 1984-85 and 1985-86 only 3,431 cases were finalised by March 1986.
Karnataka	In 9 units in 2 Commissioner's charges out of 714 cases selected, 199 only were finalised by March 1986. According to the Action Plan for 1986-87 (letter of July 1986) these pending assessments were not to be subjected to scrutiny in 1986-87.
Punjab	Out of 5 units, sample scrutiny was not done in one unit and there was short fall in another.

Haryana	Out of 4,277 cases selected for 1985-86, 321 cases were completed under the summary assessment scheme and another 1,125 cases were pending at the end of the year.
Bihar	Out of 5,572 and 5,368 cases selected in 2 Commissioner's charges, 2,451 and 2593 cases were pending at the end of March 1986.
Orissa	Out of 2,864 cases selected for sample scrutiny, 1,443 cases were pending at the end of March 1986.
Andhra Pradesh	In 10 units in 4 Commissioner's charges no sample scrutiny was done during the three years 1983-84 to 1985-86 and in 8 other units the selection was below the prescribed percentage.

Maintenance of prescribed register.

3.1.14 According to the instruction issued in July 1977, a register called the Sample Scrutiny Register is required to be maintained in summary assessment charges to record the results of scrutiny in respect of cases picked up for sample scrutiny out of assessments made under the summary assessment scheme. The columns in the Register are designed to indicate the net total income as per return, and the actual assessed income after scrutiny. The Register also gives an indication of cases transferred to special circle etc., requiring investigation.

In 10 States covering 24 Commissioners' charges test-check in 244 units indicated that in 75 units the prescribed Register was not maintained and in another 91 units the Register was not maintained in the proper form. Evidently, no effective control over the procedure of random sampling of cases and the monitoring of sample scrutiny of the cases so selected existed in the department.

Results of test-audit

3.1.15 During test-audit of the summary assessment cases decided by the department irregularities were noticed in 5,836 cases involving a total revenue effect of Rs. 837.79 lakhs. The mistakes fell broadly under the following categories :

Name of irregularity	No. of cases	Tax effect (in lakhs of rupees)
(i) Arithmetical errors in return, accounts and documents	283	36.56
(ii) Omission to disallow any deduction, allowance or relief, prima facie, inadmissible but claimed in the return	4,437	626.43
(iii) Irregular set off and carry forward and set off of unabsorbed losses, depreciation etc., and certain other reliefs	264	32.15 (and excess carry forward and set off of losses of Rs. 17.09 lakhs).
(iv) Other irregularities viz., incorrect adoption of status, non adoption of correct share income, income escaping assessment, irregular refunds, non-levy of interest, penalty etc.	852	142.65

Mistakes of Law

3.1.16 Under the Income-tax Act, the summary assessment is to be completed by making the following adjustments :

- (a) rectification of arithmetical error in the return, accounts or other documents ;
- (b) giving effect to unabsorbed depreciation investment allowance, losses, etc. as provided in the Act.

According to the instructions issued by the Board in May 1985, apart from ensuring the arithmetical accuracy of the computation of the total income and tax and liability for interest, etc., no other checking of any sort would be necessary. These instructions did not require to verify the correctness of the amount of losses, deficiencies etc., determined in earlier years for carry forward in so far summary assessments are concerned.

On test-check it was noticed that in 15 Commissioners' charges in Karnataka, Delhi and Kerala Circles, arithmetical mistakes in the return filed by the assesseees were not corrected by the assessing officers in 127 cases having a tax effect of Rs. 26.32 lakhs. In 66 Commissioners' charges in 264 cases incorrect or excess carry forward of an set off of loss/deficiency of Rs. 17.09 lakhs involving revenue effect of Rs. 32.15 lakhs was also noticed.

(i) *Arithmetical errors in the returns, accounts, or other documents*

In one case in Kerala circle, due to an arithmetical mistake the income was short-computed by Rs. 1,60,000 involving revenue effect of Rs. 1.16 lakhs.

(ii) *Irregularities in carry forward and set off of losses, etc.*

Bombay

- (a) In one case for the assessment year 1984-85, a loss of Rs. 21,830 arrived at after deducting the brought forward losses of Rs. 1,88,098 in respect of previous years from the taxable income of Rs. 1,66,266 was accepted as returned, though the correct loss to be carried forward and adjusted as per records, was Rs. 56, 179 only (Under-charge of tax of Rs. 63,876 including interest leviable).
- (b) In another case the returned income of Rs. 5,000 for assessment year 1983-84 after adjusting business losses of assessment years 1973-74 and 1974-75 was accepted, though these losses incurred beyond eight assessment years preceding were not available for set off under the Act (Short levy of tax of Rs. 26,733).

Haryana

In one case set off of loss of Rs. 5,02,595 claimed for the assessment year 1984-85 and 1985-86 was allowed, though the business in which the loss was incurred was not carried on during the previous years.

Andhra Pradesh

In another case for the assessment year 1982-83, the assessing officer did not allow the carry forward loss of Rs. 1,41,390 for assessment years 1980-81 and 1981-82 in the scrutiny assessments made but for assessment year 1983-84, the assessee filed a return setting off of the aforesaid loss which was allowed.

Irregular disposals under the scheme

3.1.17 According to the Board's instructions of 1985, cases assigned to Central Circles, Special Investigation Circles, Special Circles, etc., and new cases do not come under the purview of the scheme and are always to be completed as scrutiny assessment cases.

In Punjab circle in 21 units the scheme was not implemented.

In Tamil Nadu and Haryana Circle, in 5 Commissioners' charges (6 units), the test-check indicated that 1,284 cases assigned to these charges were erroneously completed in a summary manner.

In Madhya Pradesh, Himachal Pradesh and Andhra Pradesh Circles, in 33 units (5 Commissioners' charges) the Demand and Collection Register for 1984-85 showed that 2,103 assessments were completed under the scheme, including one company case, though not covered by the Board's instructions. Similar irregular assessments were also made in 5 units in 3 Commissioners' charges in Jammu and Kashmir and Karnataka Circle.

In Uttar Pradesh circle 279 cases in 18 units test-checked, were completed under summary assessment though the cases were not covered by the Board's instructions.

