

**ASSESSMENT PROCEDURE—
SUMMARY AND SCRUTINY
ASSESSMENT**

MINISTRY OF FINANCE

**PUBLIC ACCOUNTS
COMMITTEE
1991-92**

TENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

THIRTEENTH REPORT
PUBLIC ACCOUNTS COMMITTEE
(1991-92)

(TENTH LOK SABHA)

ASSESSMENT PROCEDURE—SUMMARY AND
SCRUTINY ASSESSMENT

MINISTRY OF FINANCE

[Action taken on 173rd Report of Public Accounts Committee
(8th Lok Sabha)]



Presented in Lok Sabha on 18 March, 1992

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LOK SABHA SECRETARIAT
NEW DELHI

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(1991-92)**

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INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Thirteenth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 173rd Report (8th Lok Sabha) on Assessment Procedure—Summary and Scrutiny Assessment.

2. Observing that follow up action had not been taken in all cases, where irregularities had been pointed out by Audit, the Committee in their earlier Report had recommended that in respect of all cases commented on in Audit Paragraph, follow-up action be taken and a compliance Report, duly vetted by Audit furnished within a period of 6 months. The Ministry have stated that remedial action has been taken in respect of cases where the mistakes pointed out by Audit related to the adjustments prescribed under Section 143(1) of the Income-tax Act. With regard to the remaining cases the Ministry have stated that mistakes are either outside the purview of the prescribed adjustments under Section 143(1) of the Income-tax Act or they involve conversion of summary assessment into scrutiny assessment and remedial action in respect of these mistakes would be discriminatory *vis-a-vis* other tax-payers. Section 143(2)(b) of the said Act contains specific provisions which enables an assessing officer to reopen assessment completed in a summary manner in order to verify the correctness and completeness of the return. The Committee, therefore, do not agree with the Ministry's view-point.

3. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 24 January, 1992. Minutes of the sitting form Part II of the Report.

4. For facility of reference and convenience, the 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 the Appendix to the Report.

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

NEW DELHI;
12 February, 1992

23 Magha, 1913 (Saka)

ATAL BIHARI VAJPAYEE,
Chairman,

Public Accounts Committee.

CHAPTER I

REPORT

1.1. This Report of the Committee deals with the action taken by the Government on the recommendations/observations contained in their Report* on Assessment Procedure—Summary and Scrutiny Assessment.

1.2 The 173rd Report which was presented to Lok Sabha on 11.8.1989 contained 12 recommendations/observations. Action Taken Notes have been received in respect of all these recommendations/observations which have been broadly categorised as under:

- (i) Recommendations and observations which have been accepted by Government;
Sl. Nos. 1 (Para 2.22), 2, 3, 4, 6 (Paras 4.13 & 4.14), 10, 11 and 12.
- (ii) Recommendations and observations which the Committee do not desire to pursue in the light of the replies received from the Government;
Sl. Nos. 1 (Paras 2.20 and 2.21), 5 and 7.
- (iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration;
Sl. No. 8.
- (iv) Recommendations and observations in respect of which Government have furnished interim replies;
Sl. No. 9.

1.3 The Committee hope that final reply to the recommendation at Sl. No. 9 in respect of which only interim reply has so far been furnished will be submitted expeditiously after getting the same vetted by Audit.

1.4 In the succeeding Paragraphs the Committee will deal with the action taken on some of their recommendations.

Remedial action in respect of the summary assessment cases detected by Audit

(Sl. No. 8—Paras 6.8 & 6.9)

1.5 A test check of summary assessment cases conducted by Audit had revealed escapement of tax to the tune of more than Rs. 8 crores in 5800 cases. Emphasizing the need for taking follow-up action in these cases,

* 173rd Report (8th Lok Sabha) on Paragraph 3.1 of the Report No. 6 of the C&AG of India for the year ended 31 March, 1987, Union Govt. (Revenue Receipts—Direct Taxes).

the Committee in Paras 6.8 and 6.9 of their 173rd Report had recommended as follows:

“Income-tax Audit, whether it is done by internal audit wing of the CBDT or by statutory audit by the Comptroller & Auditor General is based only on the returns submitted by the assessee 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 assessee 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 audits 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 objection 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 audit para 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.”

1.6 In their action taken note dated 29.8.1990, Ministry of Finance (Dept. of Revenue) have stated as under:

"In making a summary assessment, the Assessing Officer is empowered to make only the prescribed adjustments u/s 143(1) of the Income-tax Act. It follows that if there has been any mistake or omission on the part of the Assessing Officer in making the prescribed adjustments, it would call for remedial action either *suo moto* or on the mistake or omission being pointed out by the Revenue Audit. However, if the mistake or omission is beyond the scope of the legal provisions of section 143(1) or is of such a nature that it calls for scrutiny of the case which could be done only by converting the summary assessment into a scrutiny assessment, there would be no legal justification for doing so or for taking remedial action.

Follow up action in respect of cases commented upon in the audit para has been taken in the light of the above policy of the Government. From comments given in Annexure—I it will be seen that the remedial action has been taken in respect of cases where the mistakes pointed out by audit related to the adjustments prescribed under section 143(1) of the Act. In the remaining cases, mistakes are either outside the purview of the prescribed adjustments under section 143(1) or they involve conversion of summary assessment into scrutiny assessment. Here, it will be pertinent to mention that during the relevant period when these mistakes or omissions were pointed out, there were no provisions under section 143(1) of the Act for making adjustments in respect of *prima facie* admissible and inadmissible claims. These provisions had been deleted by the Finance (No. 2) Act, 1980 w.e.f. 1.4.1980. Wherever the mistakes pointed out by Audit are beyond the scope of prescribed adjustments, there has been no failure on the part of the assessing officer in making summary assessments in a proper way. It would, therefore, not be proper to take remedial action in respect of these mistakes. Besides, remedial action in respect of these mistakes would be discriminatory *vis-a-vis* other tax payers. Section 143(1) of the Income-tax Act has been amended w.e.f. 1.4.1980. Under the amended provisions of section 143(1), the assessing officer is now entitled to make adjustments in respect of both *prima facie* admissible and inadmissible items. In the result, the mistakes which were earlier pointed out by the Receipt Audit and for which remedial action was not possible, will now be taken care of by these adjustments.

As regards circular No. 176 dated 26.8.87, it was issued in the context of certain mistakes which did not fall within the purview of

permissible adjustments under section 143(1) of the Income-tax Act. The point for consideration was whether remedial action in respect of such mistakes should be taken by resorting to the provisions of Section 263 of the Act. In view of the policy of the Government regarding the summary assessment scheme, it was decided that no remedial action may be taken in such cases. Hence it will not be appropriate to hold any particular officer or officers responsible for this policy.

In view of the foregoing, the recommendations of the Committee have not been found acceptable.

This has the approval of the Minister of Finance."

1.7 Audit gave the following comments on the above action taken note furnished by the Ministry of Finance:

"The reply does not enlighten the Committee on anything new other than what was placed before the Committee during evidence. The Ministry are of the view that remedial action in respect of points not covered by the prescribed adjustments would be discriminating certain tax payers *vis-a-vis* other tax payers and that it would amount to converting a summary assessment into a scrutiny assessment.

Section 143(2) (b) contains specific provisions which enable an assessing officer to re-open an assessment completed in a summary manner in order to verify the correctness and completeness of the return. This provisions will apply in cases of audit objections pointing out errors not covered by the prescribed adjustments and any re-opening would be perfectly legal.

Besides, there will be nothing discriminatory as the assessee had failed to return the true and correct income or had claimed excess or incorrect allowance or deduction within the meaning of Section 143(3) — Explanation. It may be stated that scrutiny assessment of a few cases on the basis of income limits and all others in a summary manner, is itself discriminatory as it places both the honest and not so honest assessee with the same income, on par."

1.8 In reply to the Audit comments, the Ministry of Finance in their subsequent note furnished on 2.7.1991, have stated as follows:

"It has already been clarified in the Ministry's comments on this para that the remedial action has been taken in respect of cases where the mistakes pointed out by audit related to the adjustments prescribed u/s. 143(1).

As regards, the remaining cases, remedial action involved conversion of summary assessment into scrutiny assessment. As

already mentioned in the Ministry's comments, in view of the policy of the Government regarding the Summary Assessment Scheme, it was decided that no remedial action may be taken in such cases."

1.9 Observing that follow up action had not been taken in all cases, where irregularities had been pointed out by Audit, the Committee in their earlier Report had recommended that in respect of all cases commented on it Audit Paragraph, follow-up action be taken and a compliance Report, duly vetted by Audit furnished within a period of 6 months. The Ministry in their action taken note have stated that remedial action has been taken in respect of cases where the mistakes pointed out by Audit related to the adjustments prescribed under section 143(1) of the Income-tax Act. With regard to the remaining cases the Ministry have stated that mistakes are either outside the purview of the prescribed adjustments under section 143(1) of the Income-tax Act or they involve conversion of summary assessment into scrutiny assessment. Further, according to the Ministry remedial action in respect of these mistakes would be discriminatory vis-a-vis other tax-payers. Section 143(2) (b) of the said Act contains specific provisions which enables an assessing officer to reopen assessment completed in a summary manner in order to verify the correctness and completeness of the return. The Committee, therefore, do not agree with the Ministry's view-point.

Implementation of the recommendations accepted by the Government

1.10 The following recommendations made by the Public Accounts Committee in Paragraphs 2.20, 3.11, 3.12, 3.13, 4.13, 4.14 and 6.11 Serial Nos. 1, 2, 3, 4, 6 and 10 of their 173rd Report had been accepted by the Government:—
the Government:-

Para No. of 173rd Report	Recommendation of the Committee	Proposed action by the Government
1	2	3
Sl. No.1 (Para 2.22)	Application of a uniform set of instructions to all cases for a particular assessment period.	The recommendation has been accepted in principle by the Government. However, the Ministry have stated that it may not be practicable to issue all such instructions before the commencement of each assessment year but the Board would make every endeavour to ensure that such instructions are issued as early as possible.

1

2

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Sl. No. 2 (Para 3.11)	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 assessing staff and to draw up the requirement of staff in an objective way.	The Directorate of Organisation and Management Services have been requested to conduct the said study.
Sl. No.3 (Para 3.12)	Conducting of a study of the staff needs of the Income-tax Department for ensuring proper administration of the Income-tax Act.	A Standing Cadre Review Committee was set up by Central Board of Direct Taxes in 1988 under the Chairmanship of the Director General of Income-tax (Admn.) for review the cadres of the grade B, C and D in Income-tax Department.
Sl. No. 4 (Para 3.13)	The Ministry should conduct an investigation on the reasons for very large outstandings and take appropriate measures.	Accepted by the Government.
Sl. No. 6 (Paras 4.13 & 4.14)	Relook into the effectiveness of the summary assessment scheme may be conducted preferably by reputed experts in the field including economists but not by the concerned Ministry/CBDT.	The said study has been entrusted to the National Institute of Public Finance and Policy. Their report is still awaited.
Sl. No. 10 (Para 6.11)	Review of the arrangements both for internal and statutory audit in consultation with the C&AG.	Arrangement for audit of cases completed under summary assessment scheme by the internal audit has been reviewed. As regards arrangements for audit of cases completed under summary assessment scheme by receipt audit, consultations to sort out the issues have been held with them.

1.11 The Committee find that a number of recommendations made by the Committee in their 173rd Report as brought out in the preceding paragraph have been accepted by the Government, in principle. The actual implementation of these recommendations, however, depends on the outcome of the subsequent follow up action. The Committee recommend that necessary follow up action in respect of all these

recommendations should be completed expeditiously so that these recommendations are implemented both in letter and spirit. The Committee would like to be apprised of the latest position in this regard within a period of six months.

CHAPTER II

RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY GOVERNMENT

• Recommendation

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 assessees 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 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 assessees 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.

[S. No. 1, (Para 2.22) of Annexure VI to the 173rd Report of the P.A.C. (Eighth Lok Sabha)]

Action Taken

The recommendation of the Committee that a uniform set of instructions must apply to all cases for a particular assessment year is acceptable in principle. While, it may not be practicable to issue all such instructions before the commencement of each assessment year, the Board would make.

every endeavour to ensure that such instructions are issued as early as possible.

[Ministry of Finance F. No. 241/3/89-A & PAC II dated 29 August, 1990]

Recommendation

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 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.

[S. No. 2, (Para 3.11) of Annexure VI to the 173rd Report of the P.A.C.(Eighth Lok Sabha)]

Action Taken

The Committee has recommended that a work study team of the Department of Personnel may be entrusted with an objective study on the work load of Assessing Officers by an actual watch on the performance, the expected turnover of assisting staff and to draw up the requirements of the staff in an objective way. In conducting the study,

the Committee has recommended that past, performance, as in operation prior to relaxation of summary Assessment Scheme, may be duly taken note of and conclusions related to those facts also. The Committee has made this recommendation as it not convinced with the stand of the Ministry that an Assessing Officer is capable of doing only 100 scrutiny cases and that the balance have to be done in a summary manner.

2. The intention behind restricting the number of cases to be scrutinised by Assessing Officers is that it is expected to improve the quality of assessment orders, by allowing the Assessing Officers to devote more time for deeper scrutiny and investigation of selected cases. Quality assessments in such selected cases would constitute an effective deterrent against tax evasion, thereby inducing tax-payers to voluntarily declare correct and complete income. If the number of scrutiny assessments is increased, the quality of scrutiny and investigation would inevitably suffer, thus detracting from the basic rationale under the scheme of summary assessments.

3. It also needs to be mentioned that complexities of law, the court decisions, the desire to make the income-tax and other direct taxes Acts as an effective instrument to bring about socio-economic changes, the ever increasing ingenuity of the tax payers to avoid/evade taxes and various other such factors have made the task of assessment quite complicated and time consuming. Therefore, the Assessing Officers have to devote considerable time in marshalling legal and factual issues and making investigation concerning scrutiny assessments. Thus, therefore more cases cannot be picked up if a thorough job in making assessments is to be done. Nonetheless, the Central Board of Direct Taxes will examine whether the number of 100 can be increased further.

4. With effect from 1st April, 1989, the assessment procedure has been substantially modified. Under the new provisions of section 143(1)(a), all returns of income will be subjected to a preliminary check, enabling the Assessing Officer to make *prima facie* adjustments. The adjustments required to be made under section 143(1)(a) of the act has increased the work load with each assessing Officer considerably.

5. Keeping in view the rationale underlying the fixation of a lower number of scrutiny assessments for disposal, as explained above, and the fact that the work load of assessing officers has increased substantially because of the amended provisions of section 143(1)(a) of the Act, the PAC may kindly reconsider this recommendation for a study on the lines indicated by them.

This issues with the approval of the Minister of Finance.

[Ministry of Finance F. No. 241/3/89—A & PAC II dated 29 August, 1990]

Audit Comments

On the question of an objective work study on the workload of the assessing officers, the Ministry have repeated their observations of workload vis-a-vis available man-power and or improving the quality of assessments. The Ministry have justified that the assessing officers have to devote considerable time in marshalling legal and factual issues and making investigation concerning assessment and hence more cases cannot be picked up if a thorough job in making assessment is to be done. If the audit Report were any indication it would be seen that even legal interpretations and routine disallowances were not taken care of in assessments done under scrutiny, leave alone concealments and evasion of tax. The Ministry have no facts and figure to justify the qualitative improvement in assessment. In any case, a work-study (in which the amended law from 1.4.1989 can also be given due weight) is useful and may be considered on the lines of the PAC recommendation.

[Ministry of Finance F. No. 241/3/89—A & PAC II dated 2 July 1991]

Further Action Taken

The Committee has again emphasised that a work study on the lines of the P.A.C. recommendations contained in the 173rd Report may be conducted as it would clearly indicate the number of scrutiny assessments to be assigned to an assessing officer and also how far the summary assessment scheme has to be extended. The PAC has also stated that the amended provisions of law may be given due weight in the study.

The DOMS has already been requested to conduct the said study.

[Ministry of Finance F.No. 241/3/89—A & PAC II dated 2 July, 1991]

Recommendation

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. A 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.

Sl.No. 3, (Para 3.12) of Annexure VI to the 173rd Report of the P.A.C. (Eighth Lok Sabha)]

Action Taken

A standing Cadre-Review Committee was set up by Central Board of Direct Taxes in 1988 under the Chairmanship of the director General of Income-tax (Admn.) New Delhi to review the cadre of the Grade-B, C and D in Income-tax Department. The Committee has yet to submit its report.

