

**Report of the  
Comptroller and Auditor General  
of India**

**for the year ended March 2009**

**Income Tax Refunds**

**UNION GOVERNMENT  
(DIRECT TAXES)  
NO. 7 OF 2009-10**

**Laid on the table of Lok Sabha/Rajya Sabha on \_\_\_\_\_**

**7 MAY 2010**



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## PREFACE

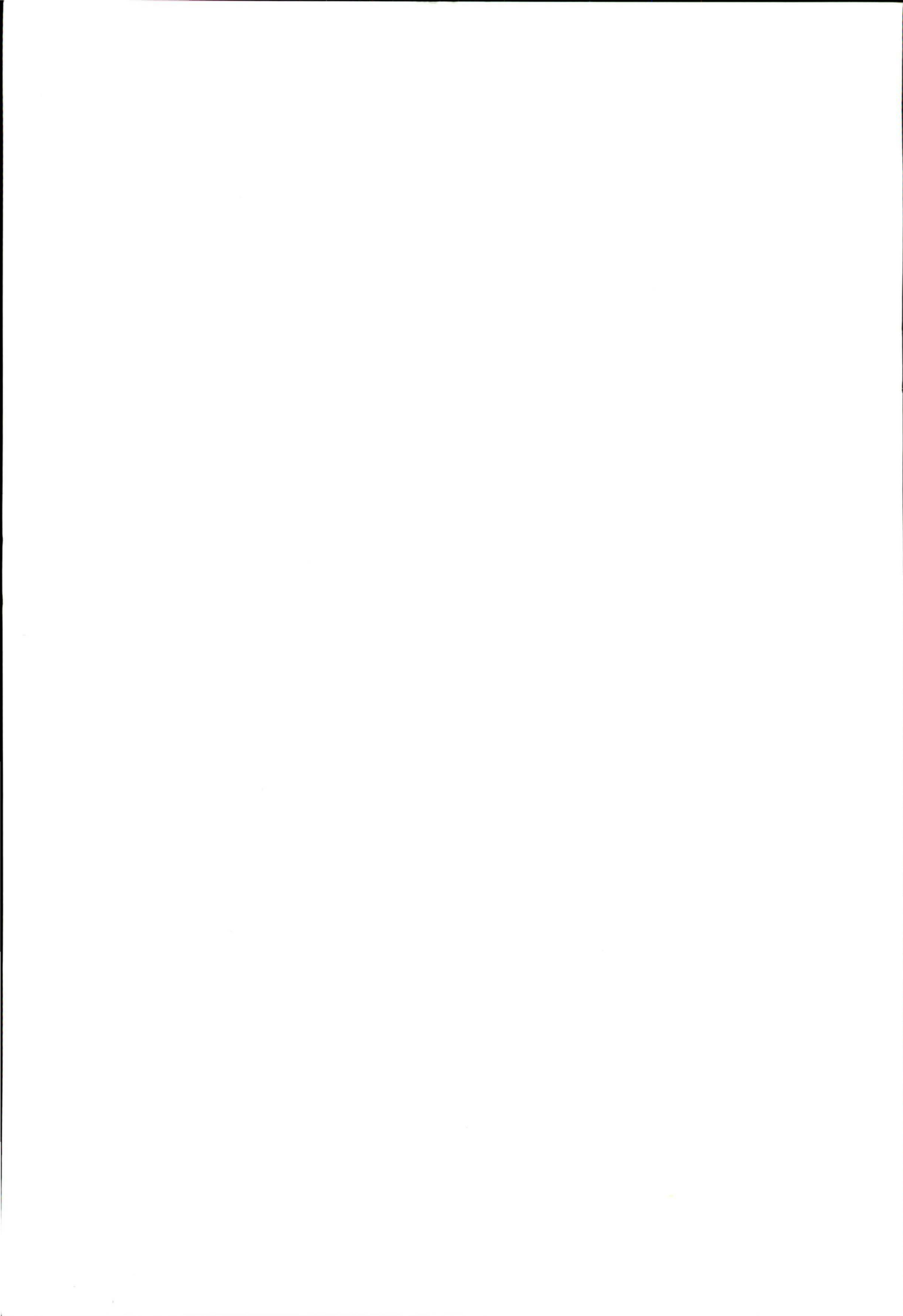
The report for the year ended March 2009 containing the results of the performance audit of Income Tax Refunds has been prepared for submission to the President under Article 151(1) of the Constitution of India.

The audit of Revenue Receipts – Direct Taxes of the Union Government is conducted under Section 16 of the Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act, 1971.

Our findings are based on mainly test audit conducted during the period January 2009 to August 2009. Some findings of audit conducted in earlier years, but could not be covered in previous reports, have also been included.



# Executive Summary





## Executive Summary

A taxpayer becomes eligible for a refund if the tax paid by him was higher than the tax due in the year. The refund process gets initiated with the claim contained in the annual tax returns submitted by the taxpayer, which is then examined by the assessing officer for eligibility. The claim is finally disposed when the refund voucher is prepared and issued to the assessee through the authorized banks.

Timely disposal of refund claims is a key measure of the operational efficiency of tax administration. Prompt refunds instill confidence among taxpayers and increase tax compliance. Automation was aimed to speed up the disposal and thus reduce the pendency of claims.

We conducted performance review of income tax refunds processed during 2005-06 to 2008-09 in order to seek an assurance that the systems and procedures were geared towards timely and accurate processing of refund claims and that internal controls provide for effective monitoring. While the department largely cooperated with our efforts, access to records was a major constraint with the department not producing 20 *per cent* of the records asked for by us.

In our review we found procedural irregularities in refunds aggregating Rs. 5803.5 crore; the tax effect of erroneous refunds being Rs. 135.8 crore.

Incidence of tax refunds measured by refunds as a percentage of gross tax collections, showed a declining trend during the period 2005-09, which reflects streamlining of the tax assessment process. Despite automation, the pendency rate of refund claims showed an upward trend. Our analysis showed that increase in interest outflows on refunds was mainly on account of delays in processing than due to increase in the volume of refunds. The recent initiative of the Department to establish the Central Processing Centre (CPC) at Bengaluru, is aimed to reduce the pendency.

Interest on belated refunds of excess tax is being incorrectly accounted as reduction of revenue instead of being correctly budgeted as an expenditure item. The incorrect accounting practice also leads to interest payments escaping legislative scrutiny despite being a charge on the Consolidated Fund of India and needs to be rectified.

We reviewed the checks and controls in the system for ensuring accuracy of the refund advice. The computerised systems are yet to stabilize. Although automation allows online verification of tax credits claimed by the assesseees, the high incidence of credits that could not be matched with the PAN of the assesseees (called OLTAS suspense) has rendered such verification difficult. The

Assessment Information Systems (AST) is being used mainly for summary assessment. Even so, the system controls do not ensure that refunds granted through summary assessments were adjusted while processing subsequent refunds. We also found cases of excess payment of interest on refunds.

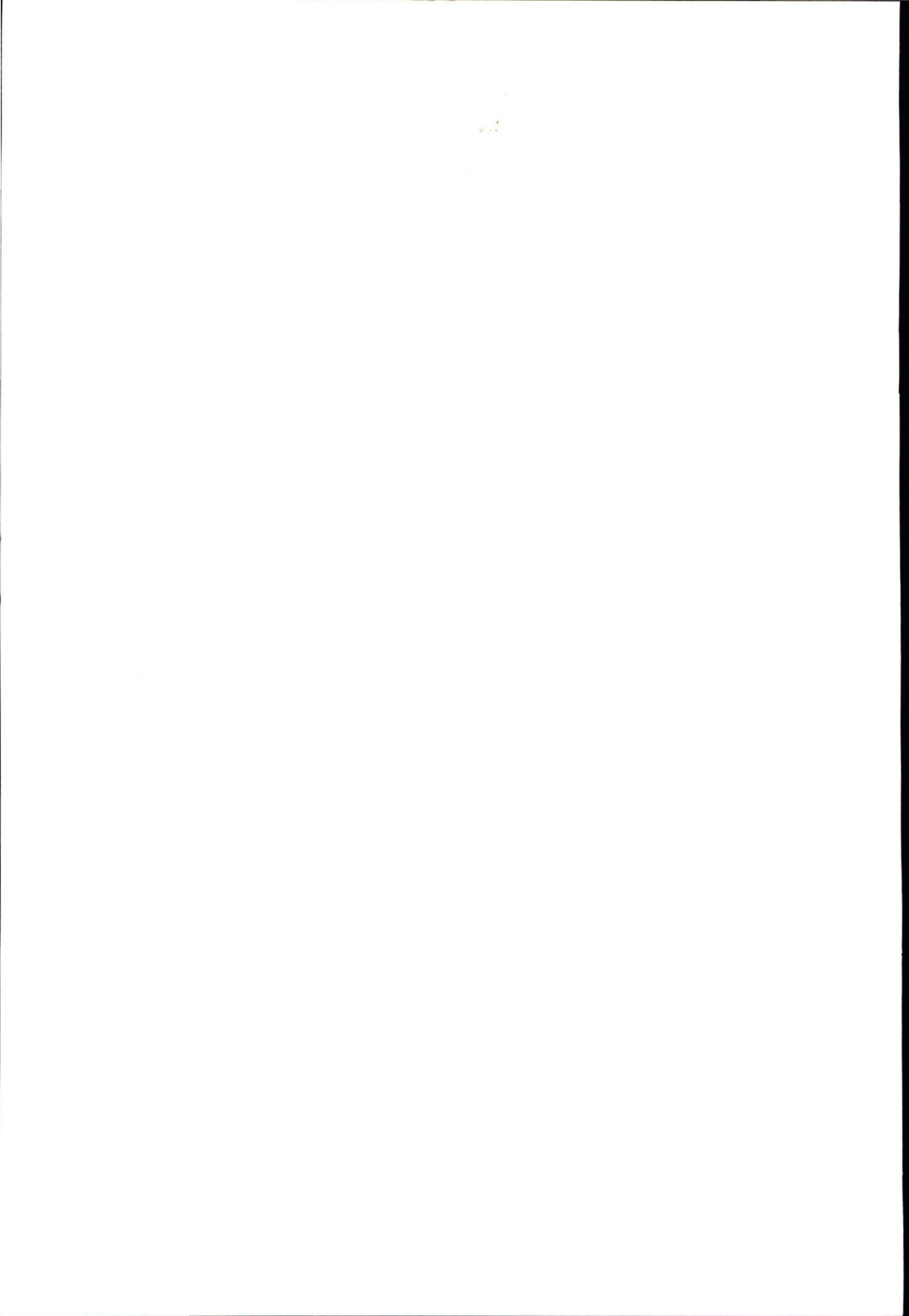
Till such time that the computerised systems stabilise, continuance of manual systems of control become inevitable. We, however, noticed that maintenance of the manual registers was unsatisfactory and the supervisory controls were ineffective.

We have evaluated the timeliness in processing of refunds particularly of small taxpayers. The departmental target of settling refund claims within 4-6 months is much longer than international standards which range from 24 days to six weeks. Our analysis showed that the average time taken for processing of refund claims leading to issue of refund vouchers is 10 months. The average time taken for the assessee to receive the refund voucher after its issue is 40 days. In 2007-08 the taxpayer received the refund in 12 months after he submitted the claim. This inconveniences the taxpayer considerably, particularly the senior citizens whose refunds, the department claims, have been put on fast track with an assurance for on-the-spot settlement. We found that the average time taken for receipt of refund by a senior citizen was 12 months after filing of return.

The delays in processing of high value refunds were akin to that of low value refunds, with bottlenecks at various stages. The impact of delays in high value refunds is many fold: taxpayer inconvenience; both cost to the assessee and the monetary loss suffered by Government on account of interest payments is higher in high value refunds; the distortion of tax collections due to pending high value refunds, is also higher. The Refund Banker Scheme, which is in a pilot stage, has had a good impact on stemming delays in payment (i.e., stage after the refund voucher is issued).

During the exit conference, the Ministry accepted the audit recommendations and agreed to address the issues brought out in the report.

Summary  
of  
Recommendations



## Summary of Recommendations

- ❖ **On incidence of refunds in company cases** (Paragraph 2.4)
  - We recommend that the Ministry conducts an analysis of high value refunds to identify pockets of high incidence.
- ❖ **On increasing pendency of refund claims** (Paragraph 2.9)
  - We recommend that the Ministry reviews the gaps in automation which are impeding the clearance of refund claims.
- ❖ **On internal control and monitoring mechanism...** (Paragraphs 3.3, 3.5, 3.21, 3.22, 3.24, 3.29, 3.30)
  - We recommend that the controls effected in the manual system may not be lost in automation. This will strengthen the MIS also.
  - We recommend incorporation of an online auto-reconciliation feature in the system for every cheque issued.
  - We recommend that the Ministry identifies the risks during migration and the steps that would be needed to mitigate the risks.
  - We recommend that since automation captures the flow of the income tax return after its receipt, the automation system should be able to generate jurisdiction-wise report of pending refunds leading to effective control.
  - We recommend that the Department undertakes clearance of legacy data and improving the fidelity of the data on priority basis. This will also encourage the AOs to use the system and thus promote the integration of automation into regular assessment proceedings.
  - We recommend that pending full use of AST for all the assessment work, the results of all types of assessments viz., summary, scrutiny, rectification, revision etc. be posted mandatorily in the AST module. This will help the AOs to verify the arrears of demand and refunds issued earlier.

- ❖ **On assessment of timeliness in disposal of refund claims...**  
(Paragraphs 4.5, 4.9 and 4.10)
  - We recommend that the monthly monitoring should capture the delays in the stage of processing, which our analysis shows, was the biggest bottleneck. The monitoring process should also capture the reasons for pendency in order to flag the deviations from the procedure by AOs.
  
- ❖ **On enhancing taxpayer satisfaction...** (Paragraphs 3.14 and 4.5 to 4.8)
  - We recommend that the Ministry may consider setting up a mechanism to filter refund claims of senior citizens in CPC/dedicated processing units for priority processing. The monitoring process should also capture pendency in the claims of senior citizens separately in order to alleviate inconvenience caused to them.
  - We recommend that in order to enhance transparency, refund claims should be processed in chronological order. The process can be made more transparent by displaying the status of the claim on the departmental website.
  - We recommend that the departmental staff are sensitized to perceive themselves as service providers working towards customer satisfaction. This may be integrated into the training programmes and seminars/workshops organized in the Department.
  
- ❖ **On accuracy of advice...**  
(Paragraphs 5.1 and 5.3)
  - We recommend that the different mechanisms and controls offered by the ITD applications towards reconciliation of the demands should be properly utilized during processing of the refunds.
  - We recommend that the responsibility of the staff members may be clearly fixed in case of material arithmetical error. This will help in reducing such avoidable errors.

# **CHAPTER 1**

## **— INTRODUCTION**

**Legal Provisions**

**Why we chose the  
topic**

**Objectives of audit**

**Scope of audit**

**Acknowledgement**







## CHAPTER 1

### Introduction

1.1 Tax refund primarily arises when tax paid by an assessee at the pre-assessment stage<sup>1</sup> exceeds tax determined as payable at the time of assessment, whether in summary or in scrutiny<sup>2</sup>.

1.2 Disposal of refund claims is a key indicator for measuring the operational performance of tax administration in providing quality services to the taxpayers; dimensions of quality being taxpayer satisfaction through accuracy of advice and timeliness in receipt of refund. Prompt issue of refunds reduces the interest liability of the government and by instilling confidence in the taxpayers, encourages them to greater tax compliance.

1.3 The Task Force on Direct Taxes (Kelkar Committee) had observed that “the failure of the tax administration to issue refunds continues to be a major source of public grievance.” One of its main recommendations to address the problem was replacement of the existing cumbersome and manually-operated procedures for issue of refunds with a more efficient automated system. The initiatives of the Department in automation were aimed to improve efficiency in management of refunds.

#### Legal provisions

1.4 Chapter XIX of the Income Tax Act, 1961 deals with the law and procedure regarding refunds. Sections 237 to 245 relate to refunds with particular reference to excess tax paid; persons entitled to claim refund in special cases; procedure and time limit for claim of refund; interest on refunds and set-off of refund against pending tax demands.