In Andhra Pradesh, 116 new cases were assessed under the scheme contrary to the Board's instructions.

A registered firm in Tamil Nadu filed the return of income for the assessment year 1984-85 due on 31 July 1984, on 5 August 1985 disclosing a total income of Rs. 1,60,540 without applying for extension of time for filing the return. A revised return was filed by the assessee on 30 October 1985 declaring a reduced total income of Rs. 72,084 which was accepted by the assessing officer and assessment completed under the "summary assessment scheme" in December, 1985, though the original return was not filed within the statutory time limit prescribed and the assessee was not entitled to furnish the revised return. As the

income disclosed in the original return exceeded Rs. 1 lakh, the assessee was not entitled to be assessed under the "summary assessment scheme", and the return should have been subjected to detailed scrutiny.

Cases, Prima facie, requiring scrutiny completed under the new procedure

3.1.18 According to the scheme, all cases with returned income of Rs. 1 lakh and above will require scrutiny assessment. The test-audit disclosed that many assessee filed returns for the relevant years with returned income less than Rs. 1 lakh by adopting a lower profit rate than in earlier years, by deliberate arithmetical or copying mistakes, and by claiming inadmissible allowances and deductions and incorrect exemptions so that they are covered by the summary assessment procedure. A few instances :

(i) *Adoption of low profit rate*

Andhra Pradesh

A firm engaged in contract works returned a profit of 10 per cent of the net bills for the assessment year 1982-83 but in the scrutiny assessment the assessing officer estimated the profit at 11 per cent of the net bills. For the next two assessment years completed under the summary assessment scheme, the assessee showed a profit of 1.5 per cent and 0.63 per cent of the net bills returning Rs. 79,070 and Rs. 49,770 only as against Rs. 7,73,175 and Rs. 8,82,126 at 11 per cent of the net bills.

Rajasthan

In the assessment for the years 1983-84 and 1984-85 completed as scrutiny assessments, the net profit rate of 8 per cent adopted was accepted by a firm. In the assessment for the next year 1985-86, a net profit rate of 4.3 per cent and an income of Rs. 76,490 was returned and assessed. At 8 per cent rate, the income would have been assessed at Rs. 1,21,676.

Madhya Pradesh

In the assessments of 5 assessee in 2 Commissioners' charges for the assessment years 1980-81 to 1985-86 completed during 1985-86 under summary assessment scheme, the assessee returned the profit rates less than that applied by the assessing officer in earlier years in scrutiny assessments which were either accepted by the assessee or confirmed in appeals. The consequential under assessment was Rs. 10.37 lakhs involving short levy of tax of Rs. 4.50 lakhs.

Orissa

In one case a registered firm of contractors was assessed under scrutiny assessment procedure for assessment year 1984-85 estimating

the profits at 12.5 per cent of the net receipts. In the assessment for assessment year 1985-86 the assessee returned a profit rate of 8 per cent (Rs. 95,210 only on net receipts of Rs.12,06,031.)

(ii) *Deliberate arithmetical or copying mistakes*

- Andhra Pradesh** (a) In one case of an assessee for the assessment year 1985-86, an assessee firm worked out the total income as Rs. 1,70,460 in the statement of total income appended to the return but returned only Rs. 94,196 in the return proper.
- (b) In another case, the total of the credit side of the trading account was struck at Rs. 21,32,313 instead of Rs. 22,32,313 and the gross profit was computed less by Rs. 1 lakhs for the assessment year 1985-86.
- Madhya Pradesh** In the assessments of 5 contractors for the assessment years 1983-84 to 1985-86 in 2 Commissioners' charges contract receipts were offered less by Rs. 13.10 lakhs than the actual receipts shown in the certificates granted by the Government departments, autonomous bodies for works executed.
- Haryana** In one case against the earned business income of Rs. 23,18,901 a sum of Rs. 21,06,357 only was returned for assessment leading to under assessment of income of Rs. 2,12,544.
- Punjab** A firm engaged in the business of execution of contract accounted for receipts amounting to Rs. 2.40 lakhs, whereas the actual receipts amounted to Rs. 5.11 lakhs for assessment year 1984-85.
- Himachal Pradesh** In one case closing stock of timber of Rs. 29,80,357 in the trading account of business was not included in the balance sheet and income involving tax effect of Rs. 15.16 lakhs escaped assessment.
- West Bengal** In one case, the closing stock was incorrectly, shown in the accounts as Rs. 5,17,337.87 instead of the correct figure of Rs. 6,17,337.87 involving under charge of tax of Rs. 22,287.
- Assam** An individual engaged in contract works also derived some income from other sources during the assessment years 1983-84 and 1984-85. As per deed of agreement submitted alongwith

the return for the assessment year 1981-82, the contract work of the assessee was being not done through two agents on payment of 2 per cent commission to each of them on the net contract receipts. Accordingly, in the assessment for the assessment year 1982-83 the assessing officer treated these commission as charges to contract work and thereafter profits on contracts work was worked out at 9 per cent of the contract receipts. In the assessment years 1983-84 and 1984-85 the contractor executed the same work in addition to a year 1984-85. But at the time of computation of profit on contract work for assessment years 1983-84 and 1984-85, the assessee estimated profit at 7 per cent for old works and 8 per cent for some new works for the assessment year 1984-85 and deducted 4 per cent commission from contract receipts. Applying the same principle and rate of 9 per cent as was assessed for the assessment year 1982-83 for old work and taking 8 per cent declared profit for new works, the profit from contract works stood at Rs. 2,94,726 and Rs. 2,03,404 for the assessment years 1983-84 and 1984-85 respectively. While completing assessments for the assessment years 1983-84 and 1984-85, the assessing officer accepted the profit as disclosed by the assessee leading to under assessment of income of Rs. 1,65,398 and Rs. 1,82,304 with resultant under charge of tax of Rs. 2,32,584 in aggregate.

Andhra Pradesh

An assessee showed for the assessment year 1985-86 gross profit of Rs. 9,57,174 in the Trading Account whereas the gross profit as per the certified statement of the Chartered Accountant was Rs. 10,61,924 due to sale shown. Income short computed amounted to Rs. 1,04,750 (tax effect Rs. 57,943).