[Ministry of Finance F. No. 241/3/89—A & PAC II dated 29 August, 1990]

Audit Comments

The cadre review report may please be furnished at an early date.

[Ministry of Finance F. No. 241/3/89—A & PAC II dated 2 July, 1991]

Further Action Taken

The Standing Cadre Review Committee set up under the Chairmanship of DG (Admn.) has already finalised its report in respect of Stenographers Cadre and Group D which are under examination of Government. For the remaining posts in group B & C, the cadre Review Committee is expected to submit its report very shortly.

[Ministry of Finance F. No. 241/3/89—A & PAC II dated 2 July 1991]

Recommendation

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.

[Sl. No. 4 (Para 3.13) of Annexure VI to the 173rd Report of the P.A.C. (Eighth Lok Sabha)]

Action Taken

The Ministry has accepted the recommendation of the PAC regarding conducting of investigation on the reasons for such large arrears and for taking appropriate measures under intimation to the Committee to liquidate the arrears.

[Ministry of Finance F. No. 241/3/89—A & PAC II dated 13 September, 1990]

Audit Comments

(Vetting Comments of C&AG on the Action Taken Notes)

No-comments. But the result of investigation and measures taken there on may please be furnished to this office.

[Ministry of Finance F. No. 241/3/89—A & PAC II dated 2 July, 1991]

Further Action Taken

As recommended, the Directorate of Organisation and Management services which has conducted the said study has concluded that the pendency of 11.08 lakh assessments, as pointed out by the Committee, in paragraph 3.13 of the report, is mainly because of the increase in the workload. If the quantum of work increases because of the increase in the number of tax payers, without matching increase in the man-power resources of the Department, the pendency of assessments would register an increase.

2. the following figures would, however, show that there is a marked improvement in the disposal 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	64.66	2717	2379
1988-89	71.28	61.73	2343	2635

It will be observed from the above statement that the workload has increased from 52.36 lakhs assessments in 1978-79 to 71.28 lakhs assessments in 1988-89. Further, against this increase in workload, the strength of officers that we could employ on assessment duty has declined from 2743 in 1978-79 to 2343 in 1988-89.

3. The table below will indicate that the summary Assessment Scheme has helped the Department in managing the increasing workload:—

Workload, Disposal and Pendency of Income-tax assessments from 1979-80 to 1988-89.

Financial year	Workload (figures in lakh)	Disposal (figures in lakh)	Pendency figures in lakh)
1979-80	57.89	34.90	22.99
1980-81	65.91	40.35	25.56
1981-82	72.07	45.48	26.59

1982-83	70.15	44.35	25.80
1983-84	68.93	48.12	20.81
1984-85	66.45	53.89	12.56
1985-86	70.68	59.17	11.51
1986-87	85.15	70.56	14.59
1987-88	75.73	64.66	11.07
1988-89	71.28	61.73	9.55

[Source: DIT (RSP & PR Bulletins/Performance Statistics)]

The fact that there has only been a marginal decline in assessment is because the workload has also been increasing substantially.

5. Further, it will be noticed from the above statement that the pendency of assessments has come down significantly from 26.59 lakhs in 1981-82 to 9.55 lakhs in 1988-89. This would show that the Department has been able to achieve a fair degree of success in managing higher workload without commensurate increase in the manpower resources because of resort to Summary Assessment Scheme.

6. The law relating to the procedure of assessment of the income-tax returns has been totally modified with effect from 1st April 1989, vide the Direct Tax Laws (Amendment) Act, 1987. Section 143(1)(a) of the Income-tax Act now provides that all returns have to be processed for making *prima-facie* adjustments as provided for in the proviso of the said section. After carrying out these *prima-facie* adjustments, an intimation is sent to the assessee and if any tax or interest is found due, the assessee is requested to pay the same; also, wherever any refund is due to the assessee, the same is granted on the basis of the *prima-facie* adjustment. Only those cases are selected for deep scrutiny where the assessing officer considers it necessary or expedient to ensure that the assessee has not under-stated or has not computed excessive loss or has not under-paid the tax in any manner. The Department has also laid down certain illustrative guidelines for the selection of cases for scrutiny. However, the Department has specified that the total number of such cases selected for scrutiny should not exceed 3 to 4 percent of the total number of returns filed. Thus, the amendment of the law relating to the procedure of assessment is a major step taken towards not only the liquidation of all the arrear returns but also to greatly reduce the number of returns pending assessments.

7. It may also be mentioned that the Department is laying great emphasis on the processing of returns by the computers, specially for the purpose of making the *prima-facie* adjustments as required in the newly introduced provisions of section 143(1)(a) of the Act. This will not

speed

up the disposal of such returns but also make the assessment almost error-free.

[Ministry of Finance F. No. 241/3/89—A & PAC II dated 2 July, 1991]

Recommendation

The Committee note, on the other hand that,

- (i) most of the assessees appear to fall in the lower taxable slab of taxable income and hence increase in assessees 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% 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 extend of coverage under scrutiny assessment scheme should be substantially increased.

[Sl. No. 6 (Para 4.13) of Annexure VI to the 173rd Report of the P.A.C. (Eighth Lok Sabha)]

Action Taken

The Committee has recommended that a re-look into the effectiveness of the Summary Assessment 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 recommended that the extent of coverage under scrutiny assessment scheme should be substantially increased.

2. The recommendation of the Committee regarding a study of the effectiveness of the Summary Assessment Scheme has been accepted by the Ministry. The work of conducting the study would be entrusted to an expert body shortly.

3. Regarding the second recommendation of the PAC that pending

such an examination the extent of coverage under scrutiny assessment scheme should be substantially increased, it may be mentioned that the procedure has already been changed by the Direct Tax Laws (Amendment) Act, 1987 with effect from 1st April, 1989. Under the amended provisions of Section 143(1)(a) of the Act, all returns of income will be processed by the Assessing Officers to ensure that *prima facie* in admissible claims are not made in computing the income liable to tax. Hence all returns will now be scrutinised and legally untenable claim would be disallowed. The Arithmetical accuracy of the figures relating to income and expenditure would also be checked. A copy of the relevant provision in Section 143(1) on this matter is enclosed for ready reference.

[Ministry of Finance F. No. 241/3/89—A& PAC II dated 13 September, 1990]

S.143 CH. XIV-PROCEDURE FOR ASSESSMENT 1.405

⁴⁸[**Assessment**].

⁵⁰**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,—

⁴⁸. Substituted by the Direct Tax Laws (Amendment) Act, 1987, w.e.f. 1-4-1989. Section 143, as substituted by the Taxation Laws (Amendment) Act, 1970, w.e.f. 1-4-1971 and later on amended by the Finance Act, 1974, w.e.f. 1-4-1975, Finance Act, 1976, w.e.f. 1-4-1976, Finance (No.2) Act, 1980 w.e.f. 1-4-1980 and Finance Act, 1987, w.e.f. 1-4-1988, stood as under:

143. Assessment.—(1)(a) Where a return has been made under section 139, the Assessing 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 Assessing 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) [***]
- (iii) [***]
- (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 (3) of section 32A or clause (ii) of sub-section (2) of 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 forward under sub-section(1) of section 72 or sub-section(2) of section 73 or sub-section(1) or sub-section(3) of section 74 or sub-section (3) of section 74A 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) Where a return has been made under section 139, and—

- (a) an assessment having been made under sub-section (1), the assessee makes within one month from the date of service of the notice of demand issued in consequence of such assessment, an application to the Assessing Officer objecting to the assessment, or
- (b) whether or not an assessment has been made under sub-section (1), the Assessing Officer considers it necessary or expedient to verify the correctness and completeness of the return by requiring the presence of the assessee or the production of evidence in this behalf,

the Assessing Officer shall serve on the assessee a notice requiring him, on a date to be therein specified, either to attend at the Assessing Officer's office or to produce, or to cause to be there produced, any evidence on which the assessee may rely in support of the return: Provided that, in a case, where an assessment has been made under sub-section(1), the notice under this sub-section except where such notice is in pursuance of an application by the

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(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

assessee under clause (a) shall not be issued by the Assessing Officer unless the previous approval of the Deputy Commissioner has been obtained to the issue of such notice:

Provided further that in a case where the assessment made under sub-section (1) is objected to by the assessee by an application under clause (a) the assessee shall not be deemed to be in default in respect of the whole or any part of the amount of the tax demanded in pursuance of the assessment under that sub-section, which is disputed by the assessee, in so far as such amount does not relate to any adjustment referred to in sub-clause (i) of clause (b) of sub-section (1), and further no interest shall be chargeable under sub-section (2) of section 220 in respect of such disputed amount.

(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,—

(a) in a case where no assessment has been made under sub-section (1), the Assessing Officer shall, by an order in writing, make an assessment of the total income or loss of the assessee, and determine the sum payable by him or refundable to him on the basis of such assessment;

(b) in a case where an assessment has been made under sub-section(1), if either such assessment has been objected to by the assessee by an application under clause (a) of sub-section(2) or the Assessing Officer is of opinion that such assessment is incorrect, inadequate or incomplete in any material respect, the Assessing Officer shall, by an order in writing, make a fresh assessment of the total income or loss of the assessee, and determine the sum payable by him or refundable to him on the basis of such assessment.

Explanation: For the purposes of this section,—

- (1) an assessment under sub-section (1) shall be deemed to be incorrect inadequate or incomplete in a material respect, if—
 - (a) the amount of the total income as determined under sub-section(1) is greater or smaller than the amount of the total income on which the assessee is properly chargeable under this Act to tax; or
 - (b) the amount of tax payable as determined under sub-section(1) is greater or smaller than the amount of the tax properly payable under this Act by the assessee; or
 - (c) the amount of any loss as determined under sub-section(1) is greater or smaller than the amount of the loss, if any, determinable this Act on a proper computation; or
 - (d) the amount of any depreciation allowance development rebate or any other allowance or deduction as determined under sub-section(1) is greater or smaller than the amount of the depreciation allowance, development rebate or, as the case may be, other allowance or deduction properly allowable under this Act; or
 - (e) the amount of the refund as determined under sub-section (1) is greater or smaller than the amount of the refund, if any, due under this Act on a proper computation; or
 - (f) the status in which the assessee has been assessed under sub-section (1) is different from the status in which the assessee is properly assessable under this Act;
- (2) “status”, in relation to an assessee, means the classification of the assessee as an individual, a Hindu undivided family, or any other category of persons referred to in

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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 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, 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:

⁵¹[Provided further that where adjustments are made under the first proviso, an intimation shall be sent to the assessee, notwithstanding that no tax or interest is found due from him after making the said adjustments:]

⁵² ⁵³[Provided also] that an intimation for any tax or interest due under this clause shall not be sent after the expiry of two years from the end of the assessment year in which the income was first assessable.]

clause (31) of section 2, and where the assessee is a firm, its classification as a registered firm or an unregistered firm.

- 49 The provisions of section 143 as they stood before the commencement of the Direct Tax Laws (Amendment) Act, 1987, shall apply in respect of assessments for the assessment year commencing on the 1st day of April, 1988 and any earlier assessment year—*Vide* Income tax (Removal of Difficulties) Order, 1989.
- 50. See also Circular No. 201, dated 5-7-1976, Instruction No. 1395, dated 15-5-1981 [Source: 114th Report [1982-83] of the Public Accounts Committee, pp. 16-17] Circular No. 230, dated 27-10-1977, Relevant extracts from minutes of 12th meetings of CDTAC held on 17-8-1967, Circular No. 1 [C. No. 9(17)-IT/50], dated 24-4-1950, Circular No. 18 (XI-37), dated 28-4-1955, Circular No. 47, dated 17-12-1952, Circular No. 125, dated 26-11-1973, Circular No. 36 (XL-52), dated 19-11-1958, Circular No. 50(XL-43), dated 28-12-1956, Letter [F. No. 91/41/67-ITJ (25)], dated 3-7-1967, Letter [F. No. 81/27/65-IT(B)] dated 18-5-1965, Circular No. 14 (XL-35), dated 11-4-1955 and Circular No. 3 of 1942, dated 16-1-1942.
- 51 Inserted by the Direct Tax Laws (Second Amendment) Act, 1989, w.e.f. 1-4-1989.
- 52 Inserted by the Direct Tax Laws (Amendment) Act, 1989, w.e.f. 1-4-1989.
- 53 Substituted for "Provided further", by the Direct Tax Laws (Second Amendment) Act, 1989, w.e.f. 1-4-1989.

Audit Comments

No comments. However, it may please be stated whether the work of conducting study has since been entrusted to an expert body and when their report is expected.

[Ministry of Finance F No. 241/3/89—A & PAC II dated 2 July, 1991]

Further Action Taken

In Para 4.13, the PAC had recommended that a re-look into the effectiveness of the summary assessment scheme may be conducted preferably by reputed experts in the field including economist, but not by the concerned Minister/C.B.D.T. The said study has been entrusted to the National Institute of Public Finance and Policy. Their report is still awaited.

[Ministry of Finance F. No. 241/3/89—A & PAC II dated 2 July, 1991]

Recommendation

The Committee consider it unfortunate in this regard that whereas the Chairman, C.B.D.T. 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 assessees etc. and give comprehensive data to the Committee.

[S. No. 6 (Para 4.14) of Annexure VI to the 173rd Report of the PAC (Eighth Lok Sabha)]

Action Taken

Statements giving classification of assessees income range wise and status-wise as on 31-3-1982, 31-3-1983, 31-3-1984, 31-3-1985, 31-3-1986, 31-3-1987, 31-3-1988 and 31-3-1989 are annexed. These statements are prepared annually by the Directorate of Research and Statistics.

2. The following conclusions emerge on an analysis of these statements:—

(i) The number of assessees having income more than the taxable limit has increased from 35,16,504, as on 31st March, 1982 to 56,83,319 as on 31st March, 1989.

(ii) During the same period, the increase in assessees (other than companies) having income above the taxable limit, but below Rs. 1,00,000 is 19,60,282.

(iii) The number of assessees having income above Rs. 5,00,000/- has increased substantially during this period from 5,527 on 31st March, 1982 to 18,579 as on 31st March, 1989.

(iv) The increase in assessees in the income range of Rs. 1,00,000 to Rs. 5,00,000 during this period is 1,73,117.

(v) The total number of assessees have increased from 46,60,865 as on 31-3-1982 to 68,11,303 as on 31st March, 1989.