#### Why we chose the topic

1.5 We had conducted a performance evaluation of refunds in 2001-02. Our major findings highlighted taxpayer inconvenience because of delays in refunds, particularly those arising out of appeals<sup>3</sup> and set-off of refunds against pending tax demands without intimating the tax payers; excess payment of refunds arising out of computation errors; and avoidable and excess payment of interest on refunds.

<sup>1</sup> Tax at pre-assessment stage is collected by way of tax deducted at source (TDS), advance tax and self assessment tax. While TDS is deducted by third party deductors from payments made to tax payers and remitted to government, advance tax and self-assessment form voluntary compliance by the tax payer.

<sup>2</sup> Annual tax return submitted by the tax payer is first summarily assessed by AOs without calling for additional documents or insisting on the presence of the tax payer. High risk returns are then selected for scrutiny assessments in which AOs subject the returns to detailed examination with reference to additional documents, if need be.

<sup>3</sup> An aggrieved tax payer can avail of appellate mechanisms within the Department; if still aggrieved he can take legal recourse.

1.6 Public Accounts Committee (PAC) made several recommendations on the above audit report in its 55<sup>th</sup> Report (13<sup>th</sup> Lok Sabha) and 15<sup>th</sup> Report (14<sup>th</sup> Lok Sabha), in response to which the Department committed the following:

- ❑ To address the Committee's concern on inordinate delays, the Department assured that instructions had been issued to field formations to strengthen their internal procedures for prompt detection of delays, with their performance being monitored through monthly reports on refunds;
- ❑ PAC was informed that the Information Technology (IT) systems have been put in place to minimize errors in computation; and
- ❑ Section 244A was amended to reduce the interest rate on refunds to discourage taxpayers from paying excess tax. A new section was also introduced to charge interest on excess refunds granted in summary assessment.

1.7 The PAC desired that it may be apprised of the progress in implementation of IT systems as well as of the impact of the administrative measures to bring in timeliness in issue of refunds. We audited refunds this year to examine the extent to which the Department has been able to fulfill the above commitments.

1.8 The fact that efficiency in giving timely refunds forms the touchstone for evaluation of the Department's IT systems also prompted us to choose this audit. Our attempt was to focus on the grievances of the common taxpayer who is affected the most by the quality of services provided by tax administration in refunds.

### **Objectives of audit**

1.9 The objectives of our audit were to seek an assurance that:

- ❑ The systems and procedures are geared to timely examination of refund claims and issue of refunds;
- ❑ Internal controls provide for effective monitoring of delays in issue of refunds and for timely corrective action;
- ❑ Automation in the Department has helped to improve efficiency in processing of the refunds. It also provides adequate safeguards to ensure accuracy in refund advices.

## Scope of audit

1.10 Refunds due and paid during the financial years 2005-06 to 2008-09, were the subject of our study conducted during the period from January 2009 to August 2009. We divided refunds into two clusters notably high value refunds<sup>4</sup> and low value refunds<sup>5</sup>:

- Two tier statistical sampling was employed while conducting the review. At level-1, the assessment units were selected using stratified random sampling. The universe was sub-divided into types of assessment units with specified percentage selection amongst them. Selection of the actual units was based on the risk analysis of each unit<sup>6</sup>. At level-2, assessment records having high value refunds were selected for audit within the assessment units using stratified random sampling. Low value refunds of individuals were sampled randomly<sup>7</sup> as indicated in Appendix-I.
- 12423 high value refunds in 613 selected assessment circles/wards in 23 offices were selected for detailed examination with regard to compliance with laws and procedures and accuracy in advice. Of these, 9889 assessment records representing nearly 80 *per cent* of the selection were provided to audit. The remaining assessment records were not produced to audit.
- 12491 low value refund cases were selected to see if the small taxpayer is being served well by timely receipt of refunds. Delays, if any, were the only focus in examining low value refunds.

## Acknowledgement

1.11 Indian Audit and Accounts Department acknowledges the cooperation of the Income Tax Department in providing the necessary records and information for audit. An entry conference was held on the review on refunds, with the Member (Audit) and other senior officers of the CBDT. The audit objectives, scope of audit and the main areas of audit examination were explained in the meeting. Audit was conducted on the assessment records in the respective field formations of the IT Department.

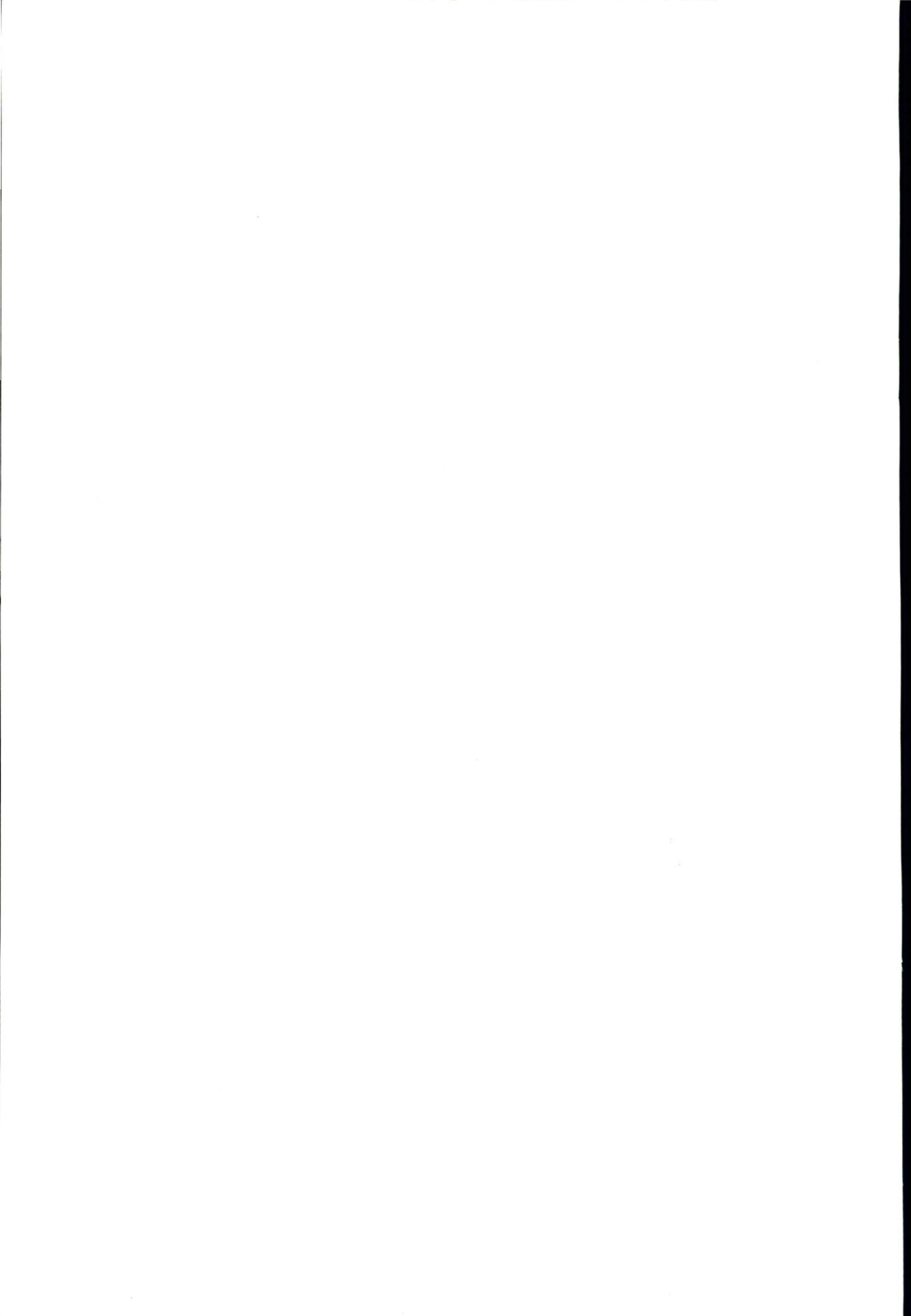
1.12 The exit conference was held (March 2010) with the CBDT wherein the report was discussed. The views expressed by the Board in the exit conference have been suitably incorporated in this report. Replies from the Ministry have not been received (March 2010).

<sup>4</sup> Involving not less than Rs. 5.00 lakh;

<sup>5</sup> Involving not more than Rs. 5.00 lakh and less than Rs. 500

<sup>6</sup> Several factors such as materiality of assessments in an unit, assessee profile of an unit and previous audit observations in respect of an unit etc., form the risk matrix for evaluation of a unit.

<sup>7</sup> Without following pre-defined criteria other than the value of refund and subjecting the total number of cases to be selected by any field formation to a ceiling.



## **CHAPTER 2**

### **— INCIDENCE OF REFUNDS**

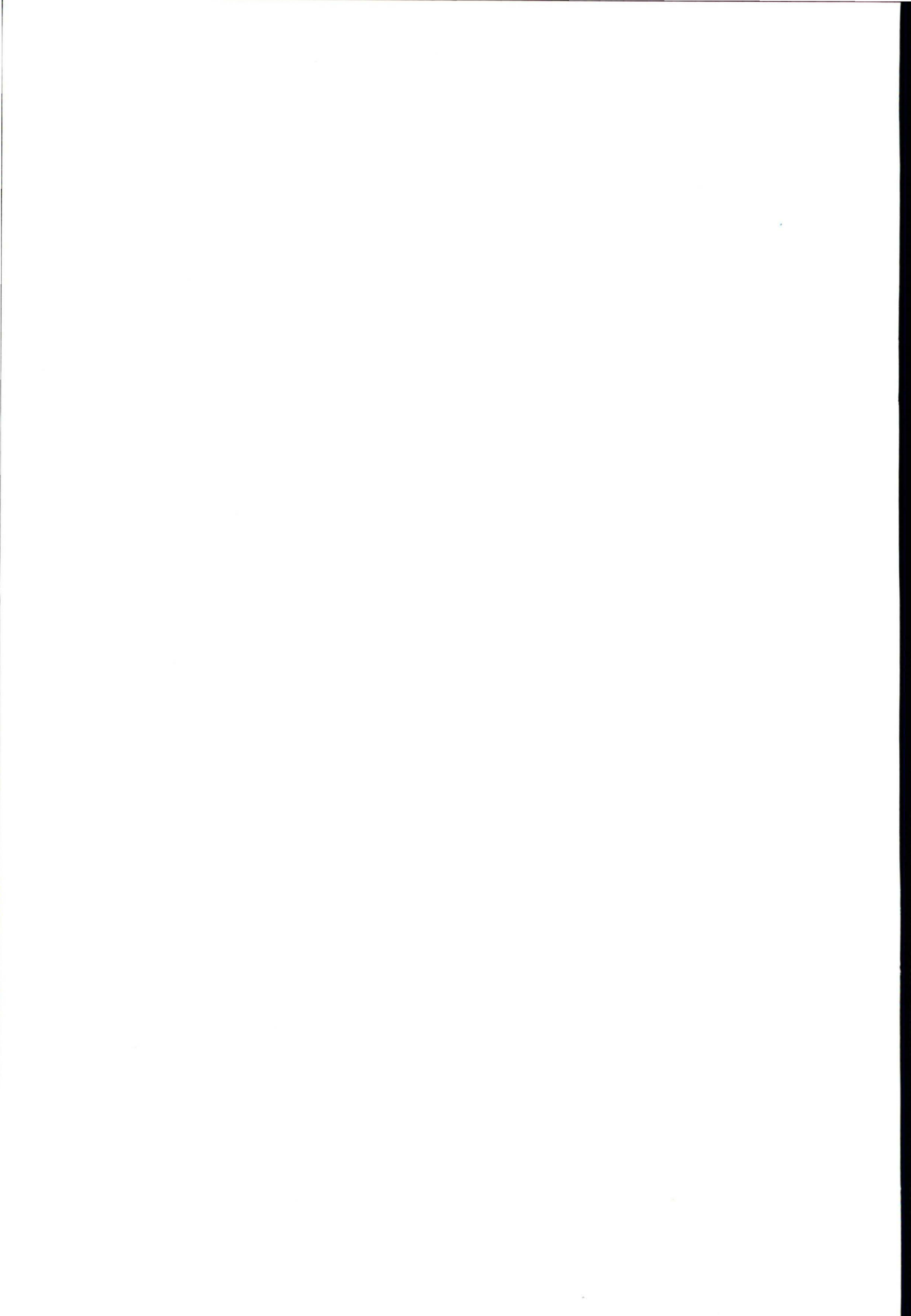
**Volume of refunds - Trends**

**Incidence of corporate refunds**

**Corporate Refunds vis-à-vis Gross  
Tax Collections - Quarterly trends**

**Pendency rate of refunds**

**Recommendations**





## CHAPTER 2

### Incidence of refunds

Incidence of refunds as measured by 'refunds as a percentage of gross tax collections' showed a decreasing trend over the period indicating a positive shift towards streamlining of tax assessment. It was higher in respect of company cases as compared to non-company cases. However, the differential gap between the two categories (in terms of *per cent*) was reducing. We found that the tendency to pay excess advance tax especially among PSUs persisted in the department. This continuing trend points to a risk that assessing officers may resort to collection of excess advance tax to meet their targets and subsequently refund the excess. Despite automation, the pendency in processing of refund cases exhibited an increasing trend with a six months backlog from 2008-09. Our analysis showed that increase in interest outflows on refunds was mainly on account of delays in processing than due to increase in volume of refunds.

2.1 We made the following assumptions in the analysis of incidence of refunds:

- ❑ A taxpayer will ordinarily pay tax closest to what is due and would not like to pay more than due;
- ❑ In a refined tax administration, a taxpayer can calculate the tax due with greater accuracy because of either clarity in tax provisions or consistent application of provisions by assessing officers in past assessments;
- ❑ In an emerging economy as new types of businesses open, some amount of over-payment of tax leading to refunds is unavoidable.

Hence, reduction in the incidence of refunds as measured by refunds as a percentage of gross collections would indicate refinement in tax assessment.

2.2 Over the years 2005-09, quantum of refunds has increased by 30 *per cent*, but the incidence of refunds has come down (Table 2.1). Interest payments as a percentage of refund showed a fluctuating trend (Chart 2.1). Nearly one-eighth of the gross collections were refunded to the assesseees during this period, which is substantially lower than its share in pre-2000s when one-fourth of the gross collections were refunded. The decreasing trend is a pointer to the streamlining of tax assessment process.

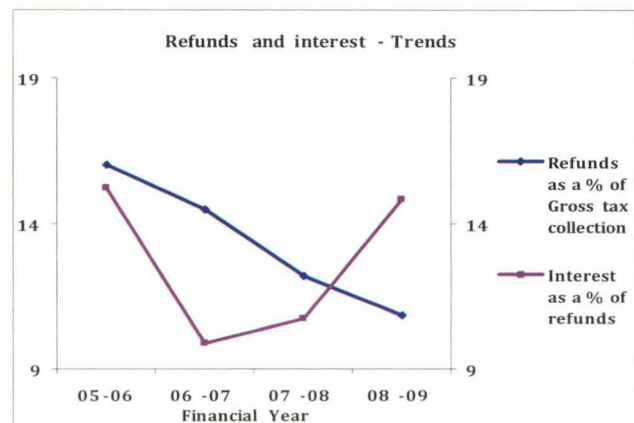


Chart 2.1: Incidence of refunds

2.3 Interest on refunds showed a progressive increase during 2006-09 at a pace that was higher than that of refunds (Table 2.1). In 2008-09, refunds registered a dip as compared to the previous year but interest payments rose by 32 *per cent*. This shows that increase in interest payments were mainly on account of delays in processing refunds than due to increase in volume of refunds.

Table 2.1: Volume of refunds

Financial year	Gross tax collection	Refunds	(Rs. in '000 crore)	
			Interest on refunds	Net Tax Collection
2005-06	187	25.4	4.6	157
2006-07	257	33.3	3.7	220
2007-08	337	36.6	4.4	296
2008-09	359	33.2	5.8	320

### Incidence of corporate refunds

2.4 There is a wide variation between refunds relating to corporate and non-corporate assessees. On an average, 14.9 *per cent* of gross collections were refunded to companies as compared to 9.0 *per cent* in non-company cases. This indicates a greater tendency among corporates to deposit higher tax. It was much higher in pre-2000s when 23.4 *per cent* of gross collections were refunded to companies and 10.5 *per cent* to assessees other than companies.