(V) Other irregularities

West Bengal

- (a) Deduction aggregating Rs. 2,52,393 on export of goods for merchandise under Section 80 HHC was allowed in assessment year 1983-84 to 1984-85 without verifying the fulfilment of conditions (Revenue effect Rs. 34,033).

- (b) Deduction under Section 80 RRA was claimed and allowed on gross emoluments instead of on 50 per cent on the amounts received in foreign currency (Revenue effect Rs. 33,898).
- Assam
- (a) Investment allowance and depreciation aggregating to Rs. 2,31,430 was allowed in assessment year 1985-86 without any check in the case of a firm dealing in stationery and printing works (Revenue effect Rs. 1,02,268).
- (b) Depreciation of Rs. 2,32,020 debited to accounts was not added back before allowing admissible depreciation (Revenue effect Rs. 79,085 net).
- Madhya Pradesh
- Income from leased hotel was assessed as business income instead of house property income (Revenue effect Rs. 1,24,545 in assessment years 1983-84 and 1985-86).
- Tamil Nadu
- A trust, the shares of which were held to be indeterminate for assessment year 1978-79 to 1981-82, was assessed at ordinary rate instead of the maximum marginal rate for assessment years 1983-84 and 1984-85 (Revenue effect Rs. 40,398).
- Karnataka
- (a) Investment allowance of Rs. 1,92,133 on excavator ladder costing Rs. 7,68,531 was allowed in assessment year 1985-86, though the assessee had leased it out and had received only hire charges (Revenue effect of Rs. 67,177).
- (b) Double claim of lorry hire account' expenses of Rs. 64,513 was allowed in assessment year 1985-86 (Revenue effect Rs. 37,359).
- (c) Reserves carried to balance sheet of Rs. 3,36,133 were not disallowed in assessment years 1984-85 and 1985-86 (Revenue effect Rs. 1,98,614).
- (d) The Board in their instructions issued in March 1980 pointed out that, where receipt audit finds a systematic abuse of a concession by a group of assesseees involved in the assessments completed under summary assessment scheme, such instances have to be brought to the notice of the Board for further investigation.

Six assesseees who took voluntary retirement from an industrial company during the previous years relevant to assessment years 1983-84 and 1985-86 received in addition to pay and allowances upto the date of retirement, amount of gratuity and ex-gratia compensation which were taxable. The certificates of tax deducted at sources enclosed to the returns of income by the assesseees showed that the employer had rightly deducted tax from the payments made towards gratuity and ex-gratia compensation. The returns of income filed by one assessee for the assessment year 1983-84, three assesseees for the assessment year 1984-85 and two assesseees for the assessment year 1985-86, showed considerable amounts as losses arising from the business ventures stated to had been started by them shortly after retirement. These losses, when set off against their salary income reduced their total income to such a figure as to result in a refund of major portion of the tax deducted at source.

From their total salaries of Rs. 3,35, returned (after allowance of standard deduction), a total business loss of Rs. 1,86,346 was claimed and allowed to be set off in the assessments concluded under summary assessment scheme between March 1985 and June 1986 and refunds amounting to Rs. 77,750 out of tax deducted at source of 96,609 were made to the six assesseees.

Audit scrutiny revealed that: —

(i) from profit and loss accounts and balance sheets enclosed to the returns the nature of business activities could not be ascertained and though the names of the business indicated that two were engineering works, and two were traders, nevertheless the type of articles or things produced or traded in were not specified, in two other cases the activities were not named.

(ii) Rents ranging from Rs. 500 to Rs 3,200 were claimed though these were shown as proprietary business and the activities of manufacture, processing or trading were

conducted in the residential premises of the assesseees.

(iii) There was no indication of any licence fee on this account for obtaining licence from Government or City Corporation though essential before starting a business.

(iv) The parties from whom machinery or furniture was purchased or invoices etc., supporting the purchases were not available, although depreciation and investment allowance on such machinery were claimed.

(v) The source and extent of fixed or working capital, viz., the nature and extent of savings, if any (apart from retirement benefits) and the nature, extent and details of creditors from whom borrowings were made, were not explained.

(vi) In the case of one assessee the profit & loss account and balance sheet were signed by a person other than the assessee although the assessee had not appointed anybody as his authorised representative.

(vii) None of the assesseees filed returns for subsequent years i.e. 1985-86 or 1986-87, even though they had incurred losses in business. One of the six assesseees showed a net business loss of Rs. 40,398 for the assessment year 1985-86 but no return was filed for the assessment year 1986-87 so as to take advantage of the provisions in the Act for carry forward and set off of business losses. All the assessment were concluded under summary assessment scheme with reference to the income returned with no further scrutiny and refunds of Rs. 77,750 were allowed to the six assesseees.

- (e) Interest paid to wives of partners of a registered firm governed by Portuguese Civil Code aggregating to Rs. 1,24,620 was not disallowed in assessment year 1983-84 (Revenue effect Rs. 79,714).
- (f) Payments exceeding Rs. 2,500 in each case made in cash aggregating to Rs. 83.66 lakhs in assessment year 1985-86 in 8 cases of assesseees for which no justification was forthcoming from the prescribed audit report

were not disallowed (Revenue effect Rs. 45.08 lakhs).

Andhra Pradesh	(a) Short-term capital gains of Rs. 1.5 lakhs was erroneously exempted under Section 54 of the Act (Revenue effect Rs. 75,147). (b) Incorrect allowance of investment allowance on weigh bridge in the hands of a firm engaged in purchase and sale of coal and paper (Revenue effect Rs. 70,733).
Bihar	In the case of a trust which provided for a 25 per cent income to the author of the trust, the author was not assessed on full income of the trust (Revenue effect Rs. 1,98,862).
Madhya Pradesh	Income from sale of a land in small lots by five individuals was not assessed as business income in the hands of an association of persons (Revenue effect Rs. 1,27,313).
Bihar, West Bengal, Assam	Unpaid sales tax and purchase tax were not disallowed (Revenue effect Rs. 3,67,459 in assessment years 1984-85 and 1985-86 in 5 cases).