[Ministry of Finance F. No. 242/3/89—A&PAC II dated 29 August, 1990]

ANNEXURE

(Para 4.14)

Classification of assessees income range-wise and Status-wise as on 31st March, 1982

	Individuals	Hindu Undivided families	Firms	Compan- ies	Others	Total
(a) Below limit	taxable	9,22,190	51,352	1,10,003	23,023	37,793 11,44,362

	Individuals	Hindu Undivided families	Firms	Compan- ies	Others	Total
(b) Above taxable limit but upto Rs. 25,000	17,51,912	1,17,591	3,01,916	10,575	23,032	22,05,026
(c) Rs. 25,001 to 50,000	6,77,820	47,610	2,17,781	3,713	9,749	9,56,673
(d) Rs. 50,001 to 1,00,000	1,51,86	14,254	1,18,617	2,780	2,882	2,90,419
(e) Rs. 1,00,001 to Rs. 5,00,000	16,448	1,671	96,353	3,427	960	58,859
(f) Above Rs. 5,00,000	900	43	1,651	2,817	116	5,527
TOTAL	35,21,156	2,32,521	7,86,321	46,335	74,532	46,60,865

ANNEXURE
(Para 4.14)

Classification of assessees income range-wise and Status-wise as on 31st March, 1983

	Individuals	Hindu Undivided families	Firms	Compan- ies	Others	Total
(a) Below taxable limit	8,71,313	58,298	1,18,058	24,199	53,793	11,25,691
(b) Above taxable limit but upto Rs. 25,000	17,16,721	1,03,160	2,84,383	10,252	23,146	21,37,662
(c) Rs. 25,001 to Rs. 50,000	6,61,647	47,652	2,17,746	4,595	9,414	9,41,054
(d) Rs. 50,001 to Rs. 1,00,000	1,37,852	12,692	1,11,430	2,903	3,609	2,68,486
(e) Rs. 1,00,001 to Rs. 5,00,000	23,701	1,578	37,959	3,720	1,580	68,538
(f) Above Rs. 5,00,000	599	57	1,540	2,928	214	5,338
TOTAL	34,11,833	2,23,437	7,71,146	48,597	91,756	45,46,769

ANNEXURE
(Para 4.14)

Classification of assessees income range-wise and Status-wise as on 31st March, 1984

		Individuals	Hindu Undivided families	Firms	Companies	Others	Total
(a)	Below limit	taxable	9,05,982	75,514	1,19,666	28,180	58,183 11,87,525
(b)	Above limit but upto Rs. 25,000	taxable	17,36,551	1,17,891	3,16,538	10,343	26,609 22,07,932
(c)	Rs. 25,001 to Rs. 50,000		7,57,408	53,852	2,41,373	4,132	15,784 10,72,549
(d)	Rs. 50,001 to Rs. 1,00,000		2,06,947	16,539	1,27,649	3,520	9,572 3,64,227
(e)	Rs. 1,00,001 to Rs. 5,00,000		30,227	8,841	47,709	3,785	3,151 93,713
(f)	Above Rs. 5,00,000		960	70	1,925	2,991	202 6,148
TOTAL		36,38,075	2,72,707	8,54,860	52,951	1,13,501	49,32,094

ANNEXURE
(Para No. 4.14)

Classification of assessees income range-wise and Status-wise as on 31st March, 1985

		Individuals	Hindu Undivided families	Firms	Companies	Others	Total
(a)	Below limit	taxable	9,38,879	73,735	1,35,451	27,463	44,992 12,20,520
(b)	Above limit but upto Rs. 25,000	taxable	17,25,692	1,14,650	3,10,765	13,506	26,065 21,90,678
(c)	Rs. 25,001 to Rs. 50,000		7,39,339	52,893	2,41,970	5,360	13,974 10,53,536
(d)	Rs. 50,001 to Rs. 1,00,000		2,15,878	15,952	1,39,493	4,801	7,441 3,83,365

	Individuals	Hindu Undivided families	Firms	Com- panies	Others	Total
(e) Rs. 1,00,001 to Rs. 5,00,000	25,922	2,767	45,341	3,953	4,904	82,887
(f) Above 5,00,000	Rs. 928	87	1,892	3,595	169	6,671
TOTAL	36,46,638	2,60,084	8,74,912	58,478	97,545	49,37,657

ANNEXURE
(Para No. 4.14)

**Classification of assessees income range-wise and Status-wise as on 31st
March, 1986**

	Individuals	Hindu Undivided families	Firms	Com- panies	Others	Total
(a) Below limit	taxable 13,76,436	1,03,922	1,91,799	37,674	64,321	17,74,152
(b) Above limit but upto Rs. 1,00,000	taxable 26,61,014	1,95,827	6,84,112	21,628	52,304	36,14,885
(c) Rs. 1,00,001 to 5,00,000	43,646	3,071	50,648	6,101	2,249	1,05,715
(d) Above Rs. 5,00,000	1,301	161	2,467	3,308	153	7,390
TOTAL	40,82,397	3,02,981	9,29,026	68,711	1,19,027	55,02,142

ANNEXURE
(Para No. 4.14)

Classification of assessees income range-wise and Status-wise as on 31st March, 1987

		Individuals	Hindu Undivided families	Firms	Com- panies	Others	Total
(a)	Below taxable limit	11,71,769	1,05,454	1,77,322	44,156	44,243	15,40,944
(b)	Above taxable limit but upto Rs. 1,00,000	35,12,872	2,25,698	7,93,133	23,738	29,488	45,84,929
(c)	Rs. 1,00,001 to Rs. 5,00,000	54,024	4,671	57,781	6,958	2,087	1,25,521
(d)	Above Rs. 5,00,000	2,338	180	2,956	4,351	246	10,071
TOTAL		47,41,003	3,36,003	10,31,192	77,203	76,064	62,61,465

ANNEXURE
(Para No. 4.14)

FOR THE YEAR 1987-88
STATEMENT-IV

Number of assessees:

(i) **INCOME-TAX**

Number of assessees status-wise and income-range-wise as on 31st March, 1988

STATUS	INCOME-RANGE-WISE				
	Below taxable limit	Taxable to Rs. 1,00,000	Rs. 1,00,001 to Rs. 5,00,000	Above Rs. 5,00,000	Total
(a) Individuals	929267	3928147	72102	3461	4932977
(b) HUFS	80251	252734	6051	311	339347
(c) Firms	138595	846711	70914	4241	1060461
(d) Companies					
(i) Foreign	237	131	199	471	1038
(ii) Govt. Companies and Corporation	729	157	76	280	1242

(iii) Other than (i) and (ii)	40975	27700	10254	6776	85705
(iv) Total	41941	27988	10529	7527	87985
(e) Trusts	43495	13504	1601	139	58739
(f) Others	16417	20705	1501	201	38824
TOTAL	1249966	5089789	162698	15880	6518333

ANNEXURE
(Para No. 4.14)

FOR THE YEAR 1988-89
STATEMENT-IV

Number of assessees:

(i) INCOME-TAX

Number of assessees status-wise and income-range-wise as on 31st March, 1989

STATUS	INCOME-RANGE-WISE					Total
	Below taxable limit	Taxable to Rs. 1,00,000	Rs. 1,00,001 to Rs. 5,00,000	Above Rs. 5,00,000		
(1) Individuals	835909	4173199	112372	4009	5125489	
(2) HUFS	73911	275855	10758	445	360969	
(3) Firms	116591	911153	93200	5373	1126317	
(4) Companies						
(a) Foreign	247	134	126	528	1035	
(b) Govt. Companies and Corporation	1139	678	203	445	2465	
(c) Other than (a) and (b)	36389	36620	12529	7138	92676	
(d) Total	37775	37432	12858	8111	96176	
(5) Trusts	47271	17771	2090	175	67307	
(6) Others	16527	17354	698	466	35045	
TOTAL	1127984	5432764	231976	18579	6811303	

Recommendation

As over 97% 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.

[S.No. 10 (Para 6.11) of Annexure VI to the 173rd Report of the P.A.C (Eighth Lok Sabha)]

Action Taken

In pursuance of the above recommendation, the arrangement for Audit of cases completed under Summary Assessment Scheme by the Internal Audit has been reviewed. A copy of instruction (F.No. Audit/ 66/1969 dated 25-10-1989) issued in this regard is enclosed. As regards arrangements for Audit of cases completed under Summary Assessment Scheme by Receipt Audit, consultations to sort out the issues have been held with them.

[Ministry of Finance F.No. 241/3/89-A & PAC II dated 29 August 1990]

F.No. Audit 66/1989-90/DIT/7731 to 7870

DIRECTORATE OF INCOME-TAX (Income-tax & Audit)

Aayakar Nideshalaya (Aayakar Aur Lekha Pariksha)

GRAMS: 'KARVISKSHA'

Mayur Bhawan (4th fl.)

Connaught Circus,
New Delhi-110001

Dated: 25-10-1989

To,

All Chief Commissioners of Income-tax

Sir,

Subject: Internal Audit-Checking of cases—Reg.

In accordance with Board's guidelines the jurisdiction of assessing officers is based on the classification of assessments into the categories A to D which are defined as follow:—

1. *Category 'A' Assts.*

Non-Coy. assts. with income/loss below Rs. 2 lakhs
and

Coy. assts. with income/loss below Rs. 50,000/-

2. *Category 'B' Assts.*

Non-coy. Assts. with income/loss from Rs. 2.5 lakhs
and

Coy. Assts. with income/loss from Rs. 50,000/- to Rs. 5 lakhs.

3. *Category 'C' Assts.*

All assts. with income/loss of Rs. 5 lakhs and above

4. *Category 'D' Assts.*

Search & Seizure Assts.

2. With effect from 1-4-89, the assessment procedure has undergone a radical change. Having regard to the manpower available only about 3% (three percent) or about 2.13 lakhs cases in aggregate would be selected for scrutiny by issue of notices under section 143(2) of the Income-tax Act. In regard to balance of the cases only *prima facie* adjustments would have to be made under section 143 (1) (a) of the Income-tax Act. It is, therefore, likely that some of the revenue significant cases are not picked up for scrutiny.

3. Under the extant procedure assessments made u/s 143 (1) of the Income-tax Act i.e., under the summary assessment scheme are not subjected to audit by Internal Audit, whereas the scrutiny assessments are classified, into three categories namely: 'Immediate' 'Priority' & 'Others'.

4. It is expected that about 73.92 returns would be received during the current year. With the existing strength of 150 Audit Parties, it is not feasible to audit even all assessments to be completed under section 143 (3) of Income-tax Act, not to speak of returns which are to be accepted under section 143(1) (a) of the Act.

5. In order to ensure that appropriate adjustments have been made at least in revenue significant cases and to avoid criticism from Revenue Audit, it has been decided that the Internal Audit Parties and Special Audit Parties should check all category 'C' assessments whether these have been completed under section 143(3) or accepted under section 143(1) (a) of I.T. Act. In respect of assessments made u/s 143(1) the Audit Parties should advise action under section 154 of the Act in case of wrong claims / adjustments. The scope of audit in such cases would however, be confined to discrepancies noticed with reference to the returns of income, accompanying documents and past records in relation to brought forward losses, depreciation and other allowances, written down value and investment allowance. To achieve this object, the audit parties can effect suitable reduction in the number of cases to be checked by them firstly in category 'A' cases and thereafter in category 'B' assessments. Having regard to the efforts involved in checking 143 (1) assessments as compared to these under section 143 (3) a norm of about 225 cases per months per

audit party may be adhered to. However, where the Audit Parties are not doing exclusively checking of 143 (1) assessments one unit may be counted for every two 143(1) assessments checked.

Yours faithfully,
Sd/-

(P.N. MITTAL)

DIRECTOR OF INCOME-TAX (Audit)

New Delhi.

F.No. 66/89-90/DIT

DIRECTORATE OF INCOME-TAX (IT & AUDIT)

AAYAKAR NIDESHALAYA (AAYAKAR AUR LEKHA PARIKSHA)

GRAM: 'KARVIKSHA'

**MAYUR BHAVAN (4TH FL.)
CONNAUGHT CIRCUS
NEW DELHI-110001**

September 03, 1990

To,

**All Chief Commissioners of Income-tax,
All Commissioners of Income-tax**

Subject:—Norms for checking of cases—regarding.

Sir,

Please refer to this Directorate's letter of even no. dated 25-10-1989.

2. With effect from 1-4-1989, the whole concept of assessments has changed. Under the new procedure, the requirement of passing an order in all cases, where returns are received has been dispensed with. Assessment orders will be passed only in a very limited number of cases selected for scrutiny.

3. In the Directorate's letter of even no. dated 25-10-1989 it was, *inter-alia*, laid down that Audit Parties are now required to check all cases where returned income is rupees five lakhs and above, whether such Returns are processed u/s 143(3) or u/s 143 (1) (a). Since bulk of the returns are not subjected to scrutiny now and only adjustments provided u/s 143 (1)(a) of I.T. Act are being made, it is proposed that at least some percentage of cases not completed u/s 143 (3) of I.T. act should also be audited by audit parties in other categories.

4. The idea of work load can be had from the following statistics of assessments completed during the financial year 1989-90:—

<i>Category</i>	<i>Scrutiny</i>	<i>Non-scrutiny</i>	<i>Total</i>
<i>Category 'A' Assts.</i>			
Non-Coy, assts. with income/loss below Rs. 2 lacs. &			
Coy. assts. with income/loss below Rs. 50000	156740	5294830	5451570
<i>Category 'B' Assts.</i>			
Non-Coy assts. with income/loss from Rs. 2 lacs to 5 lacs. &			
Coy. assts. with income/loss from Rs. 50,000 to Rs. 5 lacs	37581	96652	134233
<i>Category 'C' Assts.</i>			
All assts. with income/loss of Rs. 5 lacs and above	13579	27712	41291
<i>Category 'D' Assts.</i>			
Search & Seizure Assts.	21617	6934	28551

5. With the present strength of audit parties, it may not be possible even to check all the cases completed u/s 143(3). Therefore the Audit parties should check all category C&D cases, whether those are completed u/s 143(3) or u/s 143(1) (a) and a prescribed percentage in the first two categories.

6. It has also been decided to redefine the norms of 'Immediate' and "Priority" categories and "other" coming under the residual category. The grouping of cases was specified under these categories earlier in Circular No.186 dated 9.9.88. The revised norms would be as under:—

IMMEDIATE CASES to point out that in t.

- (i) All assessments falling in category C & D i.e., all assessments with income / loss of Rs. 5 lacs and above and search and seizure assessments.
- (ii) All cases of Trusts and Charitable Institutions in which the corpus of the trust exceeds Rs. 10 lakhs
- (iii) All refund cases where refund is Rs. 50,000/- and above in income-tax and Rs. 25,000 and above in other Direct Taxes.

(iv) In respect of other direct tax cases, the same would fall in category of 'Immediate cases' if the assessed wealth / assessed value of taxable gifts / principal value of estate exceeds the limit specified below:—

Wealth-tax	Twenty lakhs
Gift-tax	Five lakhs
Estate Duty	Five lakhs

(V) All Sur-tax assessments in which the Surtex assessed in Rs. 50,000 and above.

PRIORITY CASES

- (i) All company cases with income/loss from Rs. 50,000 to Rs. 5 lacs.
- (ii) All Non-company assessments with income / loss from Rs. 2 lacs to Rs. 5 lacs.
- (iii) All cases of Trusts and Charitable Institutions where the corpus of the Trust exceeds Rs. 5 lacs.
- (iv) All refund cases in which the refund is Rs.10,000 and above but less than Rs. 25,000 in income-tax and Rs.10,000 and above but less than Rs. 50,000 in all other Direct Taxes.
- (v) All Wealth-tax, Gift-tax and Estate duty assessments in which the assessed net wealth / assessed value of taxable gifts / principal value of estate exceed the limit specified below:—

(a) Wealth tax	Rs 5,00,000
(b) Gift tax	Rs. 50,000
(c) Estate Duty	Rs. 2,00,000

- (vi) All Surtax assessments in which the Surtax is less than Rs.50,000 including no demand cases.

TEST AUDIT CASES (RESIDUAL CATEGORY)

- (i) All Company assessments with income / loss below Rs. 50,000/-
- (ii) All Non-company assessments with income/loss below Rs. 2 lacs.

"Immediate" category cases will be exclusively checked by SAPs. 100% checking of all assts. u/s 143(3) / 143(1) (a) is compulsory. Priority cases and the residual category will be audited by IAPs. In 'Priority' group 50% of all the assts. shall be checked. But in the residual category, in view of paucity of man-power, we can only think of conducting a Test Audit; namely 2% of cases completed u / s 143 (1) (a) and 10% of cases completed u / s 143 (3).

6. The above norms would apply both to scrutiny as well as other types of cases. For purposes of evaluation, two non-scrutiny cases checked would be equivalent to one scrutiny case.

7. Depending on the workload and available manpower, the percentage of audit of category 'A' can be increased by the Chief Commissioner/Commissioner. They can also vary the percentages with regard to other categories. There is no change in the quota fixed for the audit parties, viz. 110 units: each unit is assigned to the auditing of a scrutiny case and $\frac{1}{2}$ a Unit to the auditing of a non-scrutiny case.

8. The scope of internal audit in non-scrutiny cases has already been clarified in this Dte's letter of even no. dated 25-10-1989.

9. At present DCs (Audit) are required to check cases beyond a certain monetary ceiling. These instructions will continue with the remarks that the DCs (Audit) should also cases completed u/s 143 (1) (a) of IT Act in the eligible monetary bracket according to the existing norms.

Yours faithfully,

Sd / -

(N. SAHU)

Directorate of Income-tax (Audit)

Audit Comments

The instructions issued by the Directorate of Income-tax (Income-tax & Audit) dt. 25.10.89 and 3.9.90 have the effect of diluting the role and scope of internal audit. The arrangement will lead to many scrutiny assessments under category 'A' and category 'B' assessment going outside the ambit of internal audit. This is not in keeping with the role of Internal Audit, which is supposed to conduct a hundred percent concurrent audit at least of all scrutiny cases.