2.5 55<sup>th</sup> Report of the PAC had also noted the disturbing tendency, particularly among Public Sector Undertakings (PSUs), of making excess advance tax payments and thus being the highest claimants to refunds. The Ministry in its reply stated that to dissuade the claimants from doing so, the interest rate on refunds was reduced from 8 *per cent* to 6 *per cent* in 2003. We found that the tendency to pay excess advance tax persisted although to a lesser extent. There were 21 corporates in 6<sup>8</sup> States, who paid excess advance tax of Rs. 436 crore, especially at the year end. Of this, Rs. 403 crore, representing 92 *per cent* of excess tax, was paid by 9 PSUs. Department<sup>9</sup> replied that they have no control if assessees paid advance tax in excess of the amount due.

2.6 The PAC had directed the Department to study the trends in the payment of advance tax to identify the factors that gave rise to huge refunds as also the major claimants of refunds. We noted that refund amount higher than pre-determined levels is a parameter used in selection of cases for scrutiny assessment.

2.7 Excess payment of advance taxes also distorts the performance evaluation of assessing officers (AO) against the targets for tax collection. This trend is fraught with the risk of encouraging the AOs to collect excess advance tax to fulfill their targets which is subsequently refunded.

<sup>8</sup> Jharkhand, Delhi, Madhya Pradesh, Punjab, Tamil Nadu and Uttar Pradesh

<sup>9</sup> DCIT Range I Lucknow



## Quarterly trends

Quarterly trends of Corporation tax refunds vis-a-vis Gross Tax Collections

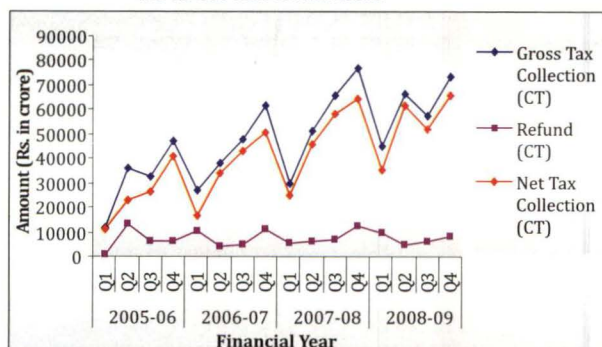


Chart 2.2: Quarterly trends

2.8 Chart 2.2 shows that collections pick up momentum in the second quarter of the year and peak in the fourth quarter; first quarter collections averaged around 1/7<sup>th</sup> of total collection. Similarly average refunds also peak in the fourth quarter, with the result that the net collections show a quantum jump in the second quarter to peak in the fourth quarter.

## Pendency rate

2.9 Kelkar Committee concluded that the public inconvenience with regard to refunds was partly due to the Department's inability to promptly process the increasing number of returns and partly due to the cumbersome process of issuing of refunds, which was sought to be corrected through IT initiatives. However, IT efforts are yet to make a substantial impact on the Department's ability to process the refund claims (Graph 2.3). The pendency rate of refund claims (claims pending over total received) has shown an upward trend (Table 2.2) ranging 22.5 per cent to 37 per cent each year. The Department needs to identify the bottlenecks that are impeding its goals of reducing the pendency of claims.

Chart 2.3: Status of refund cases

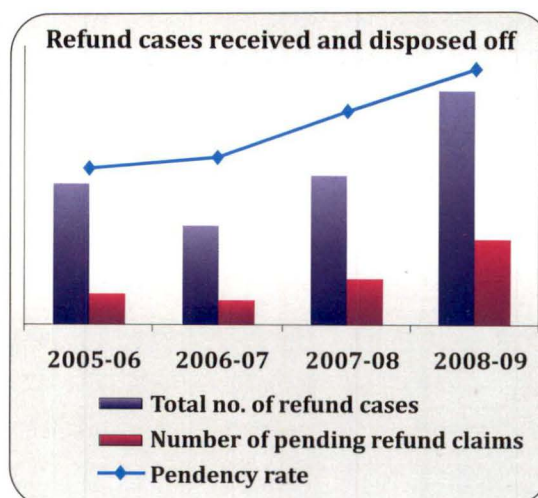


Table: 2.2 Refund cases received and processed

Year	Opening balance	No. received	Total	No. processed	No. pending	Pendency rate
2005-06	5.2	20.1	25.3	19.6	5.7	22.5
2006-07	5.7	12.3*	18.0	13.6	4.4	24.4
2007-08	4.4	22.8	27.2	18.8	8.4	30.9
2008-09	8.4	33.8	42.2	26.7	15.6 <sup>10</sup>	37.0

\* The figures provided by the department appear to be erroneous

<sup>10</sup> This translates into a backlog of six months in the year 2008-09.

2.10 A BPR study conducted by the Department (2007) found that handling of multiple jobs by the AOs, mixing routine jobs with other specialized activities, was leading to high taxpayer grievances. An initiative to streamline the processing of returns was creation of the Central Processing Centre (CPC) at Bengaluru. The CPC would process all the e-filed returns in the country and paper returns filed in Karnataka and Goa summarily, thus separating this activity from the regular scrutiny assessments by the AOs. It will enable the Department to process the returns and issue refunds expeditiously and encourage more taxpayers to resort to electronic filing of returns.

2.11 Meanwhile, efforts for centralized processing in jurisdictional areas are yet to bear fruit. For instance, DT01 charge, Mumbai<sup>11</sup> could process (August 2009) only 111 cases of the 1.8 lakh refund returns received upto July 2008.

## 2.12 Recommendations

- ❑ *We recommend that the Ministry may conduct an analysis of high value refunds to identify pockets of high incidence.*

The Ministry stated (March 2010) during the exit conference that the generic causes could be identified. For instance, higher incidence of refunds in respect of PSUs could be on account of refund of tax deducted at source on payments received by loss making PSUs. A detailed analysis could throw up the specific causes.

- ❑ *Ministry may review the gaps in automation which are impeding the clearance of refund claims.*

The Ministry stated (March 2010) during the exit conference that they were not oblivious to the gaps but were hampered by resource constraints. Efforts are being made to overcome the problems in the existing AST software and replace it with a new software.

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<sup>11</sup> Centralised processing centre Direct Tax 01 (DT01) under CIT 29 Mumbai, where all salary returns are being processed

## **CHAPTER 3**

### **REFUNDS PROCESS AND INTERNAL CONTROLS**

**Flow of refund to the assessee**

**Controls on cash flow**

**Controls to stem delays**

**Controls on accuracy of advice**

**Risks during transition**

**Verification of credits**

**Use of TDS certificates**

**Adjustment of refunds and  
demands**

**Recommendations**



## CHAPTER 3

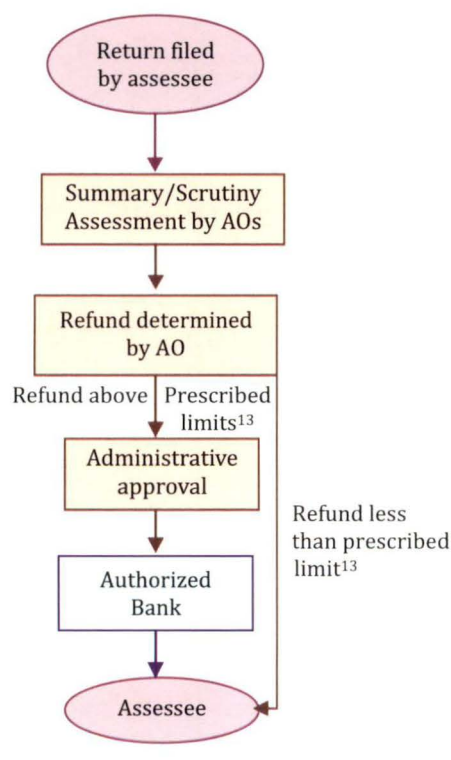


## Refunds Process and Internal Controls

The refund process starts with the submission of claim by the assessee in annual income tax returns. The AO determines the refund amount and dispatches the refund voucher through authorised banks. Benefits of the controls available in the ITD applications towards referencing and reconciliation of information prior to making refunds are not being utilised appropriately. The controls provided by automation are compromised because of glitches in the flow of data across the system. The AOs have not integrated automated controls in their regular work. In the meanwhile, manual procedures are falling into disuse, thereby creating additional risks. Exercise of supervisory controls provided in checking the accuracy of refunds and by way of administrative approvals in high value refunds, is inadequate. Interest on belated refunds of excess tax is being incorrectly accounted as reduction of revenue instead of being correctly budgeted as an expenditure item. The incorrect accounting practice also leads to interest payments escaping legislative scrutiny despite being a charge on the Consolidated Fund of India and needs to be rectified.

3.1 Chart 3.1 outlines the processes involved in refund.

Chart 3.1: Flow of refund to the assessee



### Tips for individual assessee claiming refund

- Correct particulars including PAN, bank account details etc. should be filled up.
- Work out the income and tax correctly for the relevant assessment year. In case of any difficulty, the tax payer should take the help of a Tax Return Preparer (TRP).
- Furnish correct PAN to the deductor and verify the tax deposited to the government on the website (<https://www.tin-nsdl.com/>).
- Keep the bank and the income tax department informed about any change of any particulars.
- Submit the return in time (normally, last date of filing of return is 31 July).
- The advance tax should be paid in time<sup>12</sup>.
- Check status of refund on website (<https://tin.tin.nsdl.com/oltas/refundstatuslogin.html>).
- Refund cheque received should be submitted to the bank immediately to avoid expiry.

<sup>12</sup> 30 per cent upto 15 June, 60 per cent upto 15 December and & 100 per cent upto March of the financial year immediately preceding the relevant AY. Concept of AY and previous year are proposed to be done away with in the new Draft Tax Code.

<sup>13</sup> The limits for administrative approval of supervisory officers as decided by the CCIT/DGIT as per paragraph 1 (iv) of instruction of August 1999.

3.2 The goals of timely issue of accurate refunds can be achieved if the Department has a robust internal control mechanism that alerts it to problems on time to enable it to take timely measures to redress them. We divided internal controls in three categories: controls on cash flow; controls on timely issue of refunds; and controls that ensure accuracy in refund advice.

### Controls on cash flow

3.3 One of the most important financial controls to mitigate frauds is regular bank reconciliation of cheques encashed with cheques issued. The manual system of reconciliation was cumbersome and was rendered impossible with mounting volume of transactions. On-line tax accounting through OLTAS<sup>14</sup> greatly facilitates the reconciliation. The details of the refunds encashed by the assessee at various banks, is communicated by the Reserve Bank of India (RBI) daily as part of the payment scrolls. The account is required to be reconciled with the respective Zonal Accounts Offices.

3.4 On receipt of the reconciled accounts, a Daily Refund Register (DRR) is prepared electronically at/by Regional Computer Centres (RCCs) and dispatched to the concerned Ranges for distribution among AOs. The AOs are required to tally the amount paid with the office copy of the refund vouchers and note the date of encashment in the space provided in the office copy of the voucher and in the Demand and Collection Register (DCR). Such reconciliation at various levels constitute an important check to detect encashment of bogus refunds.

3.5 However, the controls exercised through the online system have not been optimized because of large amounts lying in OLTAS suspense<sup>15</sup>. Invalid PANs are a major cause for transactions that remain unreconciled. For our study on timeliness of refunds (refer to paragraph 4.4), we requested for details of the encashment of 9737 refund vouchers. The Department confirmed payment in 4291 cases. It informed that 177 cases remained unpaid and could not confirm payment for 5269 cases (representing 54 per cent of the sample) as 'no data was found' with them. Evidently, reconciliation is rendered difficult in such a milieu. Regular reconciliation at the head-end of the chain, ZAO-NSDL<sup>16</sup>, is a vital artery to its flow down to the level of the AO, which is impaired in this framework thus constituting high risk.

3.6 The automated system has clearly not stabilized and till such time it does, continuing with the manual systems of control becomes inevitable. We found that at the field level, office copies of the refund vouchers are not being maintained properly in

<sup>14</sup> The Department has an Online Tax Accounting System (OLTAS) which allows check of refunds encashed by the taxpayers through the data uploaded by payee banks.

<sup>15</sup> The tax deposited by an assessee and credited to government account is put in a suspense head if it is not matched to the assessee's Permanent Account Number (PAN). Further details are at paragraph 3.22

<sup>16</sup> The accounting of both expenditure and revenue (Direct Taxes) on monthly basis is done through the Zonal Accounts Officers (ZAOs). National Securities Depository Limited (NSDL) hosts the Tax Information Network (TIN). ZAOs have been provided with the facility to access the NSDL site through which they can view the challans/scrolls uploaded to TIN and take up the matter with Banks/ITD if data loaded to TIN does not match the details reported to them through challans or scrolls.

many offices<sup>17</sup>. In some offices where they were being maintained, their maintenance was not proper. We also found that the DRR is either not maintained or, where it was kept, its maintenance was tardy<sup>18</sup>.

3.7 Refund vouchers, duly filled and signed by the AO but not issued for any reason should be cancelled or revalidated in order to prevent its misuse under the signature of issuing authority. These instructions were not being followed in some offices<sup>19</sup>.

6008 refund cheques issued in 24 circles/wards of CCsIT Jaipur, Udaipur and Jodhpur during 2005-06 to 2008-09 were returned due to wrong address or non-availability of assessee. We found that in most of the cases envelopes were not opened and refunds were lying without cancellation under the signature of AO. Register of refund cheques received back were also not maintained in these circles /wards.

In DCIT Circle-1, CIT Jamshedpur charge, we found that a few refund vouchers, duly filled and signed by the issuing authority but not issued, were kept without cancellation – a situation fraught with high risk.

3.8 In order to prevent the misuse of refund vouchers, a proper record of issue and utilization of refund book is required to be maintained. The refund book itself containing used or blank refund vouchers must be kept in safe custody. Proper handing over of the refund book should be ensured at the time of the change of incumbency of an office. We found that in 31 units in Rajasthan, stock register of refund voucher was not found maintained.

3.9 The Board issued (1989) instructions for quarterly verification from the office copies of advice notes as well as from the relevant entries in the Demand and Collection Register to find out the cases of paid foils not received within six months of the issue of the refund voucher in order to ensure that there was no fraudulent payment. We found that the verification process is largely in disuse<sup>20</sup>.

3.10 We had earlier commented<sup>21</sup> that the government was following an incorrect procedure of accounting for interest paid on refunds. Interest payment is a charge on the Consolidated Fund of India and is, therefore, payable through a proper budgetary mechanism. Accordingly, Minor Head “interest on refunds” is to be operated under the Major Head “2020-Collection of Taxes on Income and Expenditure”. However, no

<sup>17</sup> Andhra Pradesh, Bihar (19 cases), Chandigarh UT, Jharkhand, Orissa (212 cases), Punjab, Rajasthan, Tamil Nadu and West Bengal (out of 211 cases not properly maintained in most of the cases).

<sup>18</sup> in Chandigarh (UT), Haryana, Jammu & Kashmir, Jharkhand, Maharashtra (Out of the selected 132 circles/wards, 21 circles/wards confirmed that the daily refund register were not maintained, 94 circles/wards did not produce the said register and 17 circles/wards not properly maintained the above register), Orissa, Rajasthan and Uttar Pradesh except West Bengal charges

<sup>19</sup> In Jharkhand and Rajasthan

<sup>20</sup> There was no quarterly verification in the circles/wards selected for review in Andhra Pradesh, Bihar (except ITO Ward 2(2)), Chandigarh UT, Gujarat (in 16 units out of 18 units), Haryana (except ACIT and ITO ward I Rohtak), Jammu & Kashmir, Jharkhand (records not furnished except CIT Dhanbad), Maharashtra (not done in 49 units and records not produced by 59 units), Orissa (records from 10 circles/wards not furnished), Punjab, Rajasthan, Tamil Nadu and West Bengal (in 10 units maintained records out of 51 units) charges.

<sup>21</sup> in Audit Reports of 2004, 2005, 2006, 2007, 2008 and 2009

budget provision for 'interest on refund' was made in the budget estimates for 2008-09 and the expenditure on interest on refunds amounting to Rs. 5,785 crore was treated as reduction in revenue. Accounting of interest on refund as reduction in revenue is incorrect as this interest was never collected in the first instance. Interest on belated refunds of excess tax should be budgeted as an expenditure item which, in fact, was done in the Budget Estimates 2001-02 when Rs. 92 crore was provided in the demand of 'Direct Taxes' under the Major Head '2020 - Collection of taxes on Income & Expenditure' towards interest on belated refund of excess tax. However, subsequently at the Revised Estimates stage the earlier practice of showing the interest on excess refund as deduct receipt was reverted to. The incorrect accounting practice which also results in interest payment escaping legislative scrutiny despite being a charge on the Consolidated Fund of India is still being followed and needs to be rectified.