Refunds

3.1.19 Under the Income-tax Act refunds may be granted in cases where the taxes paid in advance exceed the tax determined on regular assessment. In 1,113 cases in Madhya Pradesh and Bombay Circles, the assessments under the summary assessment procedure resulted in refunds though in the earlier years in the assessment completed under the scrutiny assessment procedure no refunds were due to the assesseees and the assessments had resulted in demands. Besides, in 47 cases in Madhya Pradesh and Haryana Circles, the assessments were completed though the assesseees were new assesseees. In 16 Commissioners' charges test-check revealed that in 6,405 cases large refunds were granted apparently without verification of the genuineness of the certificates| challans for pre-paid taxes.

A test-check was conducted in West Bengal Circle between October 1986 and January 1987 in four income-tax wards under a Special Survey Circle with a view of checking the correctness of refunds issued on the strength of the tax deduction certificates filed with returns, it was revealed that in the regular assessments of income in respect of 102 assesseees for the assessment years 1983-84 to 1985-86 completed in a summary manner between July 1985 and February 1986, a total demand of Rs. 33,848 was raised against the tax deducted at source amounting to Rs. 13,44,304 and the excess of Rs. 13,10,546 was refunded.

Verification in audit of the correctness of the tax deduction certificates filed by these assesseees revealed that the persons who had issued the tax deduction certificates were not borne on the books of the department and were not being assessed. In the circumstances, the genuineness of the Tax Deduction at Source Certificates issued could not be established and the genuineness of the refunds of Rs. 13,10,456 on the basis of the certificates was not susceptible of verification. The tax deducted at source apparently not having been realised, there is also no demand raised of Rs. 33,848.

Reduced demand

3.1.20 In Uttar Pradesh Circle in one Commissioner's charge, the number of assessments completed under the summary assessment procedure in 1985-86 was 1,49,556 as against 1,07,193 in the earlier year 1984-85. Despite the increase in assessments by 39.5 per cent, the demand created dropped by 24 crores (33 per cent) in 1985-86.

Scrutiny assessment procedure

3.1.21 The particulars of the numbers of assessments for disposal, the number of assessments completed and the number of assessments pending for the 3 years from 1983-84 to 1985-86 are as under :

Year	Number of assessments for disposal	Number of assessments completed	Number of assessments pending
1983-84	17,26,476	9,71,654	7,54,822
1984-85	18,16,310	11,13,525	7,02,785
1985-86	7,54,497	4,51,521	2,92,976

The pendency as on 31st March 1986 was 2.93 lakhs against a total of 7.54 lakhs for disposal. The corresponding figures for the earlier 2 years were 7.02 lakhs and 7.55 lakhs as against 18.16 lakhs and 17.26 lakhs. In terms of percentage the pendency for the 3 years 1983-84 to 1985-86 were 4.3, 3.9 and 3.9. Evidently, there is no reduction in the pendency at the end of 1985-86 vis-a-vis 1983-84.

Pendency in Inspection Assistant Commissioner (IACS) charges

The total number of assesseees, the number of assessments for disposal, the number of assessments finalised and the number of pending assessments in respect of the 87 Inspecting Assistant Commissioner (Assessment) charges (test-checked) for the years 1984-85 and 1985-86 are :

Year	No. of assesseees	No. of assessments for disposal	No. of assessments finalised during the year	No. of assessments pending at the end of the year
1984-85	10,534	23,615	10,955	12,660
1985-86	10,882	23,529	11,583	11,946

According to the instructions issued by the Central Board of Direct Taxes in July 1984, the assessing officers in Inspecting Assistant Commissioner (Assessment) charges were required to complete all the pending assessments by 31 March 1986. Out of the pendency of 11,946 cases as on 31 March 1986, 5,018 cases were, however, arrear assessments which should have been finalised by 31 March, 1986.

Disposal Vs. Target

The Board issued instructions in December 1983 that the annual disposal of the cases by the unit of an Inspecting Assistant Commissioner (Assessment) would be a minimum of 75 real income-tax assessments and that the Commissioner of Income-tax would closely monitor the functioning of the assessing officer. The instructions stipulated that the assessment of a firm and its partners and of a company and its directors should be completed simultaneously.

Out of 85 charges test-checked, in 34 charges the annual disposals fell far below the target fixed by the Board and the shortfall in the various charges varied from 43 per cent (32) to 73 per cent (55). In other charges, the quantum of disposal was on an average 192 cases. However, the total number of assessments completed was inclusive of assessments of partners, beneficiaries of trusts, etc., which did not represent real income-tax assessments.

Trend of disposal

The scheme of the Act and the general instructions of the Board regarding completion of regular assessments suggest that there should be no rush of assessments towards the fag end of a year and that the assessing officer should maintain an even flow of disposal of assessments monthly.

The trend of disposal indicated that there is no even distribution of month-wise disposals and a very large number of assessments were always completed during the last 3-4 months, especially during March. Out of 11,583 assessments completed during the year 1985-86, the disposals during the first 8 months was 4,118 cases only the remaining 7,465 assessments were completed during December to March. The total number of assessments completed during March alone was 3,136 cases.

Administrative control

According to the instructions of the Board (August, 1981 and December 1983), the Commissioner of Income-tax will closely monitor the functioning of the Inspecting Assistant Commissioner (Assessment) and conduct an annual inspection of Inspecting Assistant Commissioners (Assessment). In the absence of any information in this regard, the extent of control over the Inspecting Assistant Commissioner's assessments is not verifiable in audit.

3.1.22 Result to test-audit

In their 217th Report (1983-84), the Public Accounts Committee had commented that the institution of the Inspecting Assistant Commissioner (Assessment) had not played the meaningful role expected of them and desired the Ministry of Finance to undertake a study of its functioning. Accordingly, the Board issued instructions in July 1984 and expected the Inspecting Assistant Commissioners to make statutorily and arithmetically correct assessment so that there is no scope for any audit objection of the Internal Audit and Revenue Audit.

Despite the strengthening of the assessment machinery with senior officers of the department, sizeable number of audit objections have been noticed both by the Internal Audit and Statutory Audit. The total number of such objections raised during the year 1985-86 was 1,917 involving under charge of tax of Rs. 80.14 crores. Of these under-charge of tax of Rs. 68.17 crores in 11,479 cases was pointed out by the Revenue Audit alone. These mistakes were detected in 10,035 cases produced for audit out of 11,537 cases selected for audit during the year.