The Ministry have also stated that consultations to sort out the issues regarding arrangements for audit of cases completed under the Summary Assessment Scheme by Receipt audit have been held with the Receipt Audit. This issues does not seem to have come up during any discussion with the Member (Audit) or the Chairman, Central Board of Direct Taxes.

[Ministry of Finance F.No. 241/3/89—A & PAC II dated 2 July 1991]

Further Action Taken

The comments of audit in connection with the instructions issued by the DIT (Audit) dated 25.10.89 & 3.9.90, have been noted.

As regards consultations to sort out the issues regarding arrangements for audit of cases completed under the Summary Scheme by the receipt audit, it is pointed out that such issues, will be further discussed and sorted out in course of meetings which are held from time to time between the Director (RA) and Member (R&A), CBDT.

[Ministry of Finance F.No. 241/3/89—A & PAC II, dated 2 July 1991]

Recommendation

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.

[Sl. No. 11 (Para 7.4) of Annexure VI to the 173rd Report of the P.A.C.
(Eighth Lok Sabha)]

Action Taken

The Central Board of Direct Taxes fully recognise and accept the need for taking appropriate positive steps to ensure that directives issued by the CBDT are complied with by the field authorities both in letter and spirit.

2. With this end in view, an Inspection Division was created by the CBDT some time ago. This Inspection division functions directly under the Chairman, CBDT. One of its primary functions is to ensure implementation of instructions and circulars of the Board on technical and administrative matters.

3. It is relevant in the present context to cite the following passage from the D.O. letter dated 12th January, 1987, addressed by the then Chairman to the officers of the Inspection Division:

"Initially the Inspection Division was created to watch the compliance of the Board's Instructions. Let us revert to that primary function. Therefore, the principal function of the Inspection Division should be to supervise the implementation of the Instructions and Circulars. From time to time board and other Departments of Government issue Instructions and Circulars on different subjects. But quite often these are flouted and sometimes with impunity. The lapse on the part of the subordinate officers are usually overlooked by their superiors. This trend must be reversed. It should be brought home to the officers in the field that Instructions and Circulars are issued after careful consideration of all the aspects and these have to be followed strictly both in letter and in spirit. Since the Members of the Board cannot be present everywhere to supervise the implementation of the policies of the Board, this work shall be done by the Inspection Division. The Inspection Division should act as the eyes and ears of the Board to see that its decisions are scrupulously followed."

4. In the said D.O. letter, the then Chairman went on to point out

that in cases where any lapse is detected in implementation of important and well known instructions/circulars, the concerned officers and staff should be identified so that, if justified, they can be taken to task for negligence or for motivated action.

5. Further, with a view to instituting a uniform system of control and supervision at different levels, comprehensive instructions were issued in September, 1988, outlining a "Scheme of Control Mechanism" containing comprehensive instructions in regard to the system of supervision to be operated by different functionaries in the Department. The aforesaid scheme envisaged a three pronged strategy for supervision and control in the Income-tax Department through (a) monthly control statements; (b) monthly D.O. letters to supervisory officers; and (c) internal correspondence folders.

6. The Zonal Members of the CBDT and Chairman, CBDT also keep a close watch on the performance of the field authorities. The various Directorates attached to the CBDT also supervise and monitor the performance of the field authorities in the respective areas falling within their respective jurisdiction.

7. The CBDT is all the time anxious to ensure that directions issued by it are complied with by the field authorities, both in letter and spirit, and it will continue to ensure progressively improved attainment of this goal through closer supervision and review of performance of the field authorities and developing better tools and mechanism for control and supervision.

(Ministry of Finance F.No. 241/3/89 A & PAC II dated 29 August 1990)

Recommendation

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 up and appropriate remedial measures taken.

[S.No.12 (Para 8) of annexure VI to the 173rd report of the P.A.C.
(Eighth Lok Sabha)]

Action Taken

In the above mentioned para, the PAC has concluded its observations already made in the preceding paragraphs. Regarding the use of the administrative powers vested in the Board vide section 119 of the Income-tax Act, detailed comments have already been made in reply to paras 2.20 and 2.21. In reply to para 3.11, the Board has discussed the rationale underlying the fixation of a lower number of scrutiny assessments for disposal. It has also been mentioned therein that with effect from 1st April, 1989, the assessment procedure has already been substantially modified and under the new provisions of section 143(1) (a) of the Income-tax Act, effective from 1st April, 1989, all returns of income will be subjected to check enabling the Assessing Officer to make *prima-facie* adjustments.

2. In para 3.12 the PAC had recommended that a study of the staff needs of the Income-tax Department might be conducted for ensuring proper administration of the Act. This recommendation has been accepted.
3. Detailed comments on the recommendation of the PAC contained in para 7.4. regarding revamping of the administrative machinery to ensure accountability for compliance of instructions have already been given in reply to the said para.
4. Regarding the instructions to stop all action on audit findings in summary assessment cases, reply has been already furnished in para 6.9.
5. In reply to para 4.12, we have already furnished our comments regarding the increase in prosecution, survey, number of assesses, tax collections etc. attributable to the implementation of the summary assessment scheme.
6. Finally, in para 8, the PAC has recommended that review of administrative action on the legal provisions may be taken up and

appropriate remedial measures taken. In this context, it may be mentioned that we have already accepted the recommendation of the PAC contained in para 4.13 regarding conducting a study to look into the effectiveness of the scheme.

[Ministry of Finance F.No. 241/3/89—A & PAC II dated 13 September 1990)

Audit Comments

Para 8 : Audit's vetting comments in respect of Paras 2.20, 2.21, 3.12, 4.12, 6.8, 6.9 and 7.4 refers.

[Ministry of Finance F.No. 241/3/89—A & PAC II dated 2 July 1991]

Further Action Taken

Ministry's reply of Para No.2.20, 2.21, 3.12, 4.12, 6.8, 6.9 and 7.4 may be referred to.

[Ministry of Finance F.No. 241/3/89—A & PAC II dated 2 July 1991]

CHAPTER III

RECOMMENDATIONS AND OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM GOVERNMENT

Recommendation

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 judgement; these dispositions 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 the assessing officers to allow/disallow deductions, allowances, reliefs 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.

The Committee are equally taken aback 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 instruction "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.

[S.No. 1 (Paras, 2.20 & 2.21) of the Annexure VI to the 173rd Report of the PAC (8th Lok Sabha)]

Action Taken

Instruction No. 1617 was issued by the Central Board of Direct Taxes on 12th May, 1985, when Section 143(1) of the Income-tax Act as amended by the Finance (No. 2) Act, 1980, was in force. Under Section 143(1), the following adjustments were prescribed:

- (i) rectification of arithmetical error; and
- (ii) giving effect to certain allowances, set-off of carried forward loss, unabsorbed depreciation, etc.

It may be noted that the only deviation which the said instruction has made from the provisions of Section 143(1) of the Act, as it stood at the relevant time, was that the adjustment in respect of unabsorbed depreciation, brought forward loss and specified unabsorbed allowances etc. of earlier years, was not required to be made. Thus, the deviation from law was limited to a relatively small and unimportant area.

The objective of the summary assessment scheme is to speed up the disposal of income-tax assessments with the man-power available and to reduce the ever increasing work-load. It was felt that one of the main reasons for inadequate success of the summary assessment scheme was that considerable time was taken in determining whether adjustments prescribed in Section 143(1) of the Act, as it stood then, were required to be made. The procedure contained in the above referred instruction was devised to further speed up the assessments in the bulk of cases which did not involve any substantial points of dispute.

It is also relevant to point out that in the case of *Navnitlal Javeri vs. Sen* (56 ITR 198) and in *Ellerman Lines Ltd. vs. CIT* (82 ITR 913), the Supreme Court accepted the validity and binding nature of Board's beneficent circulars i.e. circulars which relaxed the rigour of the law or granted relief which is not to be found in terms of the statute. Hence, the validity of the relaxation provided by instruction No. 1617 would also receive support from the aforesaid decisions of the Supreme Court.

It is therefore, submitted that keeping in view the intention underlying the relaxation provided by the instruction; limited nature of the departure from the provisions of Section 143(1) of the Act provided therein; the legal validity of beneficial circulars issued by the Board; the

fact that the instructions were approved by the Board as a whole; and finally the fact that with the changes made in law, these instructions are no longer in operation there is no need to withdraw the instruction.

It may be mentioned that the above referred instruction was issued by the C.B.D.T. after considering the recommendations made by the all India Conference of Commissioners of Income-tax held in 1985. The draft of the aforesaid instruction was approved in a meeting of the Central Board of Direct Taxes held on 6th May 1985. Thus, the instruction was issued with the approval and authority of the Board as a whole and it would not be appropriate to hold any officer/officers responsible for the same.

The other instruction of July 1986, that an assessment once completed under the Summary assessment scheme should not be disturbed under section 143(2) (b) or section 154 of the Act, was also taken in the interests of administrative efficiency. If the assessments completed under the summary assessment scheme were allowed to be disturbed in a routine manner, the whole idea underlying the scheme, namely expeditious disposal of assessments to reduce increasing work-load, would have been negated. Besides, selective reopening or rectification of completed assessments could have led to misuse of the power. When the aforesaid instruction was issued, it was well known that the procedure could lead to some loss of revenue which it was expected would be more than made up by better concentration by officers in important and revenue yielding cases as also by giving more attention to other areas of work like search and seizure, surveys for finding out new tax payers and verification of information, etc. Accordingly, there is no need to withdraw this instruction also and therefore question of taking action against any officer/officers does not arise.

In regard to the recommendation that instructions issued by the Central Board of Direct Taxes which are inconsistent with the law should be vetted by the Law Ministry, it is relevant to point out that whenever the Board has a doubt about the correct interpretation of the legal provisions, the issue invariably is referred to the Law Ministry for their advice and instructions are then issued only in conformity with the advice tendered by the Law Ministry.

This procedure is, however, not followed in cases where the instructions do not involve an interpretation of law or where the C.B.D.T is of the opinion that the legal position in the matter is quite clear and unambiguous. A reference to the Law Ministry in such cases would evidently be unnecessary.

It is pertinent to point out that the Department of Legal Affairs in the Law Ministry advises various Ministries and Departments regarding the correct interpretation of law. The Legislative Department of that Ministry vets Bills to be introduced in Parliament, as also Rules,

notifications etc. made under any law. (Neither of the two Departments of the Law Ministry is, therefore, ordinarily required to vet circulars issued by various Ministries and Departments of the Central Government). If the Law Ministry is required to also vet circulars issued by the Ministries or Departments of the Central Government, the pressure on that Ministry may become unmanageable.

Having regard to the factors mentioned above, the recommendations of the Committee have not been found acceptable.

This has the approval of the Minister of Finance..

[Ministry of Finance F.No. 241/3/89-A & PAC II dated 29 August, 1990]

Audit Comments

The Committee had intended to emphasise the point that, by prescribing the cases to be decided in a summary manner according to mainly certain levels of income and not leaving it to the best judgement of the assessing officers, the powers of the assessing officers had been eroded and the spirit and letter of the legal provisions u/s 143 (1) read with Section 5 had been over-stepped by the Ministry. Even, the instructions regarding the corrections to the returned income were not consistent with the provisions in the Act. According to the Ministry that there is only limited departure from the legal provisions and such directions are valid the light of the Supreme Court decision in 50 ITR 198 and 82 ITR 913. The point made out by the Committee was that the relaxation and prescription of the cases to be decided under the Summary Scheme were beyond law. This is so because the Board cannot issue instructions overriding or modifying the law as laid down by Parliament.

The July 1986 instructions, it is stated, were issued in the interests of administrative efficiency, though some loss of revenue was in escapable. The correct position of law in this regard is however:

The highest executive authority, no doubt, is the CBDT and its powers of administration, supervision and control extends over the department. It has the powers to make rules and to issue notifications under the Act which have the force of law. It has also the power to issue orders, instructions and directions to all officers and persons engaged in the execution of the Act u/s 119 of the I.T. Act, 1961. There are, however two exceptions, (i) it cannot interfere with the directions of CIT (A) or Dy. CIT (A) in the exercise of his appellate functions and (ii) it cannot issue any directions to any income-tax authorities to make a particular assessment or to dispose of a particular case in a particular manner. This, however, limits the powers of the Board to issue general circulars which are binding on the Department.

These general circulars are generally intended to cover administrative

aspects; but to avoid genuine hardship, the Board may relax the regours of law in a particular case or class of cases on merits. (Modern Ministry in Navnit lal Javeri V Sen and Ellerman Lines Ltd. (50 ITR 198 and 82 ITR 913) both also convey that the Board could issue beneficial circulars to relieve the extreme hardship in genuine cases which are valid and binding.

In ALA Firm V CIT (1976) 102·ITR 672, the Madras High Court considered the two decisions in Navnit Lal and Ellerman Lines Ltd. and while stating that they must be considered to be exceptional ones, in the first case, it was intended to honour an assurance given by the Minister concerned to Parliament and in the other, it was intended to govern a difficult branch of assessment of shipping companies under a particular rule, decided that save in exceptional cases it would not be proper to countenance the view that the circulars issued by the Board will fetter the Judicial discretion of the authorities administering the Act and if such contentions were to be accepted it would be easy for the administrative authorities to put out of commission the entire heirarchy of tribunals and courts by issuing circulars. The court further stated that this would not have been contemplated by the Legislature and that is why the Supreme Court has restricted the applicability of such circulars to administrative nature.

It has been held in CIT V Sahney Steel and Press Works Ltd. (17-Taxman 403 AP) that the powers conferred by Sec. 119 can never be construed as one enabling the Board to issue circulars overriding, modifying or in effect amending the provisions of the Act. It must be stated that the executive has not been given any power u/s 143 to classify any particular group of assessees as coming within the automatic purview of Sec. 143 (1) and an assessment under that section was contemplated if the I.T.O. finds that the return was not incomplete or incorrect in any material respect as laid down in the explanation to section 143.

[Ministry of Finance F. No. 241 / 3 / 89—A & PAC II dated 2 July, 1991]

Further Action Taken

In this para, has the PAC pointed out that by prescribing the cases to be decided in a summary manner according to mainly certain levels of income and not leaving it to the best judgement of the assessing officers, the powers of the assessing officers had been eroded and the spirit and letter of the legal provisions u/s 143 (1) read with Section 5 had been over stepped by the Ministry.

The decision to enlarge the scope of Summary Scheme on the basis of the level of income was taken after considering the recommendatins made by the All India Conference of Commissioners of Income-tax held

in 1985. The said decision was taken not only to bring about uniformity in the disposal of cases but also to speed up the disposal of income-tax assessments with the manpower available. This decision was also in conformity with the recommendations of the PAC contained in their Two Hundred and Seventeenth Report of Seventh Lok Sabha 1983-84. The relevant paragraph (5.11) of the report is reproduced below:

5.11 The Committee observe that the Summary Assessment Scheme was introduced with the avowed object of reducing workload in the Income tax Department. However, the impression which the Chairman, Central Board of Direct Taxes gave in his evidence was that the Income-tax Department has not been able to make use of the scheme as a successful instrument of quick breakthrough in disposal of small assessment cases, as originally envisaged. In reply to a question whether as a result of the introduction of the Scheme the object of reducing the workload has been achieved, the Chairman, CBDT stated, "No, we have not achieved the same". In reply to another question, he informed the Committee that "In a summary Assessment, all that is saved is one notice or may be two notices". The Committee are shocked to learn this. In their opinion, had the Summary Assessment Scheme been implemented in its proper spirit and its scope enlarged with the needs of changing times, the Department would not have been facing the problem of pendency to the extent it is facing at present. As already mentioned, the Central Board of Direct Taxes has, in May 1983, issued instructions greatly enlarging the scope of the Summary Assessment Scheme. The Committee trust that this will result in substantial reduction in pendency of assessments. They also trust that the Board will keep the matter under constant review and take whatever steps are necessary to further simplify the procedure so that minimum possible time is spent on summary assessment cases and the manpower thus released is utilised for scrutiny of large revenue cases.

It cannot be said that the powers vested with the assessing officers diminished due to the issue of such instructions, as the law itself had undergone certain changes *vide* Finance No. (2) Act, 1980. The details have already been stated in our earlier reply on this para.

The PAC has further pointed out that the instructions regarding the corrections to the returned income were not consistent with the provisions in the Act. In this context, it may be stated that the instruction No. 1617 issued in May, 1985, made a very insignificant deviation by stating that the adjustment in respect of brought forward losses and allowances referred to in sub-clause (d) of Section 143(1) of the Act was not required to be made. This related to a very small and unimportant area.