## Controls to stem delays

### I At the level of the Board

3.11 The Department assured the PAC that it would stem the delays by fixing targets in CAP and by monitoring the adherence to targets through monthly reports from field formations. The standards for time were actually relaxed from 4 months to six months (refer to paragraph 4.1). The delays we found in the process reflect adversely on the effectiveness of the monitoring mechanisms.

3.12 The monthly reports capture the delays from the stage of processing and do not track delays in processing itself. There is a need to watch the number of refund applications received and the time taken in processing of these cases in addition to the number of returns processed, refunds determined, refunds dispatched and refunds pending during the month as mentioned in the monthly report on refunds (MRR) for better monitoring of delays in disposal of refund applications.

### II In the field

3.13 In the manual system, various registers were maintained in order to exercise controls. Register of refund applications records the receipt and disposal of claims while the Demand & Collection Register is a master database used for recording all the details of the assessee with the details of the tax credits; demands due from him and the refunds issued to him. We found that the above registers that provided the controls were not being maintained in some offices<sup>22</sup>.

3.14 An important step in curbing discretion of AOs, is that refunds claims must be taken up for processing chronologically from the date of filing returns. Such a system would be transparent and inspire the confidence of taxpayers, especially the small

<sup>22</sup> Audit noticed in selected circles/wards in Bihar (in most of the units), Orissa and Rajasthan (in 33 out of 39 units) that the register of refund application was not maintained and in Chandigarh UT, Haryana, Orissa (10 units) and Rajasthan relevant entries were not made in the demand and collection register.



taxpayers. For not issuing refunds chronologically, various reasons were cited by AOs like shortage of space, invalid PANs delaying the processing of some returns, physical verification of TDS certificates where credits could not be found in OLTAS etc. It was also stated that refunds were being issued by and large chronologically except in those claims in which correlation is rendered difficult, which are then pushed to the end of the queue.

### Controls on accuracy of advice

3.15 Refund vouchers prepared by a tax assistant are required to be checked by a supervisor before they are submitted to the AO for final checking and signature. But we found vouchers in Chandigarh and Jharkhand which did not have the signatures of the cheque writing person or of the supervisor.

3.16 Accuracy in refund advice is to be ensured by the AO by applying the following checks:

- ❑ Credits for the tax claimed to have been paid by the assessee<sup>23</sup> are verified;
- ❑ Refunds already issued have been considered;
- ❑ Verification of arrears and outstanding demands, if any, and
- ❑ Other details like period of interest, rates of tax etc. have been correctly computed and applied.

3.17 These checks when conducted manually were cumbersome and led to mounting pendency. With the processing of tax returns in the integrated computerized system of the Department, it was hoped that not only would the process be faster but also it would ensure accuracy since it would be system-driven. In 2004, electronic filing of income tax returns was introduced to obviate the need for data entry and thus further accelerate the processing of refund claims.

### Risks during transition

3.18 During the transition stage after introduction of electronic filing in 2004, the assessee<sup>24</sup> was filing returns of income electronically through authorized e-return intermediaries. The intermediaries were to digitize the data in such returns and transmit the same electronically to the e-filing server. On successful validation of data structure and PAN, the Department would issue an on-line acknowledgement of the return. Signed paper return was also submitted to the AO affixing a printout of the online acknowledgement within 15 days. The Department made it mandatory to furnish the income tax return electronically for the corporate taxpayers (companies and firms requiring statutory audit) after 24.7.2006. Thus, during the transition period,

<sup>23</sup> TDS data i.e. the base income on which TDS was deducted and the TDS remitted would also need to be captured so as to ensure that the income on which TDS credit is given has been offered for tax.

<sup>24</sup> any person, except Association Of Persons/Body of Individuals, who had been allotted a PAN

assessee was filing both electronic and paper returns. We noticed a few cases of double refunds.

*Charge: CIT Thrissur, Kerala: AY: 2006-07*

LFC Hire Purchase Co. Ltd. filed a manual return which was processed by ACIT, Circle (1), Palakkad, summarily to issue refund of Rs. 2.8 lakh in October 2006. In November 2006, the assessee filed the tax return electronically which was processed by ACIT, Range 2, Kochi to issue a refund, once again, in March 2008.

3.19 In Mumbai charge, double refund was issued in six cases, all of which came to notice when one of these assessee reported it<sup>25</sup>. The mistake occurred because the refund was first processed on AST and later issued through the refund banker scheme.

3.20 Although we did not find preponderance of double claims in our audit sample of refunds, the above instances are a pointer to the risks that the system was exposed to during transition. The computerized systems are yet to stabilize. The next big transition will be the centralised processing of returns after consolidating all 36 regional databases into a single database in the CPC (refer to paragraph 2.10) which will also issue refunds.

3.21 The shift of responsibilities from AOs to the CPC, bulk movement of records and dual methods of filing - manual and electronic filing, create risks which the Department must first identify to lay down clear instructions for mitigation.

### Verification of credits

3.22 Banks upload the data relating to taxes through OLTAS. OLTAS provides details on challan number, nature of tax as well as the date of deposit; details that help the AO to verify the tax deposit claimed by the assessee in his refund claim. Several problems like inability to match the PAN<sup>26</sup> uploaded by the banks with the PAN database of the Department have led to a surge in tax credits lying in suspense accounts. OLTAS suspense as of March 2009 stood at Rs. 2762.8 crore<sup>27</sup>. This has considerably compromised the control that the AO could have exercised in the automated system. We did not get access to the system for checking this aspect. The AOs also could not provide an assurance on credits citing system difficulties that render confirmation of credits difficult.

3.23 During 2008-09, 42.4 per cent of the tax deposits at the pre-assessment stage was through Tax deducted at Source (TDS) by third party deductors, identified by the

<sup>25</sup> Thereafter, the department had issued letters to all the 54 assessee whose returns were processed on AST and refund vouchers were generated by refund banker. Six assessee returned refund cheques that had been issued twice. The Department verified and found that 41 assessee had intimated non-receipt of double refund. However, the position in remaining seven cases could not be ensured in audit.

<sup>26</sup> Each tax payer is identified through the Permanent Account Number (PAN) allotted by the Department. The PAN database resides in the Assessee Information System (AIS) module.

<sup>27</sup> The department is working towards putting in place a mechanism to facilitate greater compliance with regard to submission of returns by deductor as also to improve the tax details in the assessment records.

system through Tax deduction Account Number (TAN). TDS deductions are credited to the assessee's PAN account after the TDS returns submitted by the deductor (TAN) are processed through the e-TDS module.

3.24 In our audit of e-TDS (2008), we found that only 9.4 *per cent* of the TDS returns could be processed by the Department in Andhra Pradesh, Chennai, Delhi, Gujarat, Karnataka, Kolkata and Mumbai charges. The reasons were many but mainly because PAN of the deductees was either wrongly quoted by deductor in the TDS return or was not quoted at all<sup>28</sup>. The problem was compounded further by the incidence of invalid/incorrect TAN/PAN quoted by assessee in the return. In such a scenario, the AO processing a refund claim cannot verify a TDS credit in the system and would have no other alternative but to call for the original TDS certificates<sup>29</sup> from the taxpayer, thus delaying the process, diluting the controls and causing inconvenience to the assessee.

### Use of TDS certificates

3.25 We found that the controls required to be exercised while accepting TDS certificates were given a go-by. In 53 cases<sup>30</sup>, TDS certificates ineligible for admission were accepted for processing refund of Rs. 30.2 crore. The practice exposed the Department to the risk of generation of inaccurate refunds as well as the risk of granting ineligible refunds.

3.26 Where an assessee claims refund on the basis of duplicate TDS certificate, the Department obtains an indemnity bond. This is to mitigate the risk of double claim of TDS credit. We found 15 cases<sup>31</sup> of refunds amounting to Rs. 23.5 crore where TDS credits were granted on duplicate copies of certificates without obtaining indemnity bonds. The practice is fraught with the risk of double claims.

### Adjustment of refunds and demands

3.27 Excess refund granted is deemed to be tax payable by the assessee, to be recovered from him by way of adjustment or otherwise alongwith interest under Section 234D. The AOs are also instructed to ensure that all outstanding demands are first adjusted against the refund while determining the amount to be refunded. Section 245 requires that the assessee must be given a written intimation before adjusting his refund with outstanding demand.

<sup>28</sup> TDS returns are accepted by the system if the threshold limit for PAN quoting (of deductees) was adhered to by the deductor. Threshold limit for and from quarter ending 31 March 2008 was 95 *per cent* for form no. 24Q

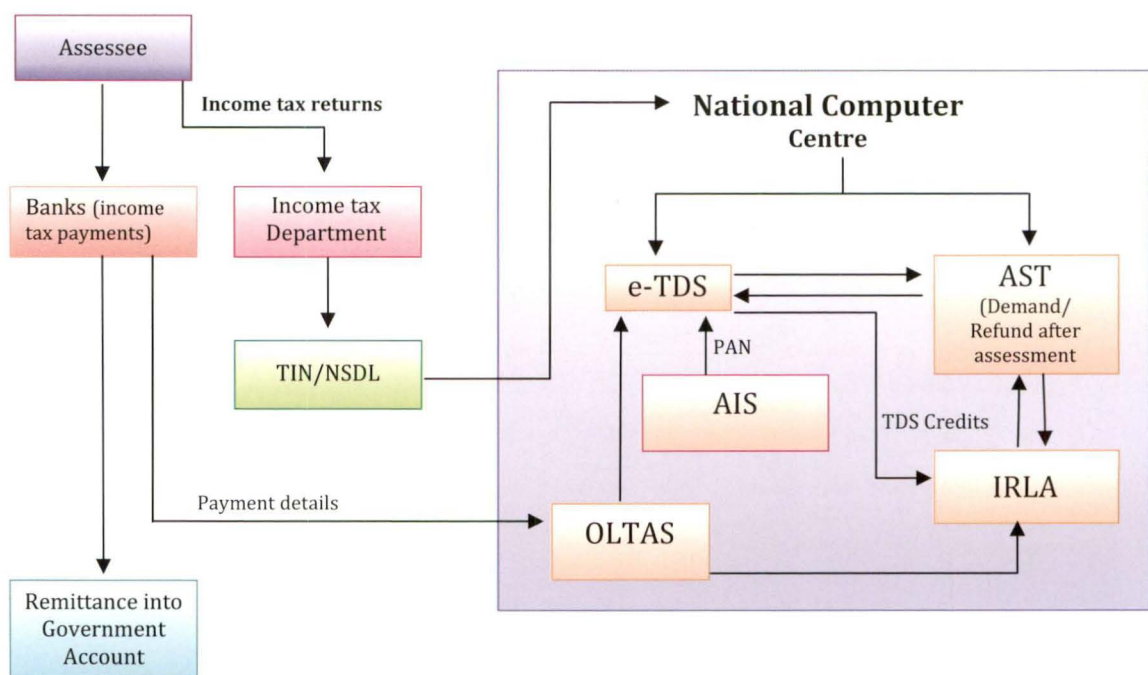
<sup>29</sup> TDS certificates are prepared by the deductor in triplicate: for the taxpayer, for the deductor himself and one for the AO. The AO calls for the original certificate from the tax payer to mitigate the risk of double claims.

<sup>30</sup> The refunds were inadmissible due to variety of reasons such as TDS certificates not in the favour of the assessee; they were defective such as challan number and TAN of the deductor not mentioned; relevant income not offered for tax; challan and TDS certificates not related to the assessment year etc. These were detected in Assam, Chandigarh UT, Chattisgarh, Haryana, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Orissa, Rajasthan, Tamil Nadu and Uttarakhand charges.

<sup>31</sup> Bihar, Delhi, Himachal Pradesh, Jammu & Kashmir, Madhya Pradesh, Punjab and Rajasthan

3.28 The annual returns submitted by the taxpayer are processed in the module, Assessment Information System (AST). AST was designed to assist the AO in carrying out all assessment and related functions at various stages viz., assessments, re-assessments, rectification, penalty as well as monitor progress and post results in appeal, revision, in settlement commission and in prosecution. The results of such assessments would then flow to Individual Running Ledger Account (IRLA), another module that generates a comprehensive ledger covering assessment year-wise data on demands, collections and refunds for each assessee (PAN). Thus, the AO can use IRLA to verify past refunds and arrears in demands, if any, while processing a refund in AST.

Chart 3.1: Flow of Information in ITD



3.29 We found that AST is currently being used mainly for processing of returns under summary and issue of refunds flowing from such assessment. It, therefore, does not capture events that occur subsequently viz. demand/refund determined under scrutiny assessment (if selected), appeals, revision etc. The AOs are not currently feeding the results of post-assessment stage in AST either. Such data is unavailable in IRLA also, as it would be uploaded to IRLA through AST only. Thus, verification of arrear demands/refunds flowing from summary assessment alone would be available to the AO while processing refunds.

3.30 We found that the system controls were not utilised to ensure that refunds granted through summary assessments were adjusted while processing subsequent refunds (refer paragraph 5.1). The fact that the details available in AST were either not complete or used while processing refunds, show that the AOs by and large are working outside the system, thus compromising the controls therein.

3.31 All large refunds<sup>32</sup> are required to be approved by the CIT before issue. One of the checks exercised by the CsIT is that there are no high demand scrutiny assessments in the refund case that can be adjusted against the refunds. Each CCIT/DGIT has been delegated the power to fix the monetary ceiling above which the approval of JCIT/Addl. CIT shall be taken by the AO before the issue of refund, in their respective regions. Where administrative approval is necessary, the refund should be issued within thirty days from the date of its determination.

3.31.1 We found 85 cases involving refund of Rs. 1101.4 crore<sup>33</sup> which were issued either without obtaining the necessary administrative approval of the appropriate authorities or before obtaining such approval, though in each case approval was required to be obtained before issue of the refund from the competent authority.

3.32 The Board has fixed norms<sup>34</sup> for selection of cases for compulsory scrutiny for corporate and non-corporate assesseees where high value refunds were issued during 2005-08. We found 140 cases<sup>35</sup> involving refund of Rs. 15.8 crore which met the norms fixed for selection, but were not selected for compulsory scrutiny. The selection for scrutiny has moved from traditional, manual selection to a risk-based system-driven process through the Computer Assisted Scrutiny System (CASS) module. Further selection out of the large sample is yet to be made transparent and is guided by discretion and judgment.

<sup>32</sup> As per Central Action Plans 2005-09, approvals are to be taken in respect of issue of refund of Rs. 1.0 crore and above in the case of Delhi, Mumbai, Chennai, Kolkata, Bangalore, Hyderabad, Ahmedabad and Pune and Rs. 25.0 lakh above for other stations

<sup>33</sup> in Bihar, Chandigarh UT, Delhi, Gujarat, Himachal Pradesh, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan and Tamil Nadu charges

<sup>34</sup>

F. Y.	Corporate	Non-Corporate
2005-06	all returns (except cases of foreign companies*) where refund claimed is Rs. 50.00 lakh or above in cities** and Rs. 20.00 lakh or above in other places.	all returns (except cases of non-residents*) where refund claimed is Rs. 10.00 lakh or above in cities** and Rs. 5.00 lakh or above in other places.
2006-07	All returns (except cases of foreign companies*) where refund claimed is Rs. 5.00 lakhs or above.	All returns (except cases of non-residents*) where refund claimed is Rs. 5.00 lakhs or above.
2007-08	All returns where refund claimed is Rs. 5.00 lakhs or above.	
*limit for selection would be decided by the DGIT(International Taxation).		
** Delhi, Mumbai, Chennai, Kolkata, Pune, Hyderabad, Bangalore and Ahmedabad		

<sup>35</sup> In Andhra Pradesh, Bihar, Chattisgarh, Chandigarh, Gujarat, Haryana, Jharkhand, Madhya Pradesh and Orissa

### 3.33 Recommendations

- ❑ *We recommend that the controls effected in the manual system may not be lost in automation. This will strengthen the MIS also.*

The Ministry stated (March 2010) during the exit conference that the controls had been provided in the automation but were not being used by the AOs currently. Better advocacy, capacity building and change of mindset among the AOs, would result in greater usage of controls in the automated system.