The test-audit also indicated that a substantial part of the additions made in assessments was disputed in appeal and the post assessments collection was comparatively very small.

Non-production of records

3.1.23 There are instructions of the Board (1977) that the assessing officer should exercise adequate supervisory control to ensure that cases required by Revenue Audit Parties are made available to them in time and that on no account should any record be withheld from audit. During the year 1985-86, however, 1502 cases called for, were not produced for scrutiny in audit.

Emphasising the need for intensive scrutiny in certain selected cases, the Board issued instructions in November 1983 stating that Commissioners and Inspecting Assistant Commissioners should actively associate themselves in pre-assessment scrutiny in some selected cases and drafting of questionnaires and that it would include watching of the important events in 100 top cases. The Board also instructed that the Director General (Investigation) will watch the progress made in the top 100 cases of the country for efficient supervision and control over the work.

The information regarding the list of the top 100 cases were not produced to audit in 6 Commissioners' charges test-checked. One Commissioner of Income-tax reported that no separate record is being maintained about the various instructions issued by the Inspecting Assistant Commissioners to Income-tax Officers in the completion of the assessments. In three other Commissioners' charges the required number of cases was generally not selected and there was also no proper follow-up action taken regarding issue of instructions in respect of the cases selected.

The paragraph was referred to the Ministry of Finance for comments in September 1987; the reply from the Government has not so far been received (15 December 1987).

ANNEXURE 2

Provision of Section 143 of the Income Tax Act as amended by the Direct Tax Laws (Amendment Act, 1987)

48. For section 143 of the Income-tax Act, the following section shall be substituted, namely :—

“143. (1) (a) Where a return has been made under section 139, or in response to a notice under sub-section (1) of section 142,—

(i) if any tax or interest is found due on the basis of such return, after adjustment of any tax deducted at source, any advance tax paid and any amount paid otherwise by way of tax or interest, then, without prejudice to the provisions of sub-section (2), an intimation shall be sent to the assessee specifying the sum so payable, and such intimation shall be deemed to be a notice of demand issued under section 156 and all the provisions of this Act shall apply accordingly; and

(ii) if any refund is due on the basis of such return, it shall be granted to the assessee. Provided that in computing the tax or interest payable by, or refundable to, the assessee, the following adjustments shall be made in the income or loss declared in the return, namely :—

(i) any arithmetical errors in the return, accounts or documents accompanying it shall be rectified;

(ii) any loss carried forward, deduction allowance or relief, claimed in the returns which, on the basis of the information available in such return, accounts or documents, is *prima facie* admissible but which is not claimed in the return, shall be allowed;

(iii) any loss carried forward, deduction, allowance or relief claimed in the return, which, on the basis of the information available in such return, accounts or documents, is *prima facie* inadmissible, shall be disallowed.

(b) Where, as a result of an order made under section 147 or section 154 or section 155 or section 250 or section 254 or section 260 or section 262 or section 263 or section 264, or any order of settlement made under sub-section (4) of section 245D relating to any earlier assessment year and passed subsequent to the filing of the return referred to in clause (a), there is any variation in the carry forward loss, deduction, allowance or relief claimed in the return, and as a result of which,—

(i) if any tax or interest is found due, an intimation shall be sent to the assessee specifying the sum so payable, and such intima-

tion shall be deemed to be a notice of demand issued under section 156 and all the provisions of this Act shall apply accordingly, and

(ii) if any refund is due, it shall be granted to the assessee :

Provided that an intimation for any tax or interest due under this clause shall not be sent after the expiry of four years from the end of the financial year in which any such order was passed.

- (2) In a case referred to in sub-section (1), if the Assessing Officer considers it necessary or expedient to ensure that the assessee has not understood the income or has not computed excessive loss or has not under-paid the tax in any manner, he shall serve on the assessee a notice requiring him on a date to be specified therein, either to attend his office or to produce, or cause to be produced there, any evidence on which the assessee may rely in support of the return :

Provided that no notice under this sub-section shall be served on the assessee after the expiry of the financial year in which the return is furnished or the expiry of six months from the end of the month in which the return is furnished, whichever is later.

- (3) On the day specified in the notice issued under sub-section (2), or as soon afterwards as may be, after hearing such evidence as the assessee may produce and such other evidence as the Assessing Officer may require on specified points, and after taking into account all relevant material which he has gathered, the Assessing Officer shall, by an order in writing, make an assessment of the total income or loss of the assessee, and determine the sums payable by him on the basis of such assessment."

ANNEXURE 3

Copy of CBDT's instructions dated 18 May, 1985

During the Commissioners' Conference, 1985, certain recommendations were made to speed up the disposal of income-tax assessments with the manpower available and to reduce the ever increasing backlog. The recommendations made in this Conference have been examined by the Board and I am directed to say that in supersession of all existing instructions on the subject, the following procedure will now be adopted.

2. Assessments in the following types of cases will be completed under section 143(1) of the Income-tax Act, 1961 on the basis of the returns after linking them with the assessment records :

- (a) All cases other than company and trust cases, with returned income/loss upto Rs. 1 lakh;
- (b) Company cases with returned income/loss upto Rs. 25,000 and paid up capital not exceeding Rs. 5 lakhs;

However, the first assessment in all new company cases will be a scrutiny assessment.

- (c) All trust cases and cases of charitable institutions having income below Rs. 1 lakh before applying the provisions of section 11 of the Act provided the corpus of the trust does not exceed Rs. 5 lakhs.

However, the first assessment in all trust cases will be scrutiny assessment.

3. In the above cases, the arithmetical accuracy of computation of total income and taxes will be ensured and liability for penalty, interest C.D.S. etc. if any, will also be checked. No other checking of any sort will be necessary. All pending assessments in such cases will also be completed in the same manner alongwith the current assessments.

4. However, cases assigned to I.A.Cs (Assessment), Central Circles, Special Investigation Circles, Special Circles, Search and Seizure cases, cases re-opened under section 147 and those selected for scrutiny on a random sample basis, etc. will not come under the purview of this scheme.

5. All other cases (i.e. cases where the assessments are not to be completed in a summary manner), will be dealt with under the normal procedure of law.