It may also be stated that the law relating to assessment procedure

has undergone a considerable change with effect from 1st April, 1989. Now, all cases have to be accepted after making *prima facie* adjustments and the assessing officer has the full discretion to select error-prone cases for deep scrutiny.

[Ministry of Finance F.No. 241/3/89—A&PAC II dated 2nd July, 1991]

Recommendation

The Committee note that the Ministry have attributed the increases in prosecution, survey, number of assessees, 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.

[S. No. 5 Para 4.12 of Annexure VI to the 173rd Report of the P.A.C. (Eighth Lok Sabha)]

Action Taken

In paragraph 4.12 it has been stated in the context of Summary Assessment Scheme, that the Department had not been able to substantiate the claim regarding increase in assessments, tax collections and in other areas consequent to switch over to summary assessment procedure. In this regard, the C.B.D.T. would like to mention the following aspects for consideration to dispel the impression mentioned here-in-before.

2. The following statements annexed hereto will indicate the improvement in performance over the years in certain important areas of work:—

- i) Statement of net collection (Annexe I).
- ii) Statement of number of effective income-tax assessees (Annexe II).
- iii) Statement of number of searches conducted and assets seized (Annexe III).
- iv) Statement of number of prosecutions launched (Annexe IV).
- v) Statement of number of concealments detected (Annexe V).

3. This improvement in performance cannot be directly linked with the Summary Assessment Scheme. What, however, needs to be stated is the rationale of the said Scheme.

4. Having regard to the constraints on increasing the manpower resources to match the increase in workload, the C.B.D.T. decided that

it was necessary to make the best possible use of the limited resources available. As scrutiny of a large number of assessments, particularly those in the small income ranges, resulted in the diversion of a large part of the manpower in making assessments in such cases, without commensurate benefit, the C.B.D.T. decided that assessments in cases with incomes falling within specified limits should be completed in a summary manner. This led to quicker disposal of smaller income cases relieving the officers for quality work. Without this rationalisation it would not have been possible to provide the requisite manpower resources for other areas of work where very good results have been possible.

work where very good results have been possible.

[Ministry of Finance F.No. 241/3/89—A&PAC II dated 29 August, 1990]

ANNEXE—I

Net Collection of Direct Taxes from 1982-83 to 1988-89

Financial Year	Amount in rupees (in Crores)			
	IT	WT	GT	Total
1982-83	3729.92	86.89	7.52	3824.33
1983-84	4130.04	93.76	8.58	4232.38
1984-85	4470.42	107.18	11.38	4588.98
1985-86	5379.23	146.75	10.47	5536.45
1986-87	6028.37	163.88	8.73	6200.98
1987-88	6644.00	98.32	8.10	6750.42
1988-89	8607.57	115.06	5.59	8728.22

[Source : DIT (RS&PR) Bulletins & Performance Statistics].

ANNEXE—II

No. of effective Income-tax assessees from 1979-80 to 1988-89

Financial year	Figures in lakh
1979-80	41.76
1980-81	45.94

1988-89	8149
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[Source: Annual Review Investigation Wing]

1981-82	46.61
1982-83	47.97
1983-84	49.30
1984-85	49.35
1985-86	54.86
1986-87	62.61
1987-88	65.25
1988-89	71.31

[Source : DIT (RS&PR) Bulletins & Performance Statistics]

ANNEXE-III

<i>Financial year</i>	<i>No. of searches conducted</i>	<i>Assets seized (Rs. in crores)</i>
1984-85	4345	25.08
1985-86	6431	50.32
1986-87	7054	100.70
1987-88	8464	145.02
1988-89	7505	152.70

[Source: Annual Review Investigation Wing]

ANNEXE-IV

<i>Financial year</i>	<i>No. of prosecutions</i>
1984-85	2111
1985-86	4079
1986-87	5258
1987-88	7361

ANNEXE—V

Number of concealments detected from 1980-81 to 1988-89

Disposal of penalties u/s 271 (1) (c)

<i>Financial year</i>	<i>No. in which penalty levied</i>	<i>Amount of concealed income (Amount in thousands)</i>
1980-81	12027	99799
1981-82	9388	89430
1982-83	11387	120295
1983-84	8944	112970
1984-85	9124	183339
1985-86	7156	210946
1986-87	8221	218525
1987-88	9976	714038
1988-89	10589	737315

[Source: Performance Statistics & Bulletin of DIT [RSP&PR]

Audit Comments

The Ministry have expressed inability again to directly link the improvement in performance to summary assessment scheme. Further, the statistics gives the number of searches conducted and assets seized, the number of prosecutions launched and the number of concealments detected along with the penalty levied. The real gain to revenue in searches and seizures and the concealment additions and prosecutions sustained have not been given which could be the real index of improved performance. The Ministry may please furnish these particulars.

The Ministry may also give the co-relation to factors such as GNP/NNP as follows:

ANNEXURE I

1. Net collections as a percentage of GNP/NNP.
2. No. of effective tax assessees as a percentage of population.
3. No. of searches conducted as compared to the reduction in workload.
4. Assets seized as compared to gross collection.

5 No. of prosecutions as compared to actual successful conclusions.

[Ministry of Finance F. No. 241/3/89—A & PAC II dated 2nd July, 1991]

Further Action Taken

In para 4.12, the PAC has stated that the Department had not been able to substantiate the claim regarding increase in assessments, tax collections and in other areas consequent to the Switch over to summary assessment procedure. In our reply; we had given the figures of collection, increase in the number of assessees, number of searches conducted and assets seized, number of prosecutions launched and number of concealments detected. However, the PAC have again emphasised that the real gain to revenue in searches and seizure and the concealment additions and prosecutions sustained have not been given which would be the real index of improved performance. They have again asked for these particulars with specific reference to two factors such as GNP/NNP as follows:

1. Net collections as a percentage of GNP/NNP.
2. No. of effective tax assessees as a percentage of population.
3. No. of searches conducted as compared to the reduction in workload
4. Assets seized as compared to the gross collection.
5. No. of prosecutions as compared to actual successful conclusions.

It is not possible to collect figures of collections etc. linking it directly with the effect of the summary assessment scheme. No such statistics are maintained in the Department and it is not even possible to do so. The improved performance of the Department as indicated by the ~~figures~~ of collection, increase in number of assessees, increase in the number of surveys, searches and prosecutions etc. constituted as a cumulative effect of various factors like including the Summary Assessment Scheme, which reflects a major change in the policy of the Department. The general buoyancy in collection over the years shows that the summary

assessment scheme has led to improved performance by the Department.
 [Ministry of Finance F. No. 241/3/89—A. & PAC II dated 2 July, 1991]

Recommendation

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.

[S.No. 7 (Para 5.4 of Annexure VI to the 173rd Report of the P.A.C.
 Eighth Lok Sabha)]

Action Taken

The Central Board of Direct Taxes had directed the Directorate of O&M Services (Income-tax), New Delhi to carry out a study at Bombay, Pune and Delhi to ascertain the effectiveness of the random sample scrutiny scheme in respect of corporate assessees. The Directorate submitted its report to the Board in September, 1987. On the basis of the sample study carried out, the Directorate came to the conclusion that the random sample method is not satisfactory and that it had not been yielding any worthwhile results. The Directorate accordingly recommended that the random sample method should be replaced by the error potential method, i.e, the selective scrutiny method. It will thus be observed that the CBDT had, on its own, already taken action for an evaluation of the effectiveness of the random sample scrutiny scheme.

2. The report submitted by the Directorate was considered by the CBDT in a meeting held on 26th July, 1988. On the basis of the recommendations made by the Directorate and the feed back received from the field formations, the CBDT decided to substitute the random sample scrutiny scheme with selective scrutiny scheme. Under this method, the selection of scrutiny cases is made by taking into account the potential of a case for fruitful scrutiny and investigation. The criteria for selection of cases for scrutiny has also been laid down by the CBDT.

3. In regard to the recommendation that implementation of the instructions of 1984 and 1985 should be ensured, notwithstanding the lapse of time, but directing all Commissioners of Income-tax to undertake a time bound programme in respect of all past periods and have a sample scrutiny carried out for 5% of the cases covered under the summary assessment scheme, it is relevant to mention that, under the provisions of the Income-tax Act, as assessment has to be completed within two years from the end of the relevant assessment year. In view thereof, assessments for the assessment year 1987-88 and earlier years have already been finalised and cannot now be taken up for scrutiny under section 143(2) of the Act. In view of this legal impediment, it is not possible to make good the deficiencies in disposal of sample scrutiny cases for these years on the lines recommended by the Committee. Further, such a study may not be useful for future as the scheme of picking up cases on the basis of random sample has now been given up and cases are now being picked up for scrutiny keeping in view the error potential in the cases.

4. As regards the recommendation of the Committee that action should be taken against those who failed to implement the instructions of the Board, it is submitted that Assessing Officers are required to give a self-appraisal report for purposes of their annual confidential report. The self-appraisal report covers all important areas of performance. Hence, the supervisory authorities would have taken note of the deficiencies in the matter of taking up 5% of summary assessment cases on a sample scrutiny basis in making an overall appraisal of the performance of the Assessing Officers for the relevant period.

5. Action on the lines recommended by the Committee would also pose practical difficulties. Most of the Assessing Officers posted in particular circles, districts or wards during the relevant period would have been transferred to other circles, districts or wards. Many of them would have been transferred to other places or States. Some of them would have been promoted and some may have even retired. Action on the line recommended by the Committee would involve identification of each officer who failed to fulfil the target and then call for his explanation. It will also be difficult for Assessing Officers to give a

proper explanation for deficiencies in performance several years ago. Action on the lines recommended would also throw up considerable work with the result that the time and energy of the officers will get diverted from current tasks, which are very challenging.

6. The thrust of the recommendation made by the Committee that the CBDT should ensure implementation of all its targets and take appropriate action against those who have not performed adequately is fully acceptable. It is, however, submitted that the Committee may kindly reconsider its recommendation keeping in view the fact that the random sample scheme has been given up and the other administrative and practical difficulties referred to in the preceding paragraph.

[Ministry of Finance F. No. 241/3/89—A & PAC II dated 29 August, 1990]

Audit Comments

No comments. A copy of the DOMS Report and the analysis of the Report which led to the switching on to a selective scrutiny scheme may be furnished. Paras 4, 5, are based on presumptions furnished. Paras 4, 5, are based on presumptions.

[Ministry of Finance F.No. 241/3/89— A & PAC II dated 2, July, 1991]

Further Action Taken

In our reply to para 5.4 of the above mentioned report of the Public Accounts Committee on Assessment procedure, we had already pointed out the practical difficulties involved in taking action as recommended by the Committee. Hence, the same are not being repeated here.

2. Regarding the study conducted by the Directorate of Organisation & Management Services (Income-tax), it may be mentioned that the said study was conducted in respect of company cases to ascertain the impact of the random sample scrutiny scheme. The study was confined to the charges of Bombay, Pune and Delhi. The said study was based on a sample covering about 90% of the total number of assessments completed under the random sample scrutiny scheme in the company ranges. The conclusions were based on a sample comprising about 45 cases.

3. It was noticed that the following revelations emerged from the above study:—

In Bombay & Pune:

- (a) Out of a total of 38 cases, in 18 cases assessed income/loss was equal to the returned income/loss;
- (b) In 6 cases, the assessed income was marginally higher than the returned income; the difference of less than 10% could be attributed only to routine disallowances;
- (c) Out of the remaining 14 cases, 7 were loss cases where the returned loss was marginally modified;

(d) In the remaining 7 cases, the aggregate of income assessed was higher than the aggregate of income returned by Rs.77,000, the average addition per case being Rs.11,000 only

(Para 5 of the Report)

In Delhi:

In Delhi, substantial additions were made only in three out of seven cases. These aggregate to Rs. 1.57 lakhs. In the remaining four cases, the returned income was more or less accepted, with marginal modifications.

(Para 6 of the Report)

4. The scheme, thus, appears to have yielded results in only three out of 45 cases. The success rate was thus not as high as was expected, when the scheme was originally launched. It is also possible that the cases captured by the sample offered very little scope for disallowances or additions.

5. The Board took cognisance of this report in their meeting held on 26.7.1988 (Board's F.No.396/7/88/ITCC). On the basis of the recommendations of the Directorate and other feed back received from field formations, the Board decided to substitute the scheme with the selective scrutiny scheme. The latter is based on the principle of error or concealment potential. Now, it is mainly the latter which is taken into account while deciding whether a case should be scrutinised or not.

[Ministry of Finance F. NO. 241/3/89 — A & PAC II dated 2 July 1991)]

CHAPTER IV

RECOMMENDATIONS AND OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

Income-tax Audit, whether it is done by internal audit wing of the CBDT or by statutory audit by the Comptroller & Auditor General is based only on the returns submitted by the assessees 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 assessees 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 objection 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 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.

[S.N. 8, Paras 6.8 & 6.9 of Annexure VI, the 173rd Report of the PAC (8th Lok Sabha)]

Action Taken

In making a summary assessment, the Assessing Officer is empowered to make only the prescribed adjustments u/s 143 (1) of the Income-tax Act. It follows that if there has been any mistake or omission on the part of the

- Assessing Officer in making the prescribed adjustments, it would call for remedial action either *suo moto* or on the mistake or omission being pointed out by the Revenue Audit. However, if the mistake or omission is beyond the scope of the legal provisions of section 143 (1) or is of such a nature that it calls for scrutiny of the case, which could be done only by converting the summary assessment into a scrutiny assessment, there would be no legal justification for doing so or for taking remedial action.

Follow up action in respect of cases commented upon in the audit para has been taken in the light of the above policy of the Government. From comments given in Annexure-I it will be seen that the remedial action has been taken in respect of cases where the mistakes pointed out by audit related to the adjustments prescribed under section 143 (1) of the Act. In the remaining cases, mistakes are either outside the purview of the prescribed adjustments under section 143 (1) or they involve conversion of summary assessment into scrutiny assessment. Here, it will be pertinent to mention that during the relevant period when these mistakes or omissions were pointed out, there were no provisions under section 143 (1) of the Act for making adjustments in respect of *prima facie* admissible and inadmissible claims. These provisions had been deleted by the Finance (No. 2) Act, 1980 w.e.f. 1-4-80. Wherever the mistakes pointed out by Audit are beyond the scope of prescribed adjustments, there has been no failure on the part of the assessing officer in making summary assessments in a proper way. It would, therefore, not be proper to take remedial action in respect of these mistakes. Besides, remedial action in respect of these mistakes would be discriminatory *vis-a-vis* other tax payers.

Section 143 (1) of the Income-tax Act has been amended w.e.f. 1-4-1980. Under the amended provisions of section 143 (1), the assessing officer is now entitled to make adjustments in respect of both *prima facie* admissible and inadmissible items. In the result, the mistakes which were earlier pointed out by the Receipt Audit and for which remedial action was not possible, will now be taken care of by these adjustments.

As regards circular No. 176 dated 26-8-1987, it was issued in the context of certain mistakes which did not fall within the purview of permissible adjustments under section 143 (1) of the Income-tax Act. The point for consideration was whether remedial action in respect of such mistakes should be taken by resorting to the provisions of Section 263 of the Act. In

view of the policy of the Government regarding the summary assessment scheme, it was decided that no remedial action may be taken in such cases. Hence it will not be appropriate to hold any particular officer or officers responsible for this policy.

In view of the foregoing, the recommendations of the Committee have not been found acceptable.

This has the approval of the Minister of Finance.

[Ministry of Finance F.No. 241/3/89 — A & PAC II dated 29 August 1990]

S.No.	Para No.	Name of assessee (Asstt. Year)	Subject Matter	Remedial action whether called for or not	If yes, whether reme- dial action taken
1	2	3	4	5	6

DELHI CHARGE

1.	3.1.16	Shri R.S. Gulati (1983-84)	Arithmetical mistake	Yes	Yes
2.	"	M / s Noida Video Traders (P) Ltd. (1985-86)	Under valuation of No. This mistake was closing stock. not covered by the adjustment prescribed in Section 143 (1) of the Income-tax Act, 1961. Hence, enquiry and remedial mea- sure, if required, would involve con- version of Summary case into scrutiny, which is against the policy of the Govt.		N.A.
3.	"	M / s Mukta Enterprises (1985-86)	Rs. 180000/- recd. from DLF Ltd. against surrender of his tenancy right in piece of agril. land acquired by him in a Feb. 1982. Income of the assessee assess- able u / s 56 (1)	-do-	N.A.