- ❑ *Since automation captures the flow of income tax return since the time it is received, the automation system should be able to generate jurisdiction-wise report of pending refunds in order to have an effective control.*

The Ministry accepted the recommendation.

- ❑ *In order to enhance transparency, refund claims should be processed in chronological order. The process can be made more transparent by displaying the status of the claim in terms of stage at which it is pending on the departmental website.*

The Ministry stated (March 2010) during the exit conference that instructions existed for chronological processing. However, as on date, majority of the returns were being received manually. Due to acute shortage of manpower, data entry was hampered. The huge backlog of refunds had a dominoes effect on disposal of fresh refund claims. The CPC would address these issues and take care of the need for transparency.

- ❑ *The Ministry may ensure that for every cheque issued, an online auto-reconciliation is done by the system.*

The Ministry stated (March 2010) during the exit conference that since the introduction of the Three tier system with a Primary Data Centre at Delhi, the mechanism of auto-reconciliation of refunds issued by AO vis-à-vis refunds encashed is already in place in the ITD system. The auto reconciliation is being done through the Refund Banker and in non-refund banker cases where returns have been processed on AST. The OLTAS database has encashment details of all the IT refunds which is also available to the AO for reconciliation. However, in case of refunds arising out of rectification of assessment, appeal effect etc. auto reconciliation was not facilitated.

- ❑ *The Ministry may identify the risks during migration and the steps that would be needed to mitigate the risks.*

The Ministry stated (March 2010) during the exit conference that they were aware of the risks. The fact remains that the risks needed to be documented as this would have an institutional follow-up potential instead of being of isolated concern to individuals.

- ❑ *The Ministry may provide budget provision for 'interest on refunds' as an expenditure item in the budget estimates.*

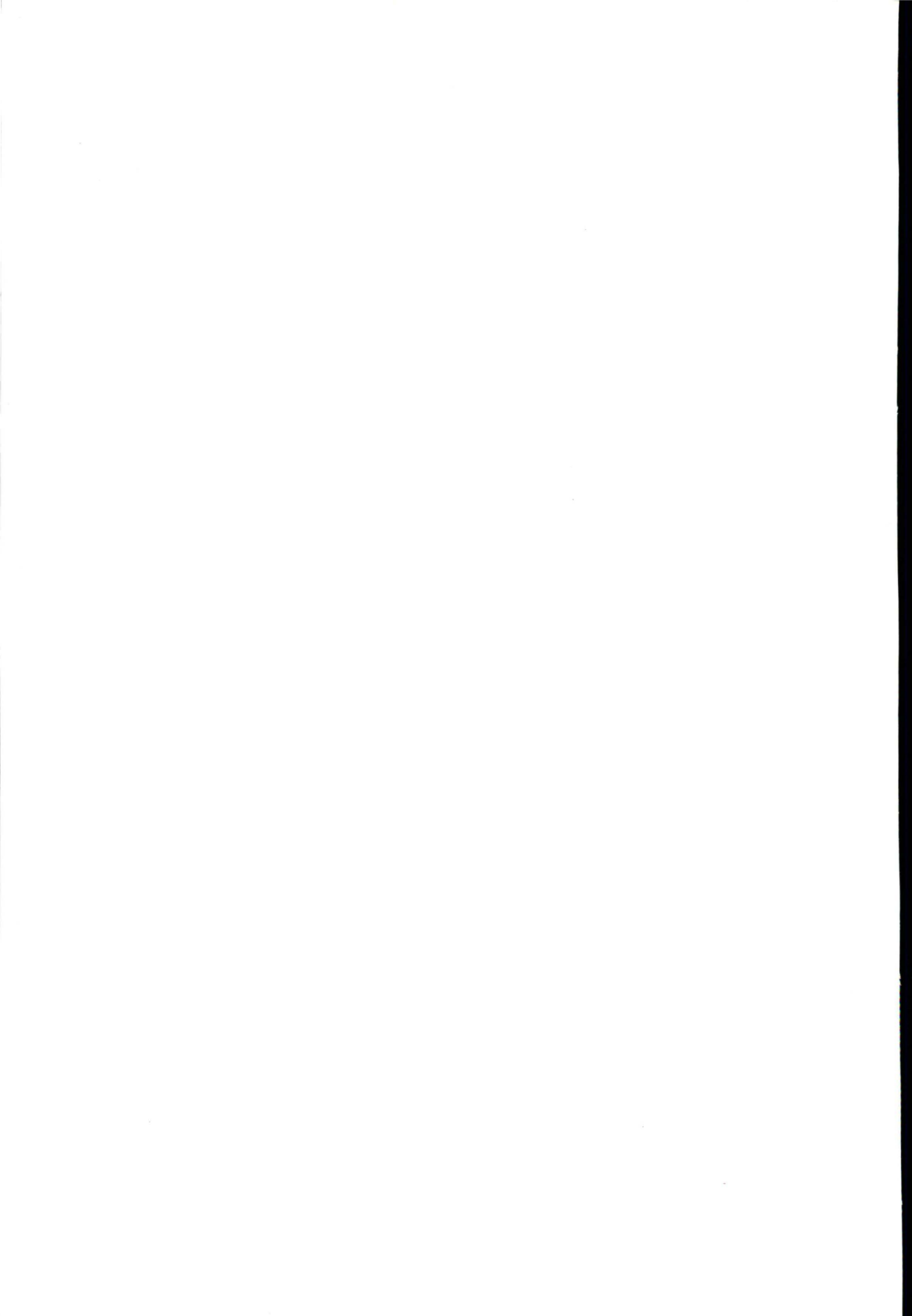
The Ministry stated (March 2010) during the exit conference that this was a policy decision taken at the highest level.

- ❑ *The Department may consider clearance of legacy data and improving the fidelity of the data on priority basis. This will also encourage the AOs to use the system and thus promote the integration of automation into regular assessment proceedings.*

The Ministry stated (March 2010) during the exit conference that the current year was the first year of three tier environment wherein the ITD has a centralized database at the Primary Data Center at Delhi. However, it is difficult to automate the clearance of legacy data which remains in the suspense account. While processing the claims on AST, the AOs can query the system and match the credits to the best fit and clear the OLTAS suspense. The clearance of the unmatched data at an aggregate level, will need to be compiled.

- ❑ *Pending full use of AST for all the assessment work, it may be made mandatory that results of all types of assessments viz., summary, scrutiny, rectification, revision etc. should be posted in the AST module. This will help the AOs to verify the arrears of demand and refunds issued earlier.*

The Ministry stated (March 2010) during the exit conference that IRLA had a software limitation and piecemeal entry of data (i.e. at any stage viz. scrutiny, reassessment, appeal effect etc.) in AST was not possible. The software would accept data only if the system had complete details relating to earlier stages. However, CPC would take care of this limitation.





## **CHAPTER 4**

### **TIMELINESS IN PROCESSING OF REFUNDS**

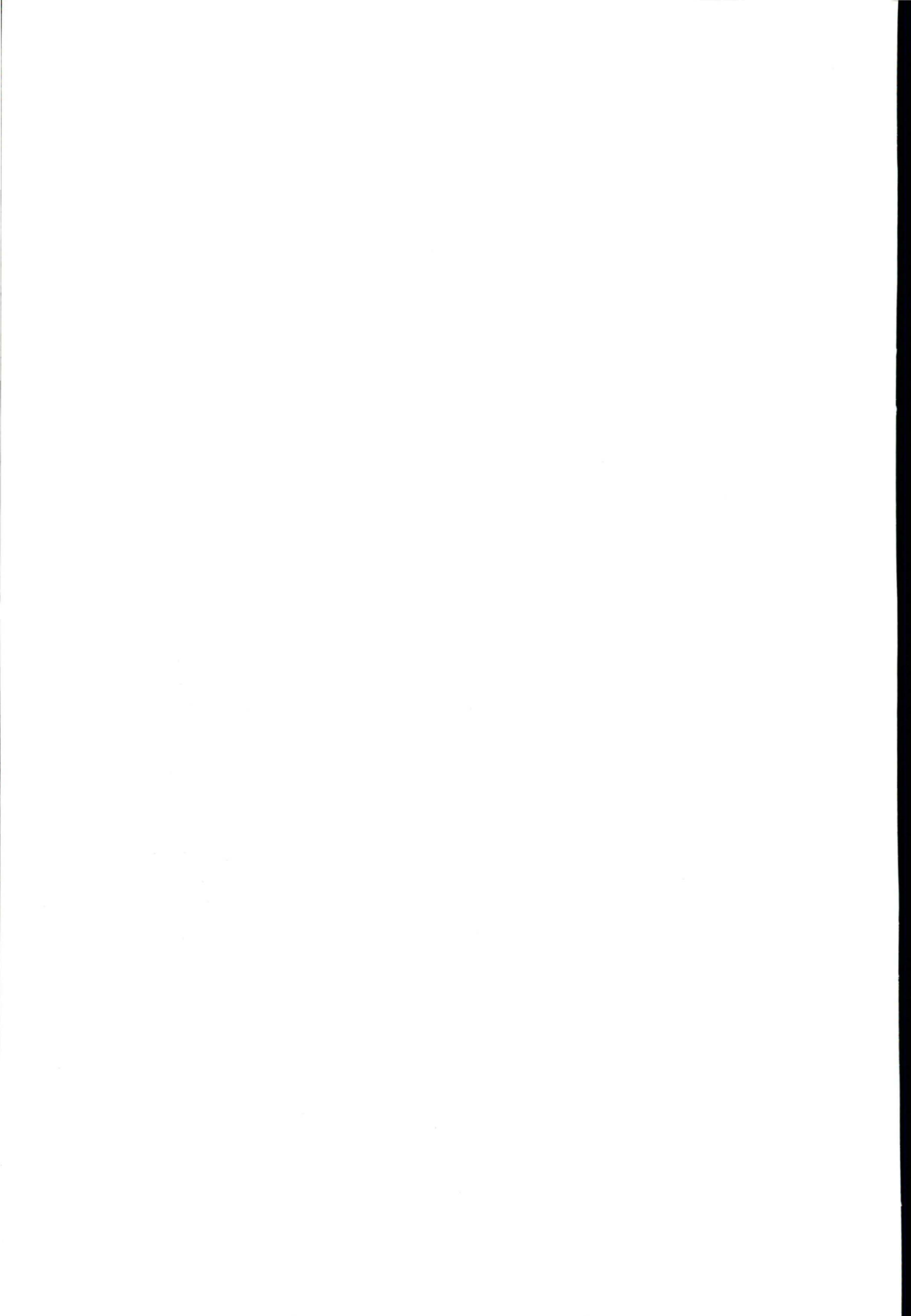
**Time Analysis: small taxpayer**

**Timeliness: high value refunds**

**Issue of vouchers: high value  
refunds**

**Refund Banker Scheme**

**Recommendations**



## CHAPTER 4



## Timeliness in processing of refunds

An attempt was made to evaluate the timeliness in processing of refunds particularly the low value refunds of small taxpayers. The department had set a standard for settling the refund claims in 4-6 months. Our analysis, however, showed that refunds were processed in an average time of 10 months after submission of the claim. The time taken was much higher than the international standards ranging from 24 days to six weeks. The refund vouchers took an average of 40 days to reach the assessee after their issue. The average time taken for receipt of refund claim by the senior citizens was 12 months whereas the department had fixed the benchmark of maximum of three months for priority processing of such claims. We noticed instances of unwarranted delays at various stages - in processing, issue of refunds after processing and of refunds not received by the assessee after issue. The Refund Banker Scheme has succeeded in reducing the transmission time.

4.1 With a view to minimize delays that will not only inconvenience the taxpayer but also result in avoidable payment of interest, the Department fixes timeframe for processing of refund cases through the annual Central Action Plan (CAP). The upper limit for processing time during 2005-08 was four months, which was increased to six months in 2008-09. The commitment to the public in the Citizen's Charter was for refunds in nine months. The extension of time is, in a way, admission of the constraints that the department is facing despite automation. This is also a significant departure from the assurance given (2005) to the PAC that electronic filing of returns would facilitate speedy processing and issue of refunds.

4.2 We compared the standards of CBDT with that of the other international tax administrations. We found that in most countries, the standards were pegged at below 24 days and the highest being six weeks. The adherence to the standards was in the range from 92 per cent to 100 per cent.

**Table 4.1 : International standards of processing and adherence**

Country	Standard	Adherence
Austria	24 days	20.8 days
Singapore	Refund 100% in 30 days	96% in 30 days
Spain	Average in 30 days	27 days
Mexico	40 days	25 days
USA	40 days	98.9%
Australia	92% in 42 days	91.7% in 42 days
Japan	90% in 6 weeks	95.3% in 6 weeks

Source: Country Survey Responses reported in OECD Report on Tax Administration in OECD and selected non-OECD countries; Comparative Information Series (2008)

4.3 In addition to the general time frame of 4 to 6 months, CBDT also issued circulars directing field formations to settle, on-the-spot, refund claims of senior citizens (65 years and above). If the same is not feasible due to administrative constraints, claims should be settled within three months of receipt. The Ministry also assured (December 2008) the Parliament that it had adequate mechanisms to address the grievances of senior citizens.

## I Time analysis: small taxpayer

4.4 We sought an assurance on adherence to these targets in a sample of 12491 low value refunds of individuals for assessment years 2004-05 to 2008-09. The objective was to ascertain the time taken for processing the claim and the bottlenecks, if any, in the stream of steps leading to refund.

4.5 Time analysis of the data showed that the average time taken for processing a refund through summary assessment leading to the issue of refund voucher was 10 months from the date of filing of return. 31 per cent of refunds were processed within 6 months but 20 per cent took over 18 months. There were 403 refunds that took two to four years, 243 refunds<sup>36</sup> that were not issued and 84 returns<sup>37</sup> that were not processed at all (August 2009).

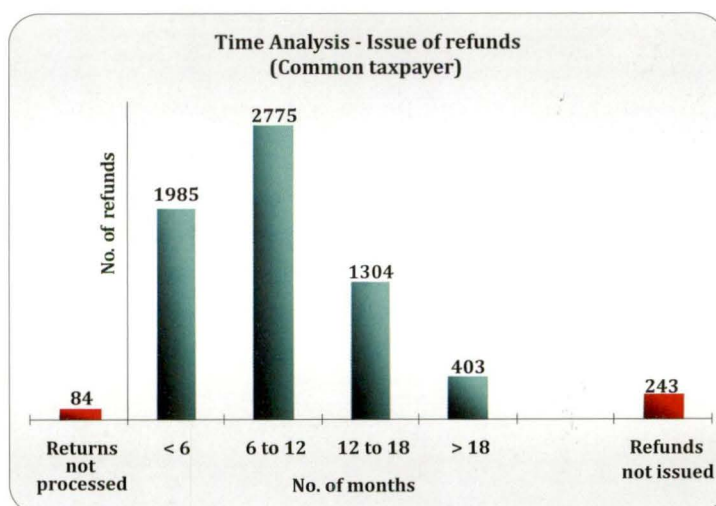


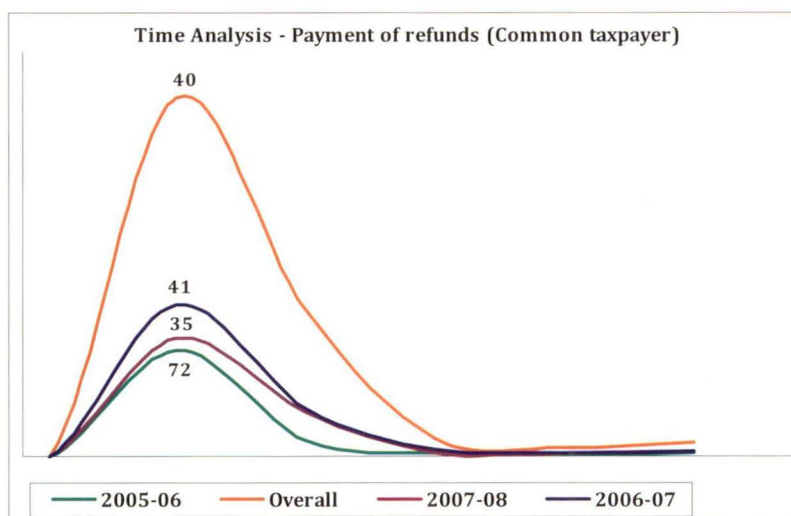
Chart 4.1: Issue of refunds -Time Analysis

4.6 Time taken to receive the refund by the taxpayer, from the date of preparation of refund voucher, was ascertained with reference to the date of encashment by the taxpayer from OLTAS. The average<sup>38</sup> time taken was 40 days.