6. When assessments in cases mentioned in above are completed under section 143(1) of the Act and there is no additional demand or refund, demand notices and copies of assessment orders will not be issued but an intimation that the assessment has been completed under section 143(1) resulting in 'nil' demand|refund will be issued in the attached form. This intimation may be got printed in the form of an inland letter and issued after writing the name and address of the assessee.

7. Summary and scrutiny cases should be entered separately in the Demand and Collection Registers.

8. The intimation of penalty proceedings|completion of penalty proceedings already initiated will be governed by the instructions which are being issued separately. However, interest under the relevant provisions will be levied.

9. Five per cent of the cases where assessments are completed in a summary manner will be taken up for scrutiny on a random sample basis. The Commissioners shall lay down the random number and the I.J.Os. should complete selection of cases for random scrutiny by 31st August of the year. This should be done under the supervision of the I.A.C. The number of cases selected and disposed of should be shown separately in the Central Action Plan-II Statement. The instructions laid down for completion of assessments in cases selected for scrutiny on random basis will continue to be observed.

10. The above instructions will come into effect immediately. These may kindly be brought to the notice of all the officers working in your charge.

11. Hindi version will follow.

ANNEXURE 4

*Copy of CBDT's Circular No. 47 (D.O. F. No. 17/1/86-OD-DOMS)
dated the 8th July, 1986*

SUBJECT : Action Plan for 1986-87

Action Plan for 1986-87 has been finalised. The targets have been determined after taking into account available resources and past performance (Annexure-I). There are many areas of work which have not been included in the Action Plan. Those areas have to be taken into care of by the Commissioners at their own level.

2. It is important that the available manpower is deployed with a view to obtaining the best results. For this purpose, work norms in respect of the important areas are given in Annexure-II. The available manpower should be deployed and workload distributed strictly in accordance with these norms. The quantum of work for each assessing Officer should be fixed in terms of absolute numbers. As an Administrator, you have to ensure that no officer is under-worked or over-worked at any time. This exercise should be undertaken immediately and the results reported by 31st July, 1986 in the prescribed proforma (Annexure-III) to DOMS.

3. In order to bring the workload of scrutiny cases under control, it has been now decided to extend the summary assessment scheme to W.T. also. Instructions in this regard are being issued by the Board separately. Another step in this direction is the decision to dispose of all brought forward sample scrutiny cases summarily. The number of sample scrutiny cases has also been reduced considerably. If you read the instructions in Annexure-II carefully and organise your work accordingly, you would be able to achieve all the targets laid down in the Action Plan without any difficulty.

4. It is necessary to ensure that all the pending summary assessments are disposed of well before 31-3-87. For this purpose, you may constitute special squads and ask the IACs to supervise them personally. Please ensure that incomplete disposal under the Summary Assessment Scheme does not create come-back jobs like failure to adjust pre-paid taxes etc.

5. The Action Plan for 1986-87 shall apply to the Central Charges also. For these charges, however, there would be no target in regard to the reduction of current I.T. demand.

6. I may add that there should be no delay in the submission of Quarterly Control Statement and Monthly Telegraphic Reports in respect of CAP-I & CAP-II. This information has now to be fed into the personal computer of the Finance Minister who reviews the performance of the department every month.

(Note : Annexures to this circular not attached).

ANNEXURE 5

Copy of CBDT's Instructions dated 1-4-87

Instruction No. 1753

Sample Scrutiny—Instructions regarding—

Attention is invited to Instruction No. 1072 dated 1-7-1977 on the above subject. At para 15 of this Instruction it was stated as follows :—

“Some of the cases in which assessments have been made under the summary assessment scheme should be picked up for scrutiny. This should not be done by reopening under section 143(2)(b) an assessment already complete in summary manner under section 143(1). The scrutiny should relate to the assessment which will be taken up in the following year.”

The same instruction was reiterated in Board's instructions No. 1173 dated 8-5-1978. Further as per the existing procedure, as laid down in Instruction No. 1072 and reiterated in Instruction No. 1381 dated 5-2-1981 and 1508 dated 13-5-1983, cases for sample scrutiny are to be selected in the month of August in every financial year.

2. In view of the decision to computerise summary assessments from the financial year 1987-88, in place where computers have been introduced it is intended to centralise receipt of returns and forward all returns failing under the summary assessment scheme to the Computer Centre for processing. Thus it may be difficult to segregate the returns relating to the cases chosen for sample scrutiny. It is also possible that in some cases assessments would have been completed before August when cases are chosen for sample scrutiny.

3. In this background Board have re-examined the procedure for selecting cases for sample scrutiny and it has been decided that in cases chosen for sample scrutiny, if the assessment has already been completed under section 143(1) by the Computer, the proceedings should be reopened under section 143(2)(b) of the Income-tax Act in scrutiny. The existing instructions on the subject are, therefore, modified to this extent only.

4. These Instructions may be brought to the notice of all the officers working under you.

[F. No. 201/10/87-ITA(II) dt. 1-4-1987 from Central Board of
Direct Taxes]

ANNEXURE 6

Statement of Conclusions and Recommendations

Sl. No.	Para No.	Ministry/ Deptt. concerned	Recommendations and Conclusions
1	2	3	4
1.	2.20 to 2.22	Deptt. of Revenue	<p>The Committee note that as a result of amendment to Section 143 of the Income-tax Act effective from 1 April, 1971, the assessing officers were authorised to rectify arithmetical errors, allow/disallow deductions, allowances, reliefs etc. and finalise assessments; in a summary manner in cases to be decided in their best judgment; these discretions are without prejudice to the right of the assessing officers, if the circumstances of the cases warranted, for treatment as scrutiny assessment under sub-section (2) of the same Section. The Committee also note that under the Finance Act 1980, the powers of assessing officers to allow/disallow deductions, allowances, relief etc. were withdrawn. The Committee are shocked to note that by utilising the administrative powers vested in Government under Section 119, the CBDT gave instructions in May 1985 (Instruction No. 1671) to the effect that only the arithmetical accuracy of computation of total income and taxes will be ensured, liabilities for penalty, interest, C.D.S. etc. will be checked and that "<i>no other checking of any sort will be necessary</i>" in majority of the cases prescribed thereunder for summary assessment. The Committee are of the opinion that the instructions in 1985 underlined above are at variance with the spirit and latter of the legal provisions contained in Section 5 under which tax is to be charged in respect of the total income as compared in the manner laid down under the Act and section 143 of the Act and have eroded the powers of the assessing officers substantially.</p>

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The Committee are equally taken a back by the directive in July 1986 that assessments once done under Section 143(1) should not be disturbed. In regard to these instructions, the Ministry themselves have observed that the instructions "may be said to be not so consistent with the basic provisions of the Act". The Committee strongly deprecate the action of CBDT for the exercise of executive powers in such a way that the legal provisions themselves are eroded and recommend that appropriate action be taken against those responsible for issue of such instructions which amended the basic structure of Law itself. The Committee feel and recommend that all such instructions which are inconsistent with Law must be withdrawn forthwith and that all such instructions should be vetted by Ministry of Law before issue.