1	2	3	4	5	6
4.	3.1.16	Mrs. Pushpender Bhandari (1984-85)	Assessee has income from a flat which is not owned by her. Income is to be assessed from other sources and 1/6th for repairs not to be allowed.	-do-	N.A.
5.	"	M/s Himalaya Construction Co. (P) Ltd (1983-84)	Assessee not doing any business, therefore, no expenses should have been allowed.	-do-	N.A.
6.	"	Raj Ehamel Works (P) Ltd. (1985-86)	Income from house property by Rs. 26750/-	-do-	N.A.
7.	"	M/s Pan Continental (P) Ltd. (1985-86)	The claim u/s 80HHC was not restricted to 70% of the income.	-do-	N.A.
8.	"	S. Gurdeep. Singh (1983-84)	Income from flat not owned by assessee to be taken as income from other sources and collection ch. & repairs not to be allowed.	No. This mistake was not covered by the adjustments prescribed in section 143 (1) of the Income-tax Act 1961. Hence enquiry and remedial measure, if required, would involve conversion of Summary case into Scrutiny, which is against the policy of the Government.	N.A.
9.	"	Sh. Pratap Singh (1984-85)	Agricultural income omitted for rate calculation purposes.	Yes	Yes
10.	"	M/s Green Hotels (1985-86)	Profit on sale of Motor Cycle not taken into account.	No. This mistake was not covered by the adjustments prescribed in sec. 143 (1) of the I.T. Act, 1961.	N.A.

1	2	3	4	5	6
				Hence enquiry and remedial measure, if required, would involve conversion of Summary case into Scrutiny, which is against the policy of the Government.	
11.	3.1.16	Smt. Chameli Devi (1985-86)	Rent received not taken into account.	-do-	N.A.
12.	"	M / s Kashi Ram Krishan Gopal (1985-86)	Short recovery charged to P&L account of the firm is not correct.	-do-	N.A.
13.	"	Shri Parveen Kumar Jain (1983-84)	Wrong calculation of tax	Objection not accepted as there was no mistake in calculation as pointed out by Audit.	N.A.
14.	"	M / s Dula Ram Jeevan Dass (1983-84)	I.T. charged to P&L A / c not added back.	No. This mistake was not covered by the adjustments prescribed in sec. 143 (1) of the I.T. Act, 1961. Hence enquiry and remedial measure, if required, would involve conversion of Summary case into Scrutiny which is against the Policy of the Govt.	N.A.
15.	"	M / s Allied Traders (1984-85)	The firm had undergone a change in constitution due to death of a partner. Return of income filed separately for two periods resulting in smaller slabs for two period.	Objection not acceptable under the Provisions of Amended Law.	N.A.
16.	"	M / s Mool Chand Chehil Dass (1984-85)	-do-	-do-	N.A.
17.	"	K.L. Ahuja (1984-85)	Wrong calculation of I.Tax	Yes	Yes

1	2	3	4	5	6
18.	3.1.16	Mr. Rameshwar Dayal (1985-86)	Deduction of int. charges paid & not covered by the house-rent u / s adjustment prescribed 80GG not admissible from salary income.	No. This mistake was in sec. 143 (1) of the I.T. Act, 1961. Hence enquiry and remedial measure, if required, would involve conversion of Summary case into scrutiny which is against the policy of the Govt.	N.A.
19.	"	Shri Manohar Lal Sethi (1983-84)	As per TDS certificates, income wrongly returned leading to under ch. of income of Rs. 283044.60 with tax effect of Rs. 144074 / -	-do-	N.A.
20.	"	Mr. Adardh Kr. Kapoor (1985-86)	Deduction claimed on a / c of salary paid out of salary income is incorrect and needed to be disallowed.	-do-	N.A.
21.	"	Banisha Vij (1985-86)	Wrong allowance of refund during 85-86 on income pertaining to A.Y. 86-87.	-do-	N.A.
22.	"	Sh. C.L. Miglani (1985-86)	Income of dividend taken as capital gain resulting in under charge of tax.	-do-	N.A.
23.	"	Sh. R.P. Jain (1985-86)	Int. income not taken into account.	-do-	N.A.
24.	"	Shri Harish Chawla (1984-85)	Assessee living in his own house. Hence no deduction of house-rent admissible.	No. This mistake was not covered by the adjustment prescribed in sec. 143 (1) of the I.T. Act, 1961. Hence	N.A.

1	2	3	4	5	6
				enquiry and remedial measure if required would involve conversion of summary case into Scrutiny which is against the policy of the Govt.	
25.	3.1.16	Shri K.S. Jairam (1985-86)	-do-	-do-	N.A.
26.	"	Sh. Jayram K. Nambra (1985-86)	Deduction of 4800/- on a/c of house-rent allowance has been claimed incorrectly as the assessee had been provided rent free accommodation by the employer.	-do-	N.A.
27.	"	Sh. R.S. Mann (1985-86)	Deduction of HRA claimed for Rs. 7577/- against maximum admissible amt. of Rs. 4800/-	-do-	N.A.
28.	"	Sh. B. Manohar Rao (1985-86)	Income of 7200/- on a/c of perquisite not shown in the return resulting in under charge of tax.	-do-	N.A.
29.	"	Sh. Vishwanath Poddar (1985-86)	Leave encashment during employment not added in income resulting in under charge.	-do-	N.A.
30.	"	Sh. Paramjit Singh (1983-84)	i) Std. deduction claimed twice ii) Deduction u/s 80RA was also not admissible from salary recd. from Chowgale Steamship Ltd.	-do-	N.A.
31.	"	Shri I.K. Sadhu (1984-85 & 85-86)	The assessee was provided free conveyance as perquisite. Therefore std. deduction was admissible	-do-	N.A.

1	2	3	4	5	6
			Rs. 1000/- which was wrongly allowed at Rs. 5000/- in 1984-85 & 1985-86.		
32.	3.1.16	Shri V.K. Arora (1985-86)	Deduction on No. This mistake was account of dearness not covered by the allowance was adjustment prescribed allowed erroneously in section 143 (1) of resulting in under the I.T. Act, 1961. assessment of Hence enquiry and income.		N.A.
33.	"	New Kanpur Sandlers House (1985-86)	Intt. of Rs. 13500/- paid to tax of Rs. 200/- and telephone used at residence not added back.	-do-	N.A.
34.	"	M / s A.D. India Advertising Mktg. (1985-86)	Sundry creditors The asstt. was shown by the completed u/s 143 assessee include (3). The objection is unrealised receipt of <i>prima facie</i> Rs. 1517179.42 & admissible. The sundry debtors assessing officer has include Rs. been directed to 1148167.32 on a / c of "Ad. charges unpaid" investigate and take which is not correct. remedial action if called for. Sundry debtors will increase to Rs. 3395229.25 & sundry creditors will decrease to Rs. 2311548.84. Net profit will increase by Rs. 738024/- which has resulted in under charge of tax of Rs. 191197/-.		N.A.
35.	"	Shri P.K. Bhasin	Arithmatical errors in (1984-85 & 85-86) return not corrected.	Yes	Yes

1	2	3	4	5	6
36.	3.1.16	Shri Ved Parkash (1985-86)	Income from commercial flat not covered by the should have been adjustment prescribed taken as income from in sec. 143 (1) of the other source instead I.T. Act, 1961. Hence of H. Property which enquiry and remedial resulted in under measure, if required, would involve charge. conversion of Summary case into Scrutiny which is against the Policy of the Government.		N.A.
37.	"	M / s Punjab Sweet House (1984-85)	Due to Arithmatical error income increased to Rs. 63870 instead of Rs.68370/-.	Yes	Yes
38.	"	Maharaja Satpal (1983-84)	Share from R.F. taken wrongly	Yes	Yes
39.	"	M / s Khandelwal Jewellers (1984-85)	Under valuation of stock by Rs. 46365 and intt. u / s 139 (8) No. This mistake was not covered by the adjustment prescribed in sec. 143 (1) of the I.T. Act, 1961. Hence enquiry and remedial measure, if required, would involve conversion of Summary case into Scrutiny which is against the Policy of the Government.		N.A.
40.	"	M / s Rajesh Enterprises (1983-84)	Assessee claimed and was allowed excess hire charges of cinema wrongly resulting in under assessment of Rs. 6224/-	-do-	N.A.
41.	"	Mukesh Khanna (1985-86)	Totalling mistake in working out taxable income.	Yes	Yes

1	2	3	4	5	6
42.	3.1.16	Smt. Swaran Kaur Bajaj (1985-86)	Municipal taxes and repair ch. not covered by the allowed to the assessee during 1984-85 as the property was not in her name. However, these were allowed during 85-86 as asstt. was completed u/s 143 (1)	No. This mistake was not covered by the adjustment prescribed in sec. 143 (1) of the I.T. Act, 1961. Hence enquiry and remedial measure, if required, would involve conversion of Summary case into Scrutiny which is against the Policy of the Government.	N.A.
43.	"	M/s A.K. Arora & Co (1984-85)	Totalling mistake in P&L A/c. Income comes to Rs. 64876.58 instead of 55950/- as indicated in asstt. order u/s 143 (1)	Yes	Yes
44.	"	M/s Chhaju Ram Sat Pal (1983-84)	Income-tax wrongly worked out to Rs. 8067/- against Rs. 9074/-	Yes	Yes
45.	"	M/s Jai Prakash (1985-86)	I.T. wrongly worked out to Rs. 2749/- against Rs. 27894/-	Yes	Yes
46.	"	M/s Ram Bax Laxmi Narain (RF) (1985-86)	Bad debts written off in P&L A/c without proper justification u/s 36 (1) (vii) & 36(2)	No. This mistake was not covered by the adjustment prescribed in sec. 143 (1) of the I.T. Act, 1961. Hence enquiry and remedial measure if required, would involve conversion of Summary case into Scrutiny which is against the Policy of the Govt.	N.A.
47.	"	M/s Jai Shyam Trdg. Co. (1985-86)	Bad debts written off in P&L A/c without proper justification u/s 36 (1) (vii) & 36 (2)	-do-	N.A.

1	2	3	4	5	6
48.	3.1.16	M / s Goel Iron & Steel Works (1983-84)	Wrong totalling of creditors in B. Sheet resulting in excess liability of Rs. 163240.59	There was only which has been corrected by the assessee. After correction objection stands explained.	N.A.
49.	"	Shri Manorath Singh (1985-86 & 86-87)	Loss wrongly carried forward resulting in potential loss and under charge of tax.	Yes	Yes
50.	"	Sh. Dal Chand Gupta (1984-85 & 1985-86)	Services Charges were to be disallowed.	No. This mistake was not covered by the adjustment prescribed in sec. 143 (1) of the I.T. Act, 1961. Hence enquiry and remedial measure if required, would involve conversion of Summary case into Scrutiny which is against the Policy of the Government.	N.A.
51.		Shri Brij Mohan (1985-86)	Permission from foreign travel not available. Therefore, foreing expenses disallowed as purpose whether for business or personal is not known.	-do-	N.A.
52.	"	Mrs. Laxman Anand (1984-85)	Assessee has disclosed income from house property at Rs. 30000/- whereas in last year property income was declared at Rs. 36000/-	-do-	N.A.
53.	"	Shri Sumit Mehra (1984-85)	Irregular grant of investment allowance and depreciation.	-do-	N.A.

1	2	3	4	5	6
54.	3.1.16	Shri R.N. Suri (1985-86)	Deduction u/s 23 (1) wrongly allowed	-do-	N.A.
55.	"	Shri Kashmirilal (1984-85)	Although tax of Objection partly Rs. 6380/- was yet to accepted. The be paid, a refund of assessee has paid the Rs. 3190 was allowed tax equal to the resulting in under demand raised. assessment of tax of However, the ITO Rs. 9570/- issued a refund of Rs. 3190 by mistake resulting in a loss of revenue of Rs. 3190 and not Rs. 9570 as pointed out by Audit.		Yes
56.	"	M / s Gulshan Thread Ball Co. (1983-84)	Form 12 not filed. ITO did not pass order u / s 184 (7). Therefore the firm is to be treated as unregistered and income-tax to be worked out accordingly.	Assessment in all these cases was completed under Summary Assessment Scheme. All the firms have claimed the status of R.F. which was allowed, as under the scheme, status cannot be changed.	N.A.
57.	"	M / s B.K. Jain & Bros. (1983-84)	-do-	-do-	N.A.
58.	"	M / s Industries (1983-84)	-do-	-do-	N.A.
59.	"	M / s Mulchand Ajit Kumar (1983-84)	-do-	-do-	N.A.
60.	"	M / s Raghunath Pd. Ramanand (1984-85)	-do-	-do-	N.A.

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61.	3.1.16	Shri Tilak Raj (1983-84)	Income from self occupied house has not been included in the total income. Income also not worked out correctly.	As per the note appended to the returns of income, the house was not registered in the name of the assessee. Since it was not regd. in his name, the income from SOP could not be taxed in his hands. For further enquiry, the case has to be converted in Scrutiny which is against the policy of the Govt.	N.A.
62.	"	Smt. Kushal Pal (Trust) 1983-84	Wrong calculation of IT and interest u/s 217	As per direction of AAC, status of the assessee was taken as trust and no tax was payable. Hence, objection not accepted.	N.A.
63.	"	M / s Amar Galss Works (1984-85)	Assessee claimed both depr. as well as repair charges for building		N.A. N.A.
64.	"	Smt. Sushil Abrol (1985-86)	Adhoc reduction on expenses on commission not restricted to 50%		N.A. N.A.

KERALA CHARGE

1.	3.1.16	M / s M.S. Jwollers (1984-85)	Arithmetical mistake in computing income.	The facts are not correct. There was no arithmetical mistake as pointed out by Audit	N.A.
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1.	2.	3.	4.	5.	6.
2.	3-1-16	M/s Jai Kali Coir Exporters (1984-85)	Income-tax debited to P&L Account was not added back in the return of income	No. This mistake was not covered by the adjustment prescribed in S. 143 (1) of the Income-tax Act, 1961. Hence, enquiry and remedial measure, if required, would involve conversion of Summary case into scrutiny, which is against the policy of the Govt.	N.A.
3.	-do-	M/s Kurian & Suseslan (1983-84)	Salary paid to partners was not added back u/s 40(b)	-do-	N.A.
4.	-do-	M/s Current Books (1983-84)	-do-	-do-	N.A.
5.	-do-	Dr. Antony Henry	Wrong deduction of Rs. 1548/- on account of Municipal tax paid on property which had no actual letting value.	-do-	N.A.
6.	-do-	B.T. Rozario (1983-84)	The opening value of the work in progress for the year ending 31-3-83 as per accounts is Rs. 56621/- The closing value of the work in progress as on 31-3-83 as per accounts was Rs. 49781/- The objection is that there was excess credit to the a/c's of the difference between the 2 figures i.e. a sum of Rs. 6842/- in computing the profits of the year ending 31-3-83.	-do-	N.A.

1	2	3	4	5	6
COCHIN CHARGE:					
1.	3.1.16	M/s United Engg. Construction (1985-86)	i) Adoption of low profit rate; ii) Margin adjustments pre-money for guarantee in of the Income-tax the balance Act 1961. Hence en-sheet was neither re-turned nor as-sessed as in- come.	No. This mistake was not covered by the adjustments pre-scribed in s. 143 (1) of the Income-tax Act 1961. Hence enquiry and remedial measure, if required, would involve con- version of Summary case into Scrutiny, which is against the policy of the Govt.	N.A.
2.	-do-	M / s P.T. Marakkar Haji (1982-83)	Repairing changes of a lorry was claimed as revenue expendi-ture as well as capitalised also. The objection is that capi-tal expenditure on which depr. was granted should not have been allowed as revenue expenditure.	-do-	N.A.
3.	-do-	C. Ismail (1985-86)	Intt. on the earnest money deposit was not disclosed in the return of income.	No. This mistake was not covered by the adjustments pre-scribed in s. 143 (1) of the Income-Tax Act, 1961. Hence enquiry and remedial measure, if required, would involve con- version of Summary case into Scrutiny, which is against the policy of the Govt.	N.A.
4.	-do-	K.J. Varkey (1984-85)	In the asstt. for A.Y. 1982-83 u/s143(3) intt. and finance charges claimed by the assessee as de-duction on loan was disallowed but the same was not done in the A.Y. 84-85. Asstt. completed u/s 143(1)	-do-	N.A.