<sup>36</sup> 243 low value refunds in Andhra Pradesh, Assam, Haryana, Jammu & Kashmir, Jharkhand, Karnataka, Kerala, Orissa, Punjab, Rajasthan and Tamil Nadu were not issued after processing of returns in these cases.

<sup>37</sup> 84 returns in Goa, Gujarat, Jammu & Kashmir, Karnataka, Kerala and Punjab charges were not processed in summary manner.

<sup>38</sup> The average depicted by the peak of the normal distribution curve is an estimate of the time taken in payment of refund after its issue. On an average most refunds got paid in 40 days. The sample consisted of 2701 cases where refunds were successfully paid. Out of these cases, 646 cases pertain to the year 2005-06, 1062 to 2006-07, 867 to 2007-08. Data analysis of these cases revealed a decrease in the time taken for payment of low value refunds. 1210 refunds were not received in Andhra Pradesh, Bihar, Delhi, Haryana, Himachal Pradesh, Maharashtra, Karnataka, Orissa, Rajasthan, Tamil Nadu and West Bengal charges. 85 refunds were not encashed in Rajasthan charge.



The area under the normal distribution curve represents the frequency distribution of time taken for payment in respect of the sample of low value refund cases. The bell curve is positively skewed indicating lesser frequency of refunds where the time taken for payment was more than the average value (i.e. mean) which has been calculated in terms of the number of days and depicted on top of the curve.

Chart 4.2: Payment of refunds - Time Analysis

4.7 Year-wise analysis showed that though the average time taken for processing low value refunds has increased during the period 2005-08, the average time taken for encashment<sup>39</sup> of refunds by the assesseees showed a decreasing trend. On an average it took around 12 months for an assessee to receive the refund in 2007-08, a performance which is way below par with reference to the Department's own targets as well as international standards.

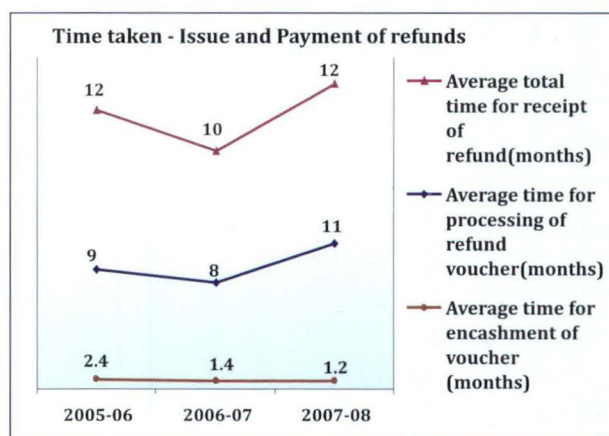


Chart 4.3: Issue and payment of refunds-Annual trends

4.8 We found that despite the intent, the Department was unable to process the refund claims of senior citizens on priority. The average time taken for the receipt of refund claim by a senior citizen was 12 months. The replies from the field formations of the department varied considerably. Some stated that the assessment module (AST) provided for this priority processing could not be run due to systemic problems, while others stated that there were no special arrangements for senior citizens.

<sup>39</sup> Encashment details as indicated by DG (Systems)

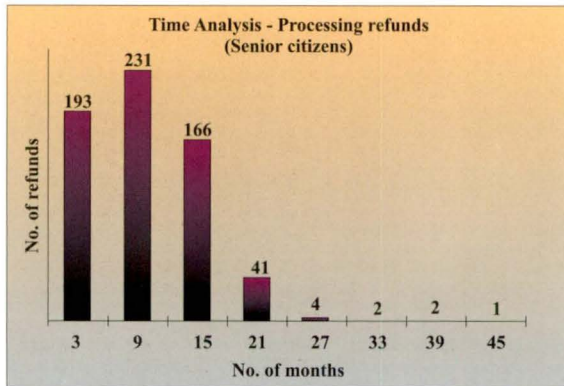


Chart 4.4: Issue of refunds (Senior citizens)

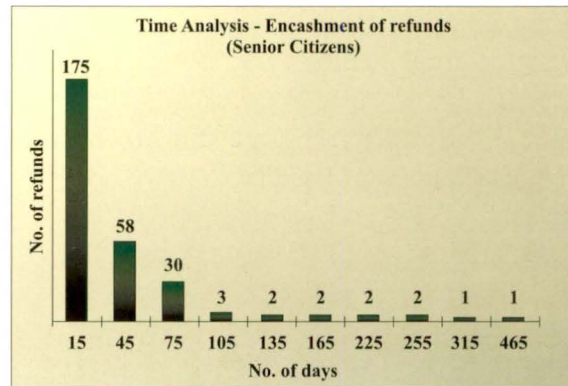


Chart 4.5: Payment of refunds (Senior citizens)

## II Timeliness: high value refunds

4.9 We found delays in processing in high value refunds akin to that of low value refunds; but where the refund value itself was high, the impact of delays was many-fold. The government suffered monetary loss on account of higher interest payments; the cost to the assessee was high; and the pending refunds of high value distorted the actual collection of revenue more significantly. We found 34 cases of refunds<sup>40</sup> of Rs. 2212.6 crore where the Department paid avoidable interest in excess of Rs. 25 lakh each, because of the inability to process the claims within the relevant assessment year. The total amount of avoidable interest paid in these delayed refunds was Rs. 69.5 crore.

CIT-I, Delhi took 12 months for summary assessment of Bharat Sanchar Nigam Ltd. (AY: 2005-06) and allowed refund of Rs. 406.8 crore including interest of Rs. 43.6 crore.

CIT-I, Delhi took 12 months for summary assessment of Bharti Cellular Ltd. (AY: 2004-05) and allowed refund of Rs. 22.3 crore including interest of Rs. 1.7 crore.

### Issue of vouchers: high value refunds

4.10 What was of particular significance in high value refunds was the delay in issue of refund vouchers even after the determination of refund due to the tax payer in the summary assessment. The causes for delays were:

- Refunds determined at processing stage but issued after completion of scrutiny assessment thus deviating from departmental instruction;
- Refunds determined but final refund vouchers not prepared within the prescribed time limit;
- Refunds determined but not issued;
- Refunds not dispatched within the prescribed time limit.

<sup>40</sup> In Bihar, Delhi, Kerala, Madhya Pradesh, Maharashtra, Punjab, Tamil Nadu, Uttar Pradesh and West Bengal;

4.10.1 CBDT's instructions<sup>41</sup> clearly lay down that refunds should be issued on the basis of annual return of income or loss immediately, without waiting for the scrutiny assessment. We found that these instructions were not being adhered to which resulted in delays. In 47 cases involving refunds of Rs. 325.7 crore<sup>42</sup>, refunds were determined at the processing stage but issued only after completion of scrutiny assessment. The delays<sup>43</sup> were substantial, averaging to 28 months leading to avoidable payment of interest.

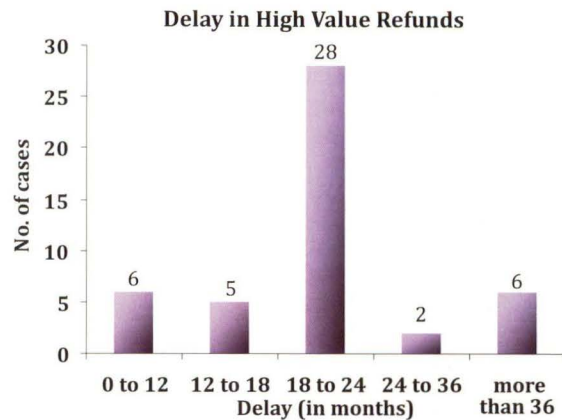


Chart 4.6: Timeliness- High Value Refunds

*Charge: CIT-II Delhi, AY: 2005-06*

The return of Maruti Insurance Brokers Ltd. was processed under summary assessment in November 2006 determining a refund of Rs. 4.4 crore which was not issued to the assessee. Scrutiny assessment was completed in November 2007 and the refund of Rs. 2.6 crore was paid and Rs. 1.8 crore was adjusted against pending demand in January 2008. Thus the refund was issued 22 months after processing.

4.10.2 There were 49 cases involving refund<sup>44</sup> of Rs. 772.7 crore, where the refunds were determined but the final refund vouchers were not prepared within the prescribed time limit<sup>45</sup> of 30 days. We noticed delays of more than one year (i.e. more than 30 days after the determination of refund) in 11 cases and more than three years in nine cases.

*Charge: CIT-I Kolkata, West Bengal, AYs: 1999-2000 & 2000-01*

The assessment of Sri Bajrang Jute Mills Ltd. for the two assessment years was processed in March 2001 and January 2002 determining a refund of Rs. 82.6 lakh and Rs. 29 lakh respectively which were not issued to the assessee. The assessee filed petitions repeatedly but refund of Rs. 99.7 lakh was issued in June 2008 after adjusting the pending demands of the earlier assessment years resulting in a delay of 86 months (for A. Y. 1999-2000) and 76 months (for A. Y. 2000-01). This also led to an avoidable interest loss of Rs. 39.5 lakh.

The Department replied (August 2009) that the delays were due to change of incumbent in July 2007. The reply ignores the 5-6 years delay prior to the change in incumbency.

<sup>41</sup> Board's circular no. 549 dated 31.10.1989

<sup>42</sup> in Assam, Delhi, Kerala, Madhya Pradesh, Maharashtra and Rajasthan charges

<sup>43</sup> delay has been worked out from the end of the relevant assessment year.

<sup>44</sup> in Delhi, Jammu & Kashmir, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu and West Bengal charges.

<sup>45</sup> Board issued instruction no. 7 in August 2002 to the effect that the refunds determined in which administrative approval is necessary before issue of refund, should be issued within 30 days from the date of determination of refunds.

*Charge: ACIT circle-1, CIT Jammu, AYs: 1994-95 and 1995-96*

Green Field Commercial Pvt. Ltd. of Jammu & Kashmir waited for 9 years and 10 years respectively for the refund of Rs. 12.4 lakh on which it received Rs. 14.4 lakh as interest. The chronology is as follows:

- Receipt of claim: November 1994 (AY: 1994-95), November 1995 (AY: 1995-96)
- Matter referred for TDS verification: March 1995 (AY: 1994-95), after May 1996 (AY: 1995-96)
- Verification of TDS claims: August 2004
- Matter referred for administrative approval of Addl. CIT: January 2005
- Approval of Addl. CIT: March 2006

4.10.3 We found 30 cases<sup>46</sup> involving refund of Rs. 47.1 crore where the refunds were determined during the period April 2005 to December 2008 but were yet to be issued till the date of audit (March 2009).

*Charge: CIT-I Pune, Maharashtra, AYs: 2001-02 to 2004-05*

Refund totaling Rs. 33 crore of Bank of Maharashtra for four years - AY 2001-02 to 2004-05, was determined in one go in March 2008. The refund, already delayed in determination, had not been issued till March 2009.

*Charge: CIT Raipur, Chattisgarh, AYs: 2003-04 & 2004-05*

Refund totalling Rs. 92.6 lakh of Board of Trustee Hindustan Steel Ltd. was determined in February 2005 and April 2005 but was not issued to the assessee.

*Charge: CIT-I Jalandhar, Punjab, AY: 2005-06*

Refund of Rs. 12.3 lakh of Naranjan Rice Exports Pvt. Ltd. was determined in March 2006. Out of which, Rs. 4.3 lakh was adjusted against previous demand (AY: 2003-04) and balance of Rs. 8 lakh was not issued to the assessee.

4.10.4 Refund vouchers, regardless of the amount involved, are required<sup>47</sup> to be dispatched within 15 days of the assessment order resulting in refund. However, these instructions are not being complied with. In five circles/wards of Rajasthan, we found 36 refund vouchers amounting to Rs. 2.1 crore which were dispatched after 47 to 285 days of the assessment order.

<sup>46</sup> in Assam, Chhattisgarh, Himachal Pradesh, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan and Uttar Pradesh.

<sup>47</sup> Refunds upto Rs 10,000 are sent directly to the assessee by registered post. Higher amounts are paid through the banks through Electronic Clearing System (ECS) or through cheques. Board's instruction no. 1946 and 1952 dated 18 November 1997 and 14 August 1998 set the time limits for dispatch.



4.10.5 We found delays ranging from 52 days to almost 10 months in according administrative approval<sup>48</sup> at various stages in 11 cases<sup>49</sup> involving refund of Rs. 224.9 crore leading to payment of avoidable interest of Rs. 10.7 crore.

*Charge: CIT Ranchi, Jharkhand, AY: 2005-06*

Administrative approval in the case of Central Coalfield Ltd. from CIT, Ranchi was given (February 2007) 10 months after it was sought. Not only did it delay the refund, but the Department also had to pay Rs. 9.6 crore as interest due to this delay.

### III Refund banker scheme

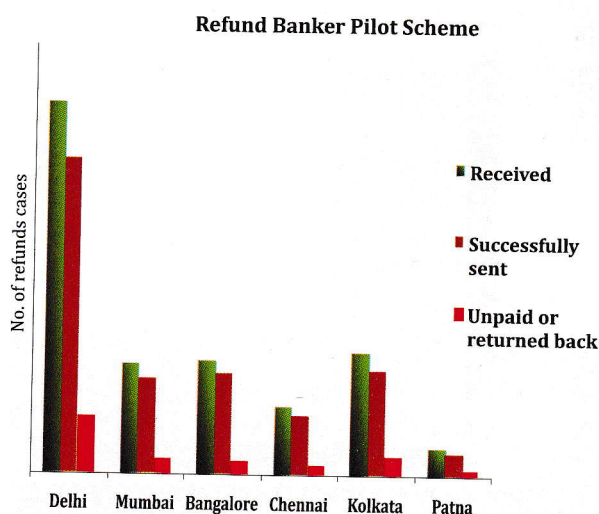


Chart 4.7: Refund Banker Scheme- Performance results

4.11 Government introduced the Refund Banker Scheme (January 2007) which became operational for taxpayers assessed in Delhi and Patna in the first phase. It was later (September 2007) extended to four other cities - Bangalore, Chennai, Mumbai and Kolkata (except for company and exemption refunds). Under this scheme, the data on income tax refunds determined are picked up electronically by the authorized banks and remitted to the bank account of the taxpayers through ECS<sup>50</sup> or Banker's cheque sent to the taxpayers to the address indicated in the return.

4.11.1 The advantages of the scheme included faster turnaround time and facility for online tracking of refund status with reasons for return, if any. It also eliminated the interface between the taxpayer and the AO in this regard.

4.11.2 The departmental reports show a success rate of 85<sup>51</sup> per cent in transmission of refunds. Chart 4.8 illustrates the results. However, the scheme has had its glitches with software problems (Appendix II). Bogus refunds in four cases were also detected.

<sup>48</sup> Refer paragraph 3.31

<sup>49</sup> Goa, Jharkhand, Karnataka, Madhya Pradesh and Rajasthan

<sup>50</sup> Salaried tax payers may get the refund online to their bank accounts for amounts upto Rs. 25,000 through ECS compulsorily. Only in cases where the assessee has clearly opted against ECS, the refund shall be issued on paper stationery. For ECS, the tax payer has to submit the necessary details of his bank account along with the MICR code of his bank in his return form along with the mandate for online transfer of refund.

<sup>51</sup> The balance 15% refunds were either not paid or returned due to various reasons such as incorrect bank account number; incorrect MICR code; account closed; expired cheques; house locked; party shifted; no such address; no such person; stop payment and others.

4.11.3 Our sample<sup>52</sup> check of low value refunds showed that in Delhi, Kolkata and Patna the introduction of the refund banker scheme has substantially reduced the average time taken in the payment of refunds after their issue. In Delhi the average time taken was decreased by 73 per cent, in Kolkata by 49 per cent and in Patna by 54 per cent.