The Committee note that from time to time instructions have been given to enlarge coverage under summary scheme and the effect of the instructions has been to take away accumulated arrears of assessment under scrutiny scheme into summary assessment scheme. The consequence of such instructions is that the treatment meted out to the assessee of same assessment year has not been uniform and varied with reference to instructions as operative when the actual assessment is taken up. As a result of such instructions, a premium has been placed over the inefficient assessing officers who have tended to accumulate arrears. On the other hand, the Committee are strongly of the opinion that a consistent set of instructions must apply for all cases relating to a particular assessment year, irrespective of the date on which the assessment is taken up by the assessing authority for examination and that it would not be proper to modify the instructions during the course of an assessment year. This would avoid differences in treatment between one set of assessee and others relating to same assessment year. In the circumstances, the committee recommended that before the commencement of every assessment year, the instructions as applicable should be reviewed and a

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uniform set of instructions issued for compliance by all assessing officers for cases relating to that assessing year and that no changes should be made to these instructions thereafter for assessment of cases relating to that assessment year.

2. 3.11 Deptt. of Revenue

The Committee note that the bulk of the assessment cases do not involve substantial points of dispute and that the income returned is to be subjected to only routine adjustment so as to correct obvious errors. The Committee also note that in the past, the average number of cases handled under scrutiny was about 1500 by each assessing officer. In the circumstances, the Committee are not convinced with the stand of the Ministry that an assessing officer is capable of doing only 100 scrutiny cases, that balance has to be taken under summary scheme without any scrutiny and that for conducting scrutiny in all cases as many as 70,000 assessing officers would be needed. The Committee consider it unfortunate that the work study in this regard which has been conducted is based on statistical data furnished by the assessing officers themselves, the Committee do not consider this basis for work study acceptable. The work study has also failed to take note that the assessing officers are assisted by subordinate staff like inspectors who carry out a large part of routine and clerical work in examining the returns. The Committee consider it unfortunate that an objective assessment of the work load has not been done. The Committee do not approve of the manner in which the study was conducted and recommend that a work study team of the Department of Personnel may be entrusted with an objective study on the workload of assessing officers by an actual watch on the performance, the expected turnover of assisting staff and to draw up the requirement of staff in an objective way. In conducting the study, the Committee recommend that past performances as in operation prior to relaxations of summary assessment scheme may be duly taken note of and conclusions related to those facts also.

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3.	3.12	Deptt. of Revenue	<p>The Committee are surprised at the same time to note that as against 2,764 assessing officers in 1980-81 to deal with 65.91 lakh assessment, the number of assessing officers in 1987-88 stood at only 2,717 to deal with 75.73 lakh assessments. As failure to provide additional staff to cope up with increased work load can only result in dilution of quality of work, the Committee recommend that a study of the staff needs of the Income-tax Department might be conducted for ensuring proper administration of the Act.</p>
4.	3.13	-do-	<p>The Committee are deeply concerned to note that despite substantial relaxations made in the treatment of assessment cases as summary assessments whereby over 97% of cases are stated to be covered under summary scheme, the pendency of assessment which was 12.56 lakh cases in 1984-85 has only marginally come down to 11.08 lakh cases in 1987-88. Having regard to the diluted checks expected in respect of Section 143(1) assessments, the committee find no justification for such a large number of arrears and recommend that the Ministry may conduct an investigation on the reasons for such large outstandings and take appropriate measures under intimation to the Committee, to liquidate the arrears.</p>
5.	4.12	-do	<p>The Committee note that the Ministry have attributed the increases in prosecution, survey, number of assesses, tax collections etc., to the implementation of the summary assessment scheme. On the other hand, when asked to identify the increase in assessment cases and tax collections as attributable to the scheme, the Ministry have expressed inability to support their claim with facts and figures. The Committee disapprove the practice of the Ministry in making claims of success without any basic data to support the claims.</p>
6.	4.13 to 4.14	-do-	<p>The Committee note, on the other hand that (i) most of the assesses appear to fall in the lowest taxable slab of taxable income and hence increase in assesses is more attributable to increases in level of income rather than the Scheme;</p>

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- (ii) The highest percentage of increase in collection was reached in 1986 in which year a special scheme for voluntary disclosure was brought into operation;
- (iii) the reported diversion of staff for search and seizure has not resulted in any noticeable increase in income because value of assets seized was only Rs. 145.02 crores (tax effect not given) in 1987-88, which worked out to hardly 2% of tax collections of that year.
- (iv) the very officers who are to implement the scheme have no faith in the scheme and are highly sceptical of its achievements as revealed from the representation received from All India Federation of Income-tax Gazetted Services Association.

The Committee, hence strongly recommend that a relook into the effectiveness of the scheme may be conducted preferably by reputed experts in the field including economists (but not by the concerned Ministry/CBDT). Pending such an examination the Committee recommend that the extent of coverage under scrutiny assessment scheme should be substantially increased.

The Committee consider it unfortunate in this regard that whereas the Chairman, CBDT informed the Committee during evidence that the Ministry possessed details of tax payers relating to various slabs, the Ministry have failed to give the data when called for stating that the data is "not readily available". The Committee recommend that the Ministry/CBDT may compile appropriate details without delay, conduct a critical study on extent of increases in assesseees etc. and give comprehensive data to the Committee.