1	2	3	4	5	6
5.	3.1.16	M / s Fashion (1984-85)	Rashmi Mistake in treating Works the returned income as loss.	Yes	Yes
BOMBAY CHARGE:					
1.	3.1.16	Mrs. (ii) (1) Ashok Kr.	Chitra The amt. of carry forward loss for the A.Y. 81-82 to 83-84 has not been correct- ly set off in comput- ing the total income for A.Y. 84-85	Yes	Yes
2.	3.1.16	Shri Anil A. Shah (ii) (2)	Incorrect allowance of carrying losses beyond 8 years.	Yes	Yes
ANDHRA PRADESH CHARGE:					
1.	3.1.18	Standard (1) Construction (1983-84 to 84-85)	Adoption of low profit rate	No. This mistake was not covered by the adjustment prescribed in S. 143 (1) of the Income-tax Act, 1961. Hence, enquiry and remedial mea- sure, if required, would involve con- version of Summary case into scrutiny, which is against the policy of the Govt.	N.A.
RAJASTHAN CHARGE:					
1.	3.1.18	M / s (2) Sharne Construction Co. (1983-84 to 84-85)	-do-	-do-	N.A.
MADHYA PRADESH CHARGE:					
1.	3.1.18	Sh. (3) Mahendra Singh Bhuda Singh Bhatia & Others (1980-81 to 83-84)	-do-	-do-	N.A.
BIHAR CHARGE:					
1.	3.1.18	Shri B.N. Ag- (4) garwal	-do-	-do-	N.A.

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ANDHRA PRADESH CHARGE:

1.	3.1.18 (5)	Lodge Viswa Bhawan (1985-86)	As per statement of total income appended to the return, the assessee worked out its total income at Rs. 107460/- but wrongly returned the same as Rs. 94196/-	Yes	Yes
2.	3.1.18 (6)	Naaz Hardware Mart (1985-86)	Arithmetical error	No. There was a typographical error in depicting the purchases (gross purchases made from Secundrabad - Head Office were at Rs. 4137918/- and not Rs. 1037918/- as shown in the return of income)	

MADHYA PRADESH CHARGE:

1.	3.1.18 (7)	Gopaldas Sriram & others (1983-84 to 85-86)	Contract receipts were offered less than the actual receipt shown in the certificate	No. This mistake was not covered by the adjustments prescribed in S. 143 (1) of the Income-tax Act, 1961. Hence, enquiry and remedial measure, if required, would involve conversion of Summary case into scrutiny, which is against the policy of the Govt.	N.A.
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ASSAM CHARGE:

1.	3.1.18 (12)	M/s Murtidhar Agarwal & others (1983-84 to 84-85)	ITO estimated the net profit @ 2% on the contract received after deducting commission @ 2% paid to 2 invoices for the year 82-83. The Audit objection is that for the A. Y. 83-84 & 84-85 the same principle was not applied	-do-	N.A.
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BOMBAY CHARGE:					
1.	3.1.18 (14)	Popular tyres (1984-85)	Intt. paid to partners was not disallowed u/s 40(b)	No. This mistake was not covered by the adjustments pre- scribed in s. 143 (1) of the Income-tax Act 1961. Hence enquiry and remedial measure, if required, would involve conversion of Summary case into Scrutiny, which is against the policy of the Govt.	N.A.
2.	3.1.18 (15)	Nand Lal Soraiwala (1983-84 to 85-86)	Goodwill paid to retiring partner was not disallowed being capital expenditure	-do-	N.A.
3.	3.1.18 (16)	Miss Geeta S. Sukhija (A.Y. 1984-85)	The audit objection is that the partner of the firm was allowed wrong deduction u/s 80 HHC	In the computation sheet attached to the return of income for that A.Y. 84-85, the assessee first declared her gross share of income from the firm as per the books of the firm and then deducted therefrom her proportionate share of relief u/s 143 (1) taking share of profit subject to rectification u/s 155. The RA objection was not accepted this being not a case of allowing deduction u/ s 80HHC to firms & partners. Firm's asst. was completed u/s 143(3) allowing deduction u/s 80HHC. Accordingly assessee's assessment was also revised u/s 155.	
4.	3.1.18 (17)	M.G. Karamchandani (1983-84 to 85-86)	In the case of a salaried assessee, the expenditure was allowed as expenses incurred against commission earned from the employer though the commn. as assessable as would involve con-	No. This mistake was not covered by the adjustments pre- scribed in S. 143 (1) of the Income-tax Act, 1961. Hence, enquiry and remedial measure, if required, would involve con-	N.A.

1	2	3	4	5	6
			salary qualifying version of Summary individually for case into scrutiny, standard deduction. which is against the policy of the Govt.		
5.	3.1.18 (18)	M.H. Doshi Investment Agencies P. Ltd. (1985-86)	Deduction u/s 80M- was allowed on gross instead of net dividend	No. This mistake was not covered by the amount of dividend adjustments pre-scribed in s. 143 (1) of the Income-tax Act 1961. Hence enquiry and remedial measure, if required, would involve conversion of Summary case into Scrutiny, which is against the policy of the Govt.	N.A.
TRIVANDRUM CHARGE:					
1.	3.1.18 (19)	T.Gourikutty Amma, M/s M.A. Varkey & Co. Mrs. Lizam- ma Mathew Zeenath Theatre & Mariamma Ab- raham (1981-82, 83-84 to 85-86)	In these cases the No. This mistake was Audit objection is not covered by the that capital gain tax- adjustments pre-able to tax being cap- scribed in S. 143(1) ital gains arising in a of the Income-tax corporation area on Act, 1961. Hence, sale of rubber es- enquiry and remedial estates/cinema/theatre/ measures if required, house property in a would involve con- municipal area were version of Summary either not returned or claimed as exempt case into scrutiny, which is against the policy of the Govt.		N.A.
2.	3.1.18 (20)	48 Assessee in 62 assessments (de- tail of the same has not been pro- vided by Audit) (1981-82 to 84-85)	i) Wrong exemption claimed regarding encashment of periods of leave while in service; ii) HRA was claimed and allowed as exemption though the residential premises occupied by the assessee was owned by them	-do-	N.A.
3.	3.1.18 (21)	Shri N.N. Tanton (1984-85)	Deduction on ac- count of investment in the acquisition of new asset out of sale proceeds of long term capital assets without verifying whether the assessee had, in fact	The objection is not acceptable. The assessee made an investment in a flat in Laxmi Bhawan, Con. Cir., New Delhi. This fact is also verifiable from records as in-	N.A.

1	2	3	4	5	6
				erty has been shown for the first time for the A.Y. 1984-85.	
4.	3.1.18 (22)	Ashoka Exports (1983-84)	Deduction towards export profit was allowed for the A.Y. 83-84 though there was no evidence to show that prescribed conditions have been satisfied.	No. This mistake was not covered by the adjustments prescribed in S. 143(1) of Income-tax Act, 1961. Hence, enquiry and remedial measures if required, would involve conversion of Summary case into scrutiny, which is against the policy of the Govt.	N.A.
	3.1.18 (23)	20 cases of M.P. Charge (1983-84 to 85-86)	Cases of incorrect application of rate of depreciation.	-do-	N.A.
	3.1.18 (24)	136 Assessee of A.P. Charge (1983-84 & 84-85)	i) Wrong exemption claimed regarding encashment of periods of leave while in service; ii) HRA was claimed and allowed as exemption though the residential premises occupied by the assessee was owned by them	-do-	N.A.
	3.1.18 (25)	M/s M.A. Hai Construction Co. (1984-85)	Wrong claim of investment allowance on a lorry which did not qualify for investment allowance.	-do	N.A.
MADHYA PRADESH CHARGE:					
1.	3.1.18 (26)	Key has not been provided	The employees of an Elec. Board did not return order by allowance, ex-gratia payment in lieu of bonus and encashment of LTC in reducing short levy of tax of Rs. 44820.	-do-	N.A.
2.	3.1.18 (27)	New Sindh Transport Co. (1984-85)	Wrong claim of expenditure such as expenditure incurred on body building of buses being capital expenditure fines, penalties and charity/ donations.	-do-	N.A.
BOMBAY CHARGE:					
1.	3.1.18 (28)	Sh. Tajendra M. Sen (1984-85)	Amts, received by the assessee from the dit are not correct as employees super-annuation fund is tax-able as the fund was not recognised one	Facts reported by the superannuation fund is a recognised fund.	N.A.

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TAMIL NADU CHARGE:

1.	3.1.18 (29)	V.M. Desai (1984-85)	Sum received from an approved super-annuation fund was exempt though not refunded in accordance with the Act.	No. This mistake was not covered by the adjustment prescribed in S. 143(1) of the Income-tax Act, 1961. Hence, enquiry and remedial measure if required, would involve conversion of Summary case into scrutiny, which is against the policy of the Govt.	N.A.
2.	3.1.18 (30)	Mycolor tributors Ltd. (1983-84 & 84-85)	Dis- Pvt. The actual letting value of a building adopted at Rs. 60000/- for 82-83 was returned and adopted at Rs. 18000 for 83-84 and 84-85	-do-	N.A.
3.	3.1.18 (31)	Vimal Shantilal (1982-83)	Omission to assess the share income from a trust in the case of beneficiary.	Facts are not correct. The share of the beneficiary intt. from the trust was assessed in individual assessment.	N.A.
4.	3.1.18 (32)	Dr. M.V. Markose (1982-83)	Part of estimated un- explained investment of Rs. 2.02 lakhs in a residential bldg. ad- ded in A.Y. 82-83 amounting to Rs. 1.02 lakhs was not as- sessed in A.Y. 83-84 & 84-85	No. This mistake was not covered by the adjustment prescribed in S. 143(1) of the Income-tax Act, 1961. Hence, enquiry and remedial measure, if required, would involve con- version of Summary case into scrutiny, which is against the policy of the Govt.	N.A.

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MADHYA PRADESH CHARGE:

1.	3.1.18 (33)	M/s Jajoo Bros. (1982-83)	Unexplained cash No. This mistake was N.A. credit of Rs. 1.5 not covered by the lakhs of A.Y. 82-83. adjustments pre-noticed while completed in s. 143 (1) pleting assessment for of the Income-tax the A.Y. 83-84 was Act 1961. Hence en-not assessed while query and remedial reopening the earlier measure, if required, Asstt. years. would involve conversion of Summary case into Scrutiny, which is against the policy of the Govt.		
2.	3118 (34)	Narendra Doshi (1984-85)	Security deposit of Rs. 82369/-refundable was not included in total income for A.Y. 84-85	-do-	N.A.
3.	3.1.18 (35)	Govind M. Bharne (1983-84 & 84-85)	Omission to club income of the minor son in the hands of the father u/s 64.	-do-	N.A.
4.	3.1.18 (36)	Ganjanna Enterprises, Mahaveer Chemicals, V.S.N Trust Parekh Trust (1984-85)	In the case of the four trusts carrying on business, assts. were made on the beneficiary on the respective shares instead of in the hands as an AOP as has been held in courts.	-do-	N.A.
5.	3.1.18 (37)	Smt. Jagjit Kaur Smt. Surender Kaur (1985-86)	Capital gain the hands of two partners was not taxed	-do-	N.A.

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ANDHRA PRADESH CHARGE:

1.	3.1.18 (38)	Smt. Ram Appa Laxmi, Rama Vasantha, Rama Rajeshwari (1982-83 to 84-85)	Capital gain on sale of gold and jewellery were not returned for the A.Y. 82-83 to 84-85	No. This mistake was not covered by the adjustments prescribed in S. 143(1) of the Income-tax Act, 1961. Hence, enquiry and remedial measure, if required, would involve conversion of Summary case into scrutiny, which is against the policy of the Govt.	N.A.
2.	3.1.18 (39)	Express Traders (1983-84 & 84-85)	Deduction u/s 80HHC was allowed without verifying the fulfilment of conditions	-do-	N.A.
3.	3.1.18 (40)	Tapendra Nath Kr. (1983-84 & 84-85)	Deduction u/s. 80RRA was claimed & allowed on gross emoluments instead of 50% on the amts. received in foreign currency.	-do-	N.A.
4.	3.1.18 (41)	Hemkosh Stationers (1985-86)	Investment allowance and depr. was allowed without any check in the case of a firm dealing in stationery and printing work.	-do-	N.A.
5.	3.1.18 (42)	Gulab Rai & Sons (1983-84 & 85-86)	Income from leased hotel was assessed as business income instead of house property income	-do-	N.A.
6.	3.1.18 (43)	Babulal Khemchand Trust (1983-84 & 84-85)	A trust, the shares of which were held to be indeterminate for A.Y. 78-79 to 81-82 was assessed at ordinary rate instead of the maximum marginal rate for A.Y. 83-84 & 84-85	-do-	N.A.

1	2	3	4	5	6
7.	3.1.18 (44)	Kristile Cement Products (1985-86)	Investment allowance on excavator ladder not covered by the was allowed though adjustment prescribed the assessee had in S. 143(1) of the leased it out and had Income-tax Act, received only hire 1961. Hence, enquiry charges.	No. This mistake was N.A. and remedial measure, if required, would involve conversion of Summary case into scrutiny, which is against the policy of the Govt.	
8.	3.1.18 (45)	M/s A.A. Koppal (1985-86)	Double claim of lorry hire account expenses was allowed	-do-	N.A.
9.	3.1.18 (46)	M.S. Vijay Shanker (1984-85 & 85-86)	Reserves carried to balance sheet were not disallowed.	-do-	N.A.
10.	3.1.18 (47)	M.M. Joseph & 5 others (1983-84 to 85-86)	Systematic abuse of concession by a Group of assessees who took voluntary retirement from indl. co. received in addition to pay & allowances upto the date of retirement, amts. of gratuity and ex-gratia compensa- tion which was tax- able. The assessees however, showed considerable amounts as losses arising from business ventures stated to have been started by them shortly after retire- ment. These losses when set off against their salary/income reduc- ed their total income to "such a figure as a result in a refund of major portion of the tax deducted at source.	-do-	N.A.

1	2	3	4	5	6
11.	3.1.18 (48)	Dukle Douba & Co. (1983-84)	Intt. paid to wife of a partner of RF not covered by the governed by adjustments prescribed in S. 143(1) of Portugese Civil Court was not disallowed-	No. This mistake was the Income-tax, Act, 1961. Hence, enquiry and remedial measure, if required, would invoke conversion of Summary case into scrutiny, which is against the policy of the Govt.	N.A.
12.	3.1.18 (49)	Dhonthi Trading Co.	Payment exceeding T. Rs. 2500/-in each Kandaswamy & case made in A.Y.85-86 in 100 cases for Son & others (1985-86)	-do-	N.A.
13.	3.1.18 (50)	Sh. Ch. Veera Raghvaish (1983-84)	Short-term capital gain was erroneously exempted u/s 54 of the I.T. Act.	-do-	N.A.
14.	3.1.18 (51)	Chandra Sales Corp. (1983-84)	Incorrect allowance of Investment allowance on way bridge in the hands of a firm engaged in purchase and sale of coal and paper.	-do-	N.A.
15.	3.1.18 (52)	Jaiprakash Singh & others (1984-85 & 85-86)	Depr. debited to accounts was not added back before Deprn. was allowed depr.	The facts stated by Audit are not correct allowing admissible only once and not twice as observed by Audit.	N.A.