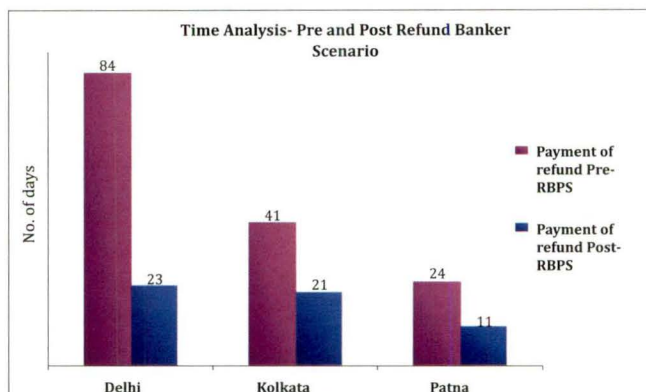


Chart 4.8: Payment of low value refunds-Pre and Post RBPS

## 4.12 Recommendations

- The monthly monitoring should capture the delays in the stage of processing, which our analysis shows, was the biggest bottleneck. The monitoring process should also capture the reasons for pendency in order to flag the deviations from the procedure by AOs.

The Ministry stated (March 2010) during the exit conference that shortage of manpower is leading to delays from receipt of returns to their processing. However, this situation will improve with the availability of larger manpower as also the extension of the CPC.

- Ministry may consider setting up a mechanism to filter refund claims of senior citizens in CPC for priority processing. The monitoring process should also capture pendency in claims of senior citizens separately in order to alleviate inconvenience caused to them.

The Ministry stated (March 2010) during the exit conference that the Department had resource limitations. This aspect too will be factored in the CPC.

- There is a need to sensitize the departmental staff to perceive themselves as service providers working towards customer satisfaction. This may be integrated into the training programmes and seminars/workshops organized in the Department.

The Ministry stated (March 2010) during the exit conference that the Department was aware and gearing up towards being customer friendly. It had introduced Sevottam scheme in three cities which would be extended to four more for grievance redressal.

<sup>52</sup> The sample consisted of 719 successfully paid low value refunds relating to Delhi, Patna and Kolkata charges out of which 400 cases were relating to pre-refund banker scenario and 319 to the post-refund banker scenario.

- ❑ *Efforts may be made for strengthening the Refund Banker Scheme by addressing the software problems.*

The Ministry stated (March 2010) during the exit conference that many software related system issues had already been taken care of.

- ❑ *Feasibility of extending the Refund Banker Scheme to the remaining categories of assesseees may be explored.*

The Ministry accepted the recommendation.



## **CHAPTER 5**

### **— ACCURACY OF ADVICE**

**Refunds not adjusted**

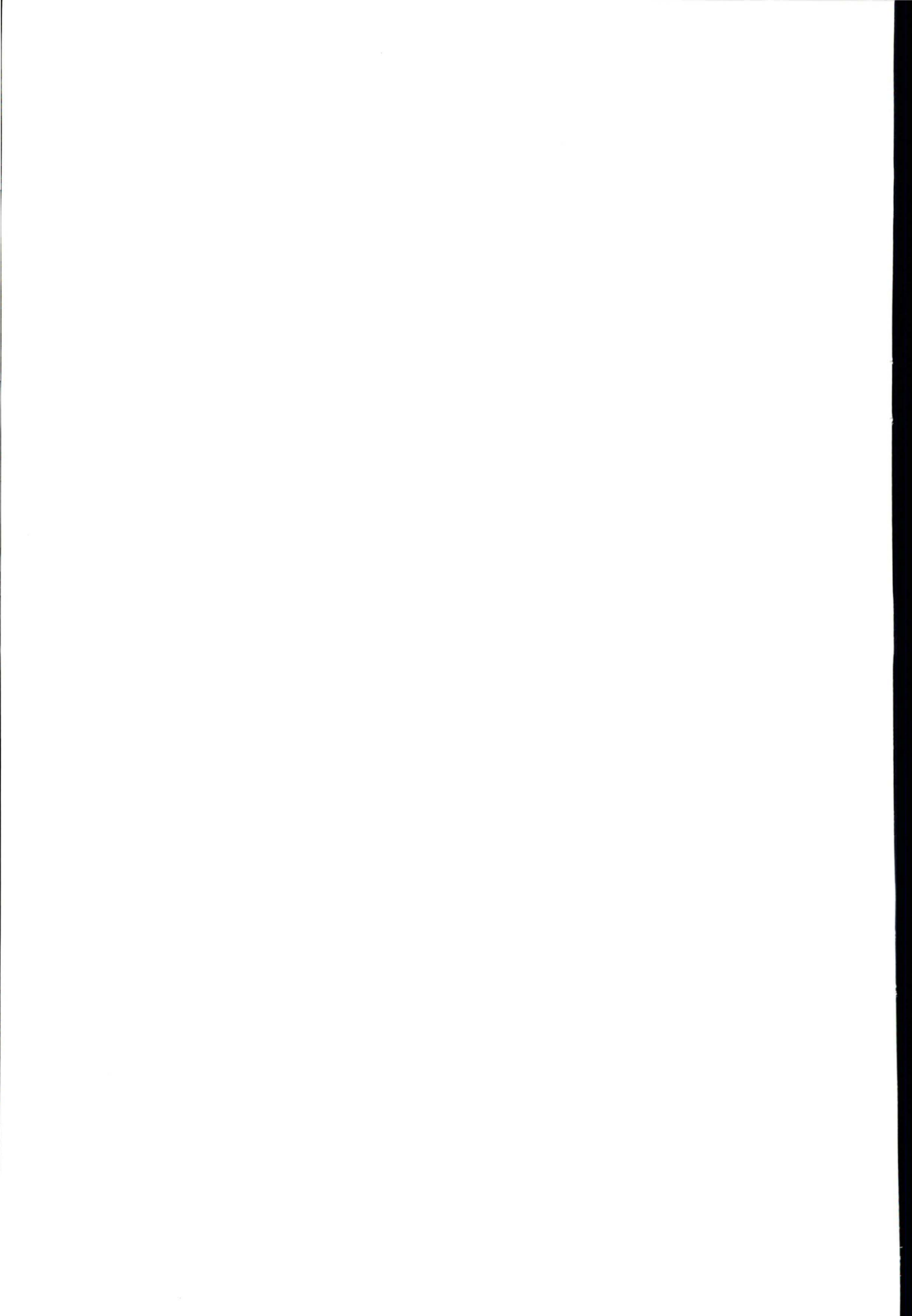
**Interest on refunds set-off  
against arrear demands**

**Arrears in demands not  
adjusted**

**Set-off of refunds without  
ascertaining correct demand**

**Admissibility of interest on  
refunds**

**Recommendations**





## CHAPTER 5

### Accuracy of advice

Refunds have been adjusted without proper determination of outstanding demands of the assessee. Inaccuracy in refund determination has led to undercharge of tax of Rs. 135.8 crore.

5.1 We found 21 cases<sup>53</sup> where refunds of Rs. 33.8 crore granted at summary stage were not considered in scrutiny assessments/subsequent revisions etc. made later leading to excess refunds. In some cases interest levied on the amount adjusted under Section 220(2) was less than due or was not levied<sup>54</sup>. Arrears in demands were either set-off against refunds without intimating the assessee<sup>55</sup> or were not considered during determination of refund claim<sup>56</sup>. In one case the refund was set off without ascertaining the correct demand thereby leading to avoidable loss of interest. This not only violated the provisions of the Act and the principles of natural justice, but in some cases, led to erroneous set-offs against demands of other assesseees.

#### Refunds not adjusted

*Charge: CIT-I Chennai, Tamil Nadu, AY: 2006-07*

Refund of Rs. 10.7 crore granted to the Tamil Nadu Urban Finance and Infrastructure Development Corporation Ltd. in March 2008 during summary assessment was not considered while computing tax under scrutiny assessment in November 2008.

*Charge: CIT-II Mumbai, Maharashtra, AY: 2005-06*

Tax demand of Rs. 425.5 crore was raised in December 2007 in scrutiny assessment of Bank of India, without adjusting refund of Rs. 3.9 crore issued in March 2007, leading to short demand of Rs. 4.1 crore including interest of Rs. 19.6 lakh.

<sup>53</sup> in Karnataka, Madhya Pradesh, Maharashtra, Tamil Nadu and West Bengal charges

<sup>54</sup> Section 220(2) provides that if the tax is not deposited within the prescribed period against a demand, the assessee is liable for payment of interest. We found 20 cases in Bihar, Jharkhand, Haryana, Karnataka, Orissa, Madhya Pradesh and Maharashtra, where interest amounting to Rs. 6.9 crore was not levied or levied short of due.

<sup>55</sup> In 93 cases of refund of Rs. 608.1 crore in Andhra Pradesh, Assam, Bihar, Chattisgarh, Delhi, Jharkhand, Madhya Pradesh, Maharashtra, Orissa and West Bengal charges

<sup>56</sup> In one case in Orissa of Rs. 13.1 crore

*Charge: CIT-III Chennai, Tamil Nadu, A.Y.: 1998-99*

The assessment of Shriram Financial Services Holdings (P) Ltd. was revised in December 2007 to determine income of Rs. 2 crore. We found that Rs. 2.8 crore collected from the assessee by way of adjustment of past refunds was not considered during revision in December 2007, leading to excess demand of tax of Rs. 3.9 crore including interest.

**Interest on refunds set-off against arrear demands**

*Charge: CIT-II Mumbai, Maharashtra, A.Y. : 2003-04*

A demand of Rs. 95.1 crore against Larsen & Toubro Ltd. raised in scrutiny assessment (January 2006) was revised (December 2008) to raise an additional demand of Rs. 44.5 crore. The demand of Rs. 95.1 crore, which was not deposited by the assessee, was adjusted against refund for AY 2004-05, 2005-06 and 2006-07 on various dates. We found that the amount adjusted was less than what was due by Rs. 4.9 crore on account of short levy of interest<sup>57</sup>.

**Arrears in demands not adjusted**

*Charge: CIT Sambalpur, Orissa, A.Y.: 2006-07*

In the assessment of Mahanadi Coalfields Ltd., a demand of Rs. 13.1 crore was raised in March 2008. We found that refund of Rs. 62.1 crore relating to AY 1999-2000 to 2001-02 was made<sup>58</sup> in April 2008 without adjusting the outstanding arrear demand of Rs. 13.1 crore.

**Set-off of refunds without ascertaining the correct demand**

*Charge: CIT-II Kolkata, West Bengal, A.Y.: 2003-04*

West Bengal Infrastructure Development Finance Corporation Ltd. deposited tax (April 2006) of Rs. 128.1 crore following a demand raised in scrutiny assessment. Yet, the demand was adjusted (May 2006) against a refund of Rs. 20.8 crore pertaining to the AY 2005-06. Due to this error, the amount had to be refunded later (February 2008) with an interest of 2.2 crore under section 244A.

<sup>57</sup> interest was levied at Rs. 7.48 crore for the period from March 2006 to December 2007 instead of Rs. 12.41 crore for the period from February 2006 to January 2008.

<sup>58</sup> while giving effect to appellate order under section 251/254



## Admissibility of interest on refunds

5.2 Section 244A provides that where a refund is due to an assessee, he will receive interest at the rate of half a *per cent* per month for every month till the grant of refund. The conditions that govern the payment of interest are:

- ❑ No interest is payable if the amount of refund is less than ten *per cent* of the tax determined in assessment.
- ❑ No interest is payable for the period of delay in proceedings that is attributable to the assessee; the decision with regard to the period will be at the discretion of the Chief Commissioner whose decision thereon shall be final.
- ❑ Assessee is liable to pay interest on any amount refunded in excess of due.
- ❑ Interest received by the assessee on refunds is an income, taxable under the head 'Income from other sources'.

5.3 Our findings on interest payments and excess/short payment of refunds are tabulated below. Details are at Appendix III.

Sl. no.	Issue: Interest/Refunds	Rs. in crore	
		No. of cases	Amount
(i)	Charged on excess refunds	57	11.6
(ii)	Paid although the amount refunded was less than 10% of assessed tax	10	3.4
(iii)	Allowed for periods of delay attributable to the assessee	18	3.0
(iv)	Was wrongly computed leading to excess levy	56	17.1
(v)	Was wrongly computed leading to short levy	32	25.0
(vi)	Income not offered to tax	06	4.8

Few cases are illustrated below:

### Charge: CIT-I Delhi, AY: 2004-05

Airports Authority of India Ltd. was allowed a refund of Rs. 34.0 crore in summary assessment in April 2005. In scrutiny assessment in May 2006, a demand of Rs. 133.0 crore including interest of Rs. 4.4 crore levied under section 234D was raised. We found that interest was charged in excess by Rs. 2.0 crore.

### Charge: CIT Sambalpur, Orissa, AY: 2005-06

In the scrutiny assessment of Mahanadi Coalfields Ltd., interest of Rs. 1.1 crore was paid on the refund of Rs. 15.6 crore although the refund amount was less than 10 *per cent* of

the tax determined (Rs. 632.6 crore). This was in contravention of provisions of the Act.

*Charge: CIT-II Ludhiana, Punjab, A. Y. 2006-07*

The summary assessment of Bahadur Chand Investment Private Ltd. was processed in December 2007 at an income of Rs. 2.8 crore, by which refund of Rs. 15.4 lakh was granted. Out of the refund, Rs. 6.1 lakh was adjusted against the tax demand of earlier years and balance refund of Rs. 9.3 lakh was issued in March 2008. We found that the returned income of Rs. 2.8 crore included special rate income of Rs. 2.1 crore but the entire income was taxed at special rate of 10 per cent. Thus, incorrect application of rate of tax resulted in excess refund of Rs. 15.4 lakh.

*Charge: CIT-I Kolkata, West Bengal, AY: 2003-04*

In the case of Garden Reach Shipbuilders & Engineers Ltd., a refund of Rs. 14.2 crore including interest of Rs. 77.9 lakh was processed in July 2004. The assessment completed in February 2006, was revised in November 2007 allowing further refund of Rs. 4.3 crore including interest of Rs. 17.8 lakh. We found that while computing refund in November 2007, the interest payable on Rs. 14.2 crore for the period from April 2003 to July 2004 (date of issue of first refund) was not considered. The mistake resulted in short payment of refund of Rs. 1.26 crore.

*Charge: CIT-II Thane, Maharashtra, AY: 2008-09*

Jawaharlal Nehru Port Trust received interest of Rs. 13.9 crore on refunds for AY 2006-07 and 2007-08, which was not offered to tax in AY 2008-09, resulting in short levy of tax of Rs. 4.7 crore. Department issued notice (April 2009) to the assessee for selection for scrutiny after it was pointed out by audit to examine the matter during the course of the regular assessment.

## 5.4 Recommendations

- ❑ *The different mechanisms and controls offered by the ITD applications towards reconciliation of the demands should be properly utilised during processing of the refunds.*

The Ministry stated (March 2010) during the exit conference that the Department was working towards it.

- Responsibility of the staff members may be clearly fixed<sup>59</sup>, in case of material arithmetical error. This will help in reducing such avoidable errors.

The Ministry stated (March 2010) during the exit conference that full scale automation would reduce the possibility of occurrence of such errors.



