

## Overview

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### **Review on efficiency of summary assessment scheme and process of selection of cases for scrutiny**

Audit attempted an examination of the rationale, scope and actual implementation of the summary scheme and evaluated its implication on revenues. Simultaneously audit has also attempted an examination of the methodology of selection of cases for scrutiny.

In 31 CCIT and 61 CIT charges for which Audit could collect the data, total number of returns to be disposed off during the year declined from 2.17 crore in 2002-03 to 1.51 crore in 2003-04 and increased to 1.67 crore in 2004-05. The disposal of summary cases as a percentage of its disposable cases was 90.69 per cent, 71.88 per cent and 77.16 per cent in the years 2002-03, 2003-04 and 2004-05 whereas corresponding percentages of disposal of scrutiny cases were 43.51 per cent, 52.41 per cent and 51.83 per cent in these years respectively.

Audit test checked 64,755 summary assessment cases pertaining to the period 2002-03 to 2004-05 and noticed various types of mistakes in 1,392 cases as a result of which assessees availed unentitled benefits involving revenue effect of Rs.390.51 crore. There is an inconsistency in the department on the issue of initiating remedial action on audit observations relating to summary assessments especially where assessment was completed after 1 June 1999. The department accepted audit observations on summary assessments in 210 cases involving tax effect of Rs.69.62 crore rectifying the mistakes in 53 cases with tax effect of Rs.34.16 crore and did not accept in 627 cases involving tax effect of Rs.135.11 crore essentially on the ground that assessments had been completed in summary manner. During 2004-05 total cases to be internally audited were 13.88 lakh, out of which only 5.99 lakh cases constituting 43 per cent of the total auditable cases were seen by the internal audit wing of the department, thus leaving a pendency of 57 per cent.

There is no prescribed time schedule with the Board either for initiating proposals for selection of cases for scrutiny or for the issue of instructions to field formations in this regard. Besides, there was lack of uniformity of time period for which Board's instructions regarding selection of cases for scrutiny on random basis was applicable. The returns of non-corporate assessees for assessment year 2002-03 filing returns between 1 April 2003 and 30 September 2003 did not fall in the purview of getting selected for random scrutiny. Further, the returns of non-corporate assessees for assessment year 2002-03 and 2003-04 processed on TMS or manually were also out of the purview of random selection for scrutiny. Despite making an announcement in the Budget speech for the financial year 2003-04 by the Honourable Finance Minister of immediate abolition of the existing discretion

based system for selection of returns for scrutiny, which would be replaced by a computer generated intelligent random selection of only 2 percent of the returns for scrutiny annually, several categories of cases were being selected manually even in 2004-05. Further, the number of returns selected for scrutiny was less than 2 percent of total assessments in 2003-04 and 2004-05. The number of assessments completed after scrutiny, as a percentage of total assessments due was less than 1 percent in all the years under review.

**Audit recommends that:**

- Government may have the summary assessments scheme studied by an expert group with a view to finding ways of reducing the quantum of revenue forgone as a result of assessee availing unentitled benefits due to the scheme.
- Government may clarify the position with respect to the powers of assessing officers taking remedial action in summary cases as a result of audit observations especially after 1 June 1999.
- Government may consider fixing a time schedule for issue of instructions for selection of cases for scrutiny by the department, which would give more time to the assessing officers for completing the assessments.
- Government may review its chain system of internal audit to make it effective.
- In keeping with PAC recommendations made earlier and also the low numbers of scrutiny assessments completed, Government may consider taking steps to increase the number of scrutiny assessments completed such as by fixing suitable targets and by increasing the proportion of officers in the department on assessment duty.

**Review on the effectiveness of Search and Seizure operations**

Audit reviewed the effectiveness of search and seizure operations by examining searches conducted and consequential assessments completed during the financial years 2001-02 (from 1.06.2001) to 2004-05 and upto September 2005. Audit selected 10 Directorates General out of a total of 14 for the purpose of review which covered 10 states. The overall position of the omissions/irregularities noticed in audit in respect of the 10 states involved tax effect of Rs.352.91 crore in 669 cases of the test check of 3320 cases.

Audit noticed cases where the searches were not successful. In the absence of relevant satisfaction notes the basis on which the searches were carried out could not be ascertained. Audit also noticed that despite penal provisions of section 158 BFA(2) assessee returned far lower incomes than what was finally assessed to tax. Statements made under section 132(4) by the assessee during search were not correctly considered in the appraisal report/assessment. The reasons for variation

between appraisal reports and assessment orders were not recorded in writing despite Board's instructions.

An examination of the appeal process showed that only 15.16 per cent of the selected sample was upheld in favour of revenue whereas 44.77 per cent of the cases were decided in favour of the assessee. Audit analysis also revealed that the proportionate resources spent on the search and assessment process are approximately six times the benefits accruing from it.

**Audit recommends that**

- Board may examine the reasons leading to relief allowed at appellate stage due to deficiencies in investigation and assessment and take suitable steps in this regard.
- Board may examine the possibility of setting up appropriate benchmarks to judge performance in respect of costs incurred as compared to revenue benefits from search and seizure operations.
- Board may consider measures to strengthen the provisions under section 158 BC and 153 A. Procedures at investigation and assessment stage also need to be strengthened so as to make the provisions of section 132(4) more effective.
- Government may also consider amending relevant provisions of the Income Tax Act which include, inter alia, non specification of time limit for issue of notice under section 158 BD and lack of specific provisions for assessment of search cases in the Wealth Tax Act so that unintended benefits do not accrue to the assesseees contrary to the spirit of special provisions of taxation.