1	2	3	4	5	6
16.	3.1.18 (53)	Smt. Lakshmi Devi Shraff (1982-83 to 85-86)	In the case of a trust which provided for a 25% income to the author of the trust, the author was not assessed on full income of the trust.	No. This mistake was not covered by the adjustments prescribed in S. 143(1) of the Income-tax, Act, 1961. Hence, enquiry and remedial measure, if required, would involve conversion of Summary case into scrutiny, which is against the policy of the Govt.	N.A.
17.	3.1.18 (54)	Ramkrishna & others (1981-82 to 83-84)	Income from sale of land in small lots of 5 individuals was not assessed as business income in the hands of A.O.P.	-do-	N.A.
BIHAR CHARGE:					
1.	3.1.18 (55)	M/s Hindustan Cycle Stores (1985-86)	Non application of provisions of Sec. 43B	-do-	N.A.
WEST BENGAL CHARGE:					
1.	3.1.18 (55)	M/s S.A. Engg. Works (1984-85 & 85-86)	-do-	-do-	N.A.
ASSAM CHARGE:					
1.	3.1.18 (55)	M/s Chachan Traders (1984-85)	-do-	-do-	N.A.
WEST BENGAL CHARGE:					
1.	3.1.18 (55)	M/s Khlawkaran Doshi (1984-85)	Non application of provision of Sec. 43B	No. This mistake was not covered by the adjustment prescribed in S.143(1) of the Income-tax Act, 1961. Hence, enquiry and remedial measure, if required, would involve conversion of Summary case into scrutiny, which is against the policy of the Govt.	N.A.
2.	3.1.18 (55)	Jotirmoyee Paul (1984-85)	—do—	-do-	N.A.

** Information for Para Nos. 3.1.16(3,4,14,23,24,27,28,32,36,37,39,42,43&44) and 3.1.18 (8, 9, 10, 11 & 13) are under process of the Ministry and will be furnished shortly. Details of additional revenue in case where remedial action has been taken will be furnished shortly.

The reply does not enlighten the Committee on anything new other than what was placed before the Committee during evidence. The Ministry are of the view that remedial action in respect of points not covered by the prescribed adjustments would be discriminating certain tax payers vis-a-vis other tax payers and that it would amount to converting a summary assessment into a scrutiny assessment.

Section 143(2)(b) contains specific provisions which enables an assessing officer to re-open an assessment completed in a summary manner in order to verify the correctness and completeness of the return. This provision will apply in cases of audit objections pointing out errors not covered by the prescribed adjustments and any re-opening would be perfectly legal. Besides, there will be nothing discriminatory as the assessee had failed to return the true and correct income or had claimed excess or incorrect allowance or deduction within the meaning of section 143(3)-Explanation. It may be stated that scrutiny assessment of a few cases on the basis of income limits and all others in a summary manner, is itself discriminatory as it places both the honest and not so honest assessees with the same income, on par.

[Ministry of Finance F. No. 241/3/89—A & PAC II, dated 2 July 1991]

Further Action Taken

It has already been clarified in the Ministry's comments on this para that the remedial action has been taken in respect of cases where the mistakes pointed out by audit related to the adjustments prescribed u/s. 143(1).

As regards, the remaining cases, remedial action involved conversion of summary assessment into scrutiny assessment. As already mentioned in the Ministry's comments, in view of the policy of the Government regarding the Summary Assessment Scheme, it was decided that no remedial action may be taken in such cases.

[Ministry of finance F. No. 241/3/89—A & PAC II, dated 2 July 1991]

CHAPTER V

RECOMMENDATIONS AND OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

Recommendation

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.

[S. No. 9 (Para 6.10) of Annexure VII to the 173rd Report of the P.A.C.
(Eighth Lok Sabha)]

Action Taken

In regard to the recommendation that in no case refund shall be authorised without ensuring the actual remittance of tax to the Government, it is submitted that one of the important objectives of the introduction of Summary Assessment Scheme was to speed up the work of completion of assessments and to prevent harrassment to the tax payer. Delay in issue of refund has been one of the major grievances of the tax payer against the Department. In this connection, it may be recalled that the Public Accounts Committee, in para 1.34 and 1.35 of the 78th Report (1986-87) had, *inter alia*, recommended that refunds should be issued expeditiously.

2. The Department has, therefore, attached great importance to expeditious issue of refund. If the Assessing Officer has to verify the actual remittance of tax in cases of tax deducted at source, it would involve enormous amount of work and would consume a lot of time of the Assessing Officer. Such verification of each and every TDS certificate would certainly delay the issue of refund.

3. Further, the Board had issued instructions that the refund has to accompany the assessment order. If the assessment order and refund is withheld in routine fashion only for verification of actual remittance of tax, the whole idea underlying the scheme, namely, the expeditious disposal of assessments would be negatived. Also, it would give rise to complaints and give the Department a bad image.

4. It is further submitted that credit for tax deduction at Source has to be given in accordance with section 199 of the Income-tax Act. This section lays down that on the production of the certificate furnished u/s 203, credit has to be given. For deductions u/s 192, i.e. Salary payments, it has also been prescribed in chapter 4 of Manual of Office Procedure that the monthly returns received from the employers (Form No.21) should be checked every month from the treasury challans received in subsequent months. It has further been prescribed that the monthly returns are later on to be reconciled with reference to annual returns (Form No.24).

5. The Central Board of direct Taxes has been aware of the problem of tax fraud committed by unscrupulous assessees by presenting bogus TDS Certificates u/s 203, to the Assessing Officer. There is no doubt that the genuineness of the TDS certificates can be verified by the Income-tax Officer by making reference to the tax deductor who has issued this certificate. However, considering the volume of work involved, consequent delay in the completion of assessment and the resultant harrassment to the large majority of tax payers this course is not possible.

6. With a view to solving this problem, the Board had asked the Directorate of O & M Services to look into this problem alongwith other matters pertaining to administration of tax deduction at source and suggest solutions. The DOMS submitted their report in September, 1987 from their F.No.10/1/86-CD / DOMS. On the basis of these recommendations a new scheme of issue of TDS Certificates was started w.e.f. 1-4-1989 after making necessary legislative amendments. This scheme envisages issue of TDS Certificates on forms printed by the Central Government and made available to the tax deductors for a nominal 'consideration'. These certificates (in Form No.16) have to be prepared in triplicate, out of which one copy is to be given to the payee, one copy is for the office record of the tax deductor and the third copy is to be enclosed alongwith the annual TDS return to be filed by the tax Deductor. It has further been envisaged in the scheme that the Assessing Officer before whom a certificate u/s 203 is filed can make a reference to the ITO (TDS), with whom a similar copy of the certificate has been filed and thus the genuineness of the certificate can be verified. For obvious reason however this verification cannot be made in each and every case. The percentage of cases in which cross verification is made has been left to the discretion of the respective Chief Commissioner (Board's Instruction No.1797 dated 19-9-88 copy enclosed).

7. Since the certificates have to be issued on the printed forms supplied by the Central Government and the Assessing Officers can now make cross

verification, there is inbuilt deterrence in the new scheme which is likely to reduce the tax frauds, if not eliminate them altogether.

8. Form No.16, for certificate of deduction of tax at source under section 203 of the Income-tax Act which has been made effective from 1st April, 1989, is at Annexure 'A'. Paragraph 3 of the said form has following columns:—

- (1) Sl.No.
- (2) Amount paid / credited.
- (3) Date of payment / credit.
- (4) Amount of income-tax deducted.
- (5) Date and Challan No. of deposit of tax into Central Government Account.
- (6) Name of bank and branch where tax deposited.

It would be observed that in col. 5 of the said form the person responsible for deduction of tax has to mention the date and challan number of deposit of tax into Central Government Account and in Col.6 the name of bank and branch where tax has to be deposited has to be mentioned. The need for verification of genuineness of TDS certificate and whether the tax has been actually remitted to the Central Government arises only if the Assessing Officer has *prima facie* doubt about the same.

9. Having regard to the objective of the summary assessment scheme to speed up the work of completion of assessments, the desire of the Public Accounts committee in their 78th Report (1986-87) for expeditious issue of refunds, the instruction of the Board that the refund should accompany the assessment order, and the new scheme of issue of TDS Certificate introduced w.e.f. 1-4-1989, it is requested that the Committee may kindly reconsider their recommendation regarding the issue of refund after ensuring the actual remittance of the tax to the Government.

10. In this para the Committee has also recommended that all the cases commented by the Audit in this regard must be fully investigated and result intimated. It is submitted that the investigation on the lines suggested by the Committee has been undertaken and the result will be intimated in due course.

Instruction No. 1797

Changes in Administration of TDS—Implementation of.

On consideration of the report of DOMS "on administration of TDS" and the comments of FICCI, ASSOCHAM etc. thereon, it has been decided by the Board as under:—

a. ITOs (TDS) will be posted either under the Chief Commissioner of the respective Commissioners depending upon the number of ITOs (TDS) required and available.

The percentage of certificates u/s 203 to be subjected to cross verification / investigation must be left to the discretion of the respective Chief Commissioners.

Different TAN should be allotted to each branch of the assessee responsible for deduction of tax at source. TAN may not be allotted to a temporary branch located at work site. In such cases, an option may be given to the assessee that any of its branch or H.O. may be responsible for deducting tax at source, issuing certificates of TDS and furnishing of rules / returns in respect of such temporary branch.

2. It is brought to your notice that the Board by Notification No. S.O. 585 (E) dated 14-6-88 has prescribed a unified form of TDS certificates in Form No. 16 in terms of the newly substituted rule 31 of the Income-tax Rules, 1962.

3. These instructions may please be brought to the notice of all officers working under your charge.

[F.No. 275 / 103 / 88-IT (B) dt. 19-9-88 from Central Board of Direct Taxes.]

FORM NO.16

(See rule 31)

Certificate of deduction of tax at source issued under section 203 of the
Income-tax Act, 1961

Tax Deduction A/c No. TDS Certificate No.
 Name and address of the person Permanent A/c No.
 deducting tax Status

Certified that a sum of Rs. being income-tax *at the rate of per cent has been deducted at source from the payment made/credited into the account of the payee for the period to and has been paid to the credit of Central Government as per details given below:—

1. (a) Name and address of the person whom payment made
 or in whose account it is credited
 (b) Permanent Account Number of such person
2. (a) Nature of payment
 (b) Code No. (indicate Code No. in the box as per instruction overleaf)

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3. #Details of payment and tax deduction

Sl. No.	Amount paid / credited	Date of payment / credit	Amount of income-tax deducted	Date and Challan No. of deposit of tax into Central Government Account	Name of bank and branch where tax deposited

*("at the rate of per cent" not applicable for salaries).

In case of salaries, the particulars required as overleaf should be furnished.

Complete address of ^{1a}(Assessing Officer) before whom annual return / statement under section 206 is to be delivered.

Place

Date

Signature of person responsible for deduction of tax

Full Name

Designation

^{1a} Substituted for "Income-tax Officer" by the IT (Fifth Amdt.) Rules, 1989 w.e.f. 1-4-1988.

CERTIFICATE OF TDS U / S 203
DETAILS OF SALARY PAID AND TAX DEDUCTED AT SOURCE
DURING THE YEAR

	Amount of salary	Bill No. / Challan No. of payment	Date of payment	Amount of tax deducted	Name of bank / branch where tax deposited
April to June					
July to September					
October to December					
January to March					
Arrears etc.					
TOTAL					

CODES

Salaries (section 192)	01	Winnings from horse races (section 194BB)	06
Interest on securities (section 193)	02	Payments to contractors and sub- contractors (section 194C)	07
Dividends (section 194)	03	Insurance Commission (section 194D)	08
Interest other than interest on securities (section. 194A)	04	Other sums (section 195)	09
Winnings from lotteries and crossword puzzles (section 194B)	05		

Audit Comments

No comments. Further report of the Ministry after investigation into the cases commented by audit is awaited.

[Ministry of Finance F.No. 241 / 3 / 89—A & PAC II dated 2 July 1991].

Further Action Taken

In Para 6.10, the PAC had recommended that in no case the refund shall be authorised without ensuring the remittance of the tax and that all the cases commenced by the audit in this regard must be fully investigated and result intimated.

The investigation in this regard is still being carried out and the PAC will be duly informed after the completion of such investigation.

[Minisrty of Finance F.No. 241 / 3 / 89—A & PAC II dated 2 July 1991].

NEW DELHI;
12 February, 1992

ATAL BIHARI VAJPAYEE
Chairman,
Public Accounts Committee

23 Magha, 1913 (Saka)

APPENDIX

Observations and Recommendations

Sl. No.	Para No.	Ministry/ Dept. concerned	Observations/Recommendations
1	2	3	4
1	1.9	Deptt. of Revenue	<p>Observing that follow up action had not been taken in all cases, where irregularities had been pointed out by Audit, the Committee in their earlier Report had recommended that in respect of all cases commented on in Audit Paragraph, follow-up action be taken and a compliance Report, duly vetted by Audit furnished within a period of 6 months. The Ministry in their action taken note have stated that remedial action has been taken in respect of cases where the mistakes pointed out by Audit related to the adjustments prescribed under Section 143(1) of the Income-tax Act. With regard to the remaining cases the Ministry have stated that mistakes are either outside the purview of the prescribed adjustments under Section 143(1) of the Income-tax Act or they involve conversion of summary assessment into scrutiny assessment. Further, according to the Ministry remedial action in respect of these mistakes would be discriminatory <i>vis-a-vis</i> other taxpayers. Section 143(2)(b) of the said Act contains specific provisions which enables an assessing officer to reopen assessment completed in a summary manner in order to verify the correctness and completeness of the return. The Committee, therefore, do not agree with the Ministry's viewpoint.</p>
2	1.11	Deptt. of Revenue	<p>The Committee find that a number of recommendations made by the Committee in their 173rd Report as brought out in the preceding paragraph</p>

1 2 3

4

have been accepted by the Government, in principle. The actual implementation of these recommendations, however, depends on the outcome of the subsequent follow up action. The Committee recommend that necessary follow up action in respect of all these recommendations should be completed expeditiously so that these recommendations are implemented both in letter and spirit. The Committee would like to be apprised of the latest position in this regard within a period of six months.

PART-II

MINUTES OF THE SITTING OF P.A.C. HELD ON 24 JANUARY, 1992

The Committee sat from 1030 hrs. to 1230 hrs. on 24 January, 1992.

PRESENT

Shri Nirmal Kanti Chatterjee—*In the Chair*

MEMBERS

2. Shri Girdhari Lal Bhargava
3. Shri Vilas Muttemwar
4. Shrimati Krishna Sahi
5. Shri Pratap Singh
6. Prof. (Dr.) S.P. Yadav
7. Shri R.K. Dhawan
8. Shri Dipen Ghosh
9. Shri Murasoli Maran
10. Shri Vishvjit P. Singh
11. Shri Ish Dutt Yadav

LOK SABHA SECRETARIAT

1. Shri S.C. Gupta	—	Joint Secretary
2. Smt. Ganga Murthy	—	Deputy Secretary
3. Shri K. C. Shekhar	—	Under Secretary

REPRESENTATIVES OF AUDIT

1. Shri N. Sivasubramaniam	—	ADA (Reports)
2. Shri A.K. Menon	—	ADA (Army, Navy, Air Force etc.)
3. Shri Dharam Vir	—	DGA (CR-I)
4. Shri A.K. Banerjee	—	Pr. DA (Reports Central)
5. Shri Dhivendra Swarup	—	Pr. DACR (II)
6. Shri T.N. Thakur	—	Pr. DA Scientific Departments
7. Shri P.K. Lahiri	—	Pr. DA (Direct Taxes)
8. Shri K. Krishnan	—	Director (DT)—I
9. Shri Kulvinder Singh	—	Director (DT)—II

2. In the absence of Chairman, the Committee chose Shri Nirmal Kanti Chatterjee, to act as Chairman for the sitting of the Committee in terms of rule 258(3) of the Rules of Procedure and Conduct of Business in Lok Sabha.

3. The Committee considered and adopted the following Draft Action Taken Reports subject to modifications shown in the Annexure III.

(i)	**	**	**
(ii)	**	**	**
(iii)	On the recommendations contained in 173rd Report of PAC (8th Lok Sabha) relating to Assessment Procedure—Summary and Scrutiny Assessment		
4.	**	**	**
5.	**	**	**
6.	The Committee authorised the Chairman to present the Reports to the House after incorporating therein modifications/amendments arising out of factual verification by Audit.		
7.	**	**	**

The Committee then adjourned.

Modifications/Amendments made by the Public Accounts Committee at their sitting held on 24th January, 1992 in the Draft Report on action taken on 173rd Report of the Public Accounts Committee (8th Lok Sabha) Relating to Assessment Procedure—Summary and Scrutiny Assessment.

Page	Para	Line	Modifications/Amendments
6	1.9	4 from bottom	<i>Insert 'do not agree with the Ministry's view point' after the word 'therefore' and delete the succeeding portion of the paragraph.</i>