(REBECCA MATHAI)

Principal Director (Direct Taxes)

New Delhi

Dated : 23-04-2010

Countersigned



(VINOD RAI)

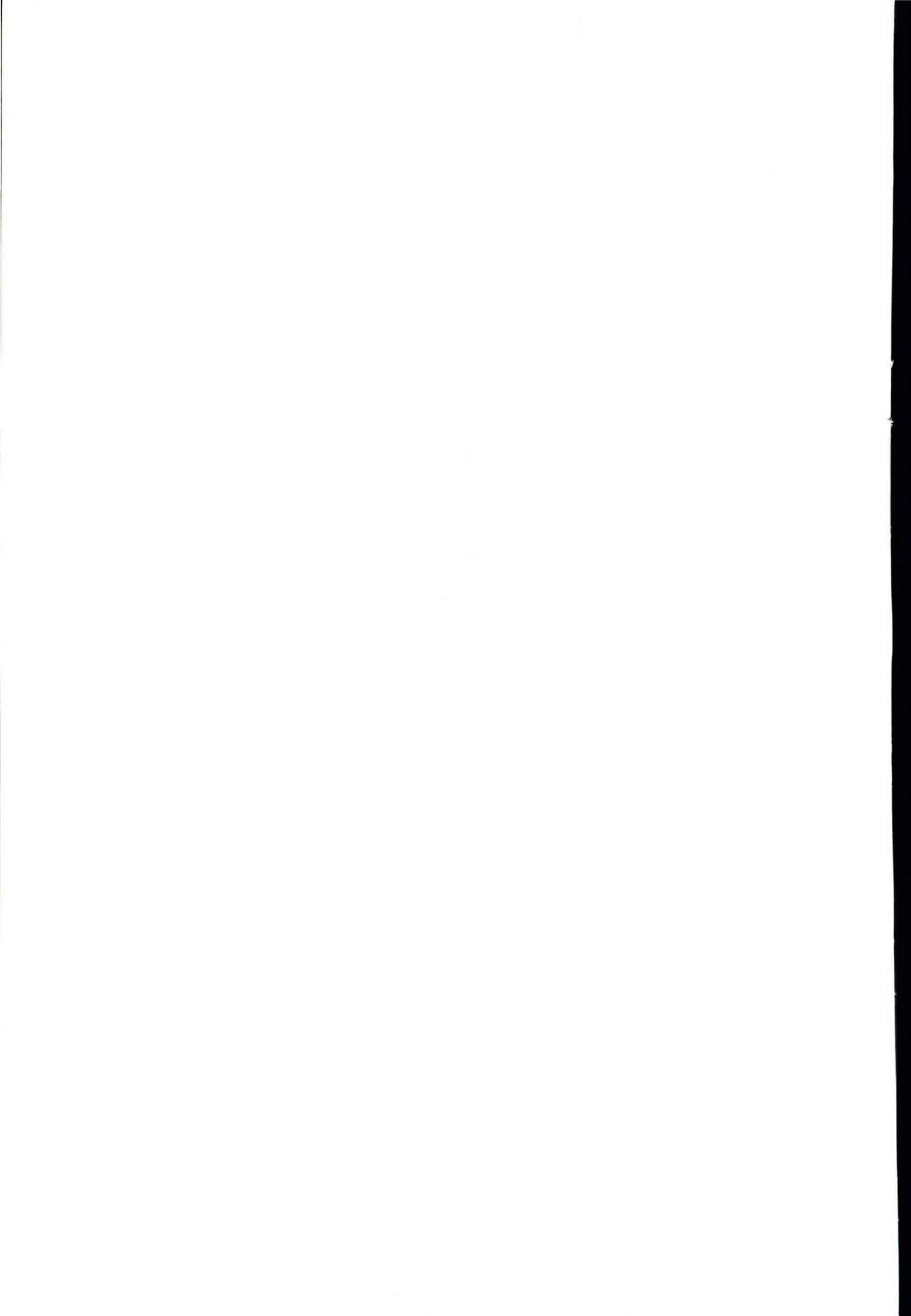
Comptroller and Auditor General of India

New Delhi

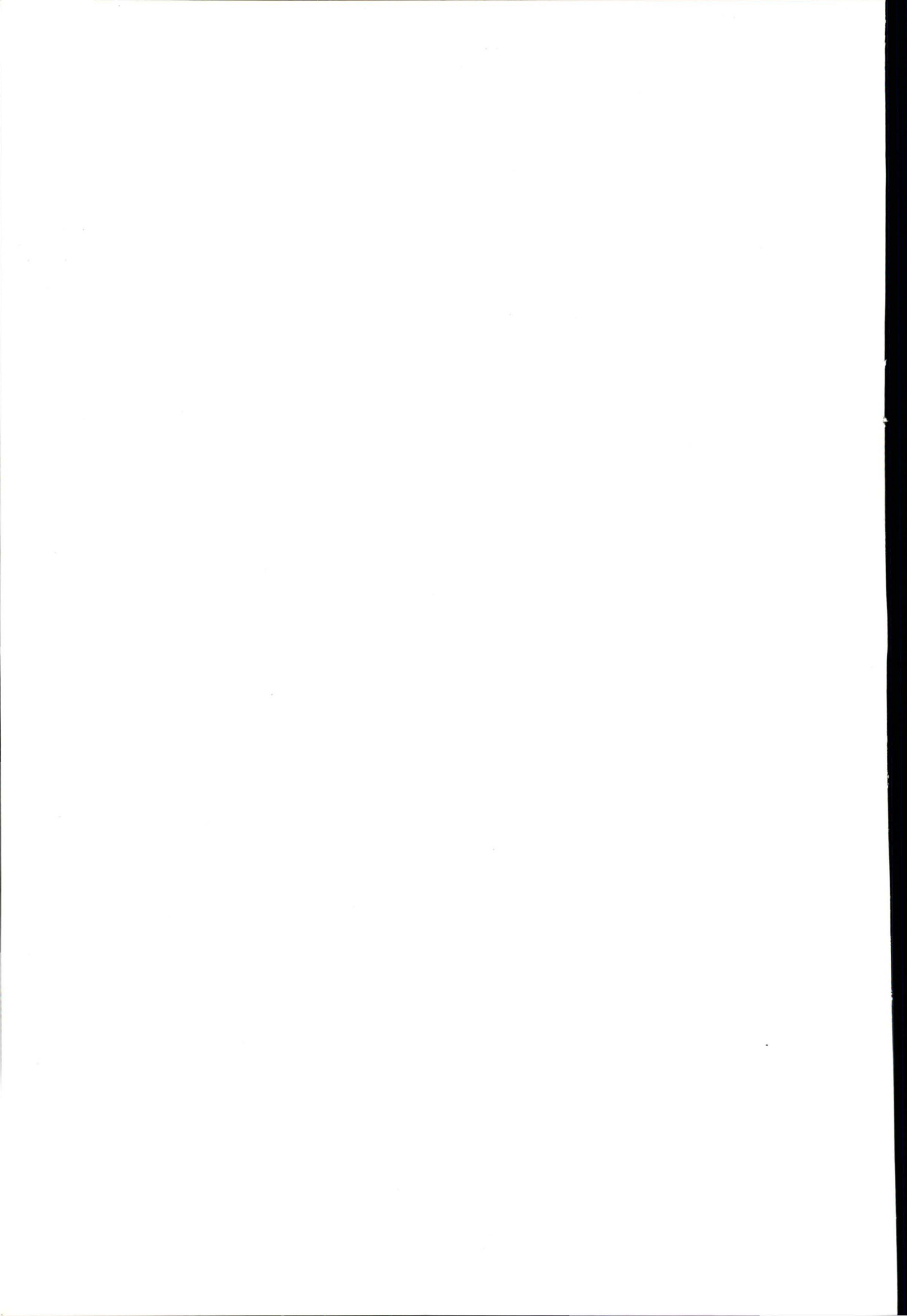
Dated: 23-04-2010

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<sup>59</sup> As emphasized in paragraph 7.4 of Board's Instruction no. 9 of 2006



## **APPENDICES**



## Appendix - I

(Reference: Paragraph 1.10)

## Criteria for selection of units and of cases

## High value refund cases

Selection of units	Percentage
Company Circles <sup>60</sup>	50 %
Company wards <sup>61</sup>	20 %
Other than Company Circles (excl. central circle)/wards	10 %
<b>Selection of refund cases where station is networked under AST</b>	
Summary	10 cases <sup>62</sup>
<b>Selection of refund cases other than summary stage</b>	
<b>Company Circles/wards</b>	
Refund cases exceeding Rs. 1.00 crore	100 %
Refund cases between Rs. 50.00 lakh and upto Rs. 1.00 crore.	50 %
Refund cases between Rs. 10.00 lakh and upto Rs. 50.00 lakh	10 %
<b>Other than Company Circles/ward</b>	
Refund cases exceeding Rs. 25.00 lakh	100 %
Refund cases between Rs. 10.00 lakh and upto Rs. 25.00 lakh	50 %
Refund cases between Rs. 5.00 lakh and upto Rs. 10.00 lakh	10 %
<b>Selection of refund cases where station is not networked under AST</b>	
<b>Selection of refund cases</b>	
<b>Company Circles/wards</b>	
Refund cases exceeding Rs. 50.00 lakh	100 %
Refund cases between Rs. 10.00 lakh and upto Rs. 50.00 lakh	50 %
Refund cases between Rs. 5.00 lakh and upto Rs. 10.00 lakh	10 %
<b>Other than Company Circles/wards</b>	
Refund cases exceeding Rs. 25.00 lakh	100 %
Refund cases between Rs. 10.00 lakh and upto Rs. 25.00 lakh	50 %
Refund cases between Rs. 5.00 lakh and upto Rs. 10.00 lakh	10 %

## Low value refund cases

Office located at	Total no. of individual cases which involves refund <sup>63</sup>
Delhi, Kolkata, Mumbai, Chennai, Bangalore and Hyderabad	700
Other offices	500

<sup>60</sup> Includes circles which deal with both company and non-company cases<sup>61</sup> Includes wards which deal with both company and non-company cases<sup>62</sup> per assessing officer<sup>63</sup> These cases could be either processed or not processed but involved refund between Rs. 500 and Rs. 5 lakh

## Appendix-II

### ■ [Reference: Paragraph 4.11.2]

#### Refund Banker Scheme – Technical Constraints

- Refunds are shown pending for printing inspite of taking the requisite action for correction of the ITD application error. The same is either not rectified immediately or was done after a gap of few days. Further processing of refunds meanwhile, gets locked in the software. As a result this holds up the processing in all cases.
- In many cases the error was reported wrongly even though there was no mistake in data entry of returns.
- In many cases the exact details of the refunds which were held up is not shown on the screen due to which the assessing officers are unable to take requisite action in the cases pending for correction.
- More often the above situation would not require the AO to conduct enquiries by writing to assesses to find out the correct address, bank accounts etc. This would set the AO on the back foot resulting in loss of time addressing the matter.
- The processing hangs with the computer showing the message “you cannot proceed with processing as (numbers) PAN are pending for printing”. Even after giving the necessary print command in respect of the PAN pending for printing, the problem persists. Often, the query on ‘PAN pending for processing/printing” gives the response ‘No PAN pending for processing/printing”. As a result, it is not possible to identify the returns which have been processed and are pending for printing. An elaborate exercise of checking all the entries, one by one, has to be carried out to identify such returns.
- Refunds are returned by the Refund Bankers for various reasons such as incorrect PAN, incorrect address, party shifted etc. Many times both the check boxes, i.e. one meant for making changes as well as that meant for mentioning the MICR code and the bank account number are found blocked as a result of which it is not possible to make the necessary changes in the address etc.
- Those cases, where the check-box meant for making changes is open, the changes made, or the command ‘no change is required’ whichever is applicable can not be saved.
- In many cases, refunds issued through ECS under the Refund Banker Schemes are still pending with SBI for several months despite the details regarding MICR code and Account No. etc. having been correctly entered.



## Appendix III

(Reference: Paragraph 5.3)

## Details of interest payments and excess/short payments of refunds

(Rs. in lakh)

Sl. no.	State	Charged on excess refunds		Paid although the amount refunded was less than 10% of assessed tax		Allowed for periods of delay attributable to the assessee		Was wrongly computed leading to excess levy		Was wrongly computed leading to short levy		Income not offered to tax	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1.	Andhra Pradesh	1	14.46	1	123.64			1	45.76				
2.	Assam	4	2.86			1	0.54	1	0.23				
3.	Bihar	1	9.87					1	3.09	5	32.25		
4.	Chattisgarh			2	3.48	1	2.08						
5.	Chandigarh UT									1	0.49		
6.	Delhi	8	392.34					12	147.63	1	134.48		
7.	Goa	4	2.00					3	1.96				
8.	Gujarat	1	7.55					1	6.87				
9.	Haryana							3	30.43				
10.	Himachal Pradesh	15	9.57			3	4.2	2	11.56			1	2.20
11.	Jammu & Kashmir	10	4.53					2	5.95				
12.	Jharkhand											3	2.33
13.	Karnataka	4	128.4	2	88.96	2	7.87						
14.	Kerala							2	20.4				
15.	Madhya Pradesh			1	0.96			2	1.33	5	226.26		
16.	Maharashtra	5	531.76	1	12.3	8	210.96	2	6.46			1	473.31
17.	Orissa	1	6.2	1	106.38			2	28.93	7	47.08		
18.	Punjab	1	1.6	1	2.16			5	27.27				
19.	Rajasthan			1	0.07			2	1.24	1	625.64		
20.	Tamil Nadu	1	20.73			3	72.31	9	1269.13			1	5.97
21.	West Bengal	1	27.51					6	105.33	12	1433.25		
22.	<b>Total</b>	<b>57</b>	<b>1159.38</b>	<b>10</b>	<b>337.95</b>	<b>18</b>	<b>297.96</b>	<b>56</b>	<b>1713.57</b>	<b>32</b>	<b>2499.45</b>	<b>6</b>	<b>483.81</b>

### Glossary of terms

- **“Assessing Officer” (AO)** means the Income-Tax Officer or Assistant Commissioner of Income-Tax or Deputy Commissioner of Income-Tax or Joint Commissioner of Income-Tax or Additional Commissioner of Income-Tax who is authorized by the Board to exercise or perform all or any of the powers and functions conferred on, or assigned to an AO under the Income tax Act, 1961.
- **“Assessee Information Systems” (AIS):** AIS, a module of ITD applications consists of the database of Permanent Account Numbers (PAN) allocated to the assessee.
- **“Assessment Information System” (AST):** AST module is the core process of ITD applications conceptualized as an on-line, menu driven software capable of carrying out all assessment and related functions.
- **“Business Process Re-engineering” (BPR):** The BPR project of ITD is the first such project initiated (May 2007) by Government of India where a comprehensive study of ITD was undertaken in two phases – ‘As is’ study phase and ‘To be’ model stage covering 15 locations (including four metros). Based on the mapping of the existing processes in ITD; the bottlenecks and problem areas identified through ‘Gap Analysis’ and the best global practices in the area of tax administration; ‘To be’ models and recommendations were suggested for re-designing the processes. One of the main recommendations being creation of ‘Bulk Operation Division’ (BOD) for handling routine and repetitive activities and ‘Compliance Operation Division’ (COD) for carrying out specialized activities for a smaller number of taxpayers.
- **“Central Processing Centre” (CPC):** The Income Tax Department (ITD) has set up CPC at Bengaluru for processing of all e-filed returns in the country and paper returns (filed in Karnataka and Goa), rectifying the mistakes which are apparent from processing of returns under section 154, to call for information under section 133, to declare return of income filed by the assessee as invalid return for non-compliance of procedure or otherwise, to declare return of income filed by the assessee as defective return under sub-section (9) of section 139, to set-off or adjustment of refunds against outstanding tax liability of the assessee under section 245 and to issue notice of demand under section 156 of the Act.
- **“Individual Running Ledger Account System” (IRLA):** IRLA maintains ledger accounts of individual taxpayers which is regularly updated by the Tax Accounting System (TAS) and AST applications.
- **“Ombudsman”:** The Income Tax Ombudsman offices located at New Delhi, Mumbai, Chennai, Kolkata, Bangalore, Hyderabad, Ahmedabad, Pune, Kanpur, Chandigarh, Bhopal and Kochi were set up with the objective of enabling the resolution of complaints relating to public grievances against the ITD and to facilitate the satisfaction or settlement of such complaints.
- **“Online Tax Accounting System” (OLTAS):** OLTAS is ITD’s initiative to receive information and maintain records of payment of taxes through banks via online uploading of challan details. With the help of CIN (Challan Identification Number), every payment will be uniquely identified enabling online transmission of details of tax payments by banks to the ITD. The taxpayers can enquire about the status of their challans through TIN (Tax Information Network), established by NSDL (National Securities Depository Ltd.).
- **“Permanent Account Number” (PAN):** PAN is a ten-digit alphanumeric number issued in form of laminated card, by the ITD. It is also a national identification number of the taxpayer which has to be mandatorily quoted on the return of income and in all the correspondence with the Department.
- **“Tax Information Network” (TIN):** TIN, a repository of nationwide Tax related information, has been established by National Securities Depository Limited (NSDL) on behalf of ITD.
- **“Zonal Accounts Officer” (ZAO):** The 24 ZAOs, under the jurisdiction of Principal Chief Controller of Accounts (Pr.CCA) are responsible for accounting of the Expenditure and Revenue (Direct Taxes) on monthly basis at the field level. In the Post OLTAS scenario the ZAOs have become sole repository of Single Copy Challan received in their office from Nodal Branches of authorized Banks.