7. 5.4 Deptt. of Revenue

The Ministry have claimed that to guard against misuse or abuse of summary assessment scheme, a sample scrutiny system for 5 per cent of cases covered under the summary assessment scheme was introduced in 1984

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(reiterated in 1985). The sample scrutiny in the opinion of the Committee can also help in assessing objectively the utility and effectiveness of the summary assessment scheme both by the Commissioners in their respective jurisdiction and by the Ministry based on reports from the Commissioners. While the Committee deplore the failure of the Commissioners to implement the directives, what is more perturbing to the Committee, is the apathy shown by the Ministry in conducting a review of the scheme based on such random sampling checks. The Committee consider the observations of Ministry in this regard (viz. "it may be that such procedures has not been strictly followed at certain places/charges") as highly unfortunate and one lacking in accountability for successful implementation of the scheme. The Committee recommend that, notwithstanding the lapse of sufficient time, the Ministry may ensure implementation of the instructions by all Commissioners by a time bound programme, for all past periods obtain the results of such implementation and make an assessment of the scheme, based on such sample survey reports. The Committee also recommend that the results of such assessment may be intimated to the Committee within a period of six months. The Ministry may also intimate the action taken against those who failed to implement the instructions for so long.

8. 6.8 Deptt. of
to Revenue
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Income-tax Audit, whether it is done by internal audit wing of the CBDT or by statutory audit by the Comptroller and Auditor General is based only on the returns submitted by the assesseees and records already available with the tax authorities; in other words, neither internal audit nor statutory audit involves summoning of additional records and/or the assesseees themselves. In the circumstances, the irregularities, under assessments etc. that are pointed out by Audit, in the opinion of the Committee, can have nothing to do with scrutiny assessment under Section 143(2), but on the other hand, are directly indicative of the failures of the assessing officers in carrying out the summary assessments in a proper way. The

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Committee are not, therefore able to appreciate the stand of the Ministry on its unwillingness to take follow-up action nor on the provocation for the arrangement detailed in Audit's letter of March 1986. The Committee, however, note that the arrangement as agreed to in March 1986 by Audit did provide for Audit to convey a gist of objections to the Commissioners concerned, the implication being that the Commissioners would take follow-up action. Notwithstanding this, the Committee are shocked to note that CBDT directed in August 1987 that no follow-up action should be taken in any of the cases. The directions of the CBDT to say the least, are highly improper and irregular, apart from the fact that such directions compromised loss of revenue to the extent of over Rs. 8 crores, in only 5,800 cases. Though in response to Committee's enquiry, in respect of cases cited by Audit, some action is reported to have been taken, the information as given, has failed to indicate in how many cases, follow-up action has been taken, to what extent, additional revenue has been raised, etc. The Committee recommend that in respect of all cases commented in the Audit paragraph, follow-up action may be taken and a compliance report duly vetted by Audit, furnished within a period of six months.

The Committee note that the irregularities were noticed by Audit in the very records subject to assessment by the assessing officers). the Committee desire that the instructions of 26 August, 1987 for stoppage of all action on audit findings in summary assessment cases be withdrawn forthwith. The Committee strongly deprecate the issue of such instructions and recommend that exemplary action be taken against those responsible for the issue of such improper circulars and a report be given to the Committee within a period of three months.

9. 6.10 Deptt. of Revenue

The Committee are equally shocked to note that even refunds of revenue were granted on cases covered under summary assessment schemes without verifying the fact regarding actual remittance of the tax by the claimants.

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			<p>What is more surprising is the tacit support given for the irregularity by the Ministry. The Committee strongly deplore the stand of the Ministry and recommend that in no case refund shall be authorised without ensuring the actual remittance of the tax. The Committee also recommend that all the cases commented by Audit in this regard must be fully investigated and result intimated.</p>
10.	6.11	Deptt. of Revenue	<p>As over 9% of assessment cases are now being dealt with in a summary manner, the Committee consider it imperative that the manner in which such cases are dealt with, will have to be subjected to both internal and statutory audit. The Committee recommend that the arrangement for both internal and statutory audit may be reviewed in consultation with the C&AG and both audits for summary assessment cases placed on a sound footing.</p>
11.	7.4	-Do-	<p>The Committee are concerned to note that while on the one hand for summary assessment cases, the Commissioners have failed to take action either to ensure prescribed percentage of sample survey or to follow up audit findings, on the other hand, the prescribed data for important scrutiny assessment cases, are not properly maintained. The Committee are not fully convinced by the clarifications given and feel that the administrative machinery needs to be revamped so as to ensure accountability for compliance of instructions. The Committee fervently hope that the Ministry will take appropriate positive steps to see that its directives are complied, both in letter and in spirit.</p>
12.	8	-Do-	<p>Having considered (i) the audit paragraph, (ii) the material furnished by the Ministry from time to time, (iii) the evidences tendered by the officials of the Ministry, (iv) on the spot study by the Committee at Calcutta, Bombay and Trivandrum, (v) the representations received by the Committee, etc. the Committee are convinced that the applicability of the summary assessment scheme has been enlarged beyond</p>

the scope envisaged in the Act, by use of the administrative powers vested in Section 119 of the Act. In doing so, the Committee are concerned to note that the only basic objective which has guided the Ministry to take decision has been "to manage the ever increasing workload of the Department with limited manpower resources" and that the decision is not also based on any reliable data or scientific study and has failed to take note of the substantial loss of revenue. It is a matter of deep regret that in doing so, the Ministry even failed not only to provide adequate counter checks so as to control, if not totally avoid, leakage of revenue by possible concealment of income, but also to ensure that even the limited checks which were provided under the scheme, were properly implemented. It is equally important that the summary assessment cases should not have been taken out of the purview of internal audit and appropriate action ought to have been taken on the findings of statutory audit. The consequence has been that evasion of tax to the extent of over Rs. 8 crores in about 5,800 cases test-checked, was allowed to remain without remedial action. The Committee are equally concerned to note that the reported diversion of staff to intensive scrutiny, search, seizure etc. so as to unearth concealed income, black money has also failed to achieve their objective to any noticeable extent. In the Circumstances, the Committee consider it imperative that a review of administrative action on the legal provisions may be taken up and appropriate remedial measures taken.

