

**INTEREST TAX  
ASSESSMENT**

**MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE)**

**HUNDRED AND FORTY-FIRST  
REPORT**



**GOVERNMENT OF INDIA  
NEW DELHI**

HUNDRED AND FORTY-FIRST  
REPORT  
PUBLIC ACCOUNTS COMMITTEE  
(1988-89)

(EIGHTH LOK SABHA)

INTEREST TAX ASSESSMENT

MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE)



*Presented in Lok Sabha on 8-3-1989*

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### PART II\*

Minutes of the sitting of the Public Accounts Committee held on:

(i) 25 January, 1989.

(ii) 7 March, 1989

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\*Not printed. One cyclostyled copy laid on the table of the House and 5 copies placed in Parliament Library.

PUBLIC ACCOUNTS COMMITTEE

(1988-89)

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## INTRODUCTION

I, Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf, this 141st Report on Paragraph 4.69 of the Report of the Comptroller and Auditor General of India for the year ended 31 March, 1987, Union Government (Revenue Receipts—Direct Taxes) relating to omission to revise the income tax assessment consequential to revision of interest tax assessment.

2. The Report of the Comptroller and Auditor General of India for the year ended 31 March, 1987, Union Government (Revenue Receipts-Direct Taxes) was laid on the table of the House on 25 April, 1988.

3. In this Report the Committee have noted that though standing instructions already exist for coordinated action when more than one direct tax liability is involved, the standing instructions are not being observed, as a result 393 interest tax assessment cases relating to period from 1975-76 are pending even in December 1988. Further in the case reported by Audit failure to initiate coordinated action resulted in non-revision of the income tax assessment on revision of the interest tax liability of the Punjab National Bank and action to realise income-tax dues of Rs. 49.97 lakhs was initiated only after Audit pointed out the failure. The Committee have emphasised the need for introducing a mechanism or procedure for watching coordinated action in cases in which more than one direct tax liability is involved.

4. The Report of the Comptroller and Auditor General of India for the year ended 31 March, 1987, Union Government (Revenue Receipts-Direct Taxes) was laid on the table of the House on 25 April, 1988. The Committee (1988-89) examined the para 4.69 thereof at their sitting on 25 January, 1989. The Committee considered and finalised the report at their sitting held on 7 March, 1989. Minutes of these sittings of the Committee form Part II of the Report.

(vi)

5. For reference, facility and convenience the observations and recommendations of the Committee have been printed in thick type of the body of the Report and have also been reproduced in a consolidated form in Appendix II of the Report.

NEW DELHI:  
March 7, 1989  
Phalguna 16, 1910 (Saka)

AMAL DATTA,  
Chairman,  
Public Accounts Committee.



## REPORT ..

### INTEREST TAX ASSESSMENT

#### *A case of omission to Revise Income Tax*

1.1 This Report on a case regarding omission to revise the Income Tax assessment consequential to revision of Interest Tax assessment is based on paragraph 4.69 of the Report No. 6 of the Comptroller and Auditor General of India for the year ended 31st March, 1987, Union Government—Revenue Receipts—Direct Taxes. Paragraph 4.69 of the Audit Report is reproduced in Appendix I.

#### *Statutory provisions and procedure*

1.2 The Interest Tax Act, 1974 is a Levy on Interest Income of every scheduled bank in respect of its chargeable interest of the previous year. The Act has been in force from the assessment year commencing on 1st April, 1975. However, the interest tax was not in operation from 1st March, 1978 to 30th June, 1980 and again from 1st April till date (March 1989). The interest tax, though administered by the Income tax Department, is a separate levy over and above income tax.

1.3 Under the Interest Tax Act, every scheduled bank is required to furnish a return of the chargeable interest by 30th June of the assessment year. Besides, all information furnished or obtained for the purpose of income tax assessment of the assessee may be used for the purpose of this Act. A number of provisions of the Income tax Act, 1961 have been made applicable with necessary modifications to the Interest Tax Act. The interest tax payable by a scheduled bank is specifically made deductible in computing the business income of the bank under the Income Tax Act.

1.4 The Interest Tax Act does not provide any time limit within which the assessment is to be completed by the Income Tax officer but, because quantum of the interest tax has a bearing on the business income chargeable to income tax, it is obvious that the interest tax assessment should precede income tax assessment. The Ministry stated in this regard that though no consistent procedure was prescribed, in view of section 18 of the Interest Act, the assessment under the said Act should normally precede the

assessment under the Income Tax Act. To bring home the need for timely completion of the interest tax assessment, the Central Board of Direct Taxes gave instructions by a circular No. 1439 dated 15-12-1981 to all Commissioners of Income tax to ensure that in future the interest tax assessments are completed within the time limit prescribed for completion of assessments under the Income tax Act.

1.5 The Ministry also stated that the assessing officer under the Income Tax Act holds jurisdiction of a particular assessee under all the direct tax laws so that he takes simultaneous action, wherever necessary under all the direct tax laws. Instructions have also been issued from time to time impressing upon the Income tax Officers that at the time of deciding issues under direct tax law, the information contained in the records pertaining to other direct tax cases should invariably be correlated and made use of.

*Facts of the case*

1.6 According to the Audit paragraph, the interest tax liability of Punjab National Bank for the years 1981-82 and 1982-83 were initially determined at Rs. 518.80 lakhs and Rs. 1306.58 lakhs respectively and were allowed as a deduction from the business income for income tax purposes for the two years. However, in January 1985, the interest tax liability was reduced, on appeal, for the two years to Rs. 467.88 lakhs and Rs. 1271.35 lakhs. As a result, the deduction already allowed in business income for the two years towards interest tax needed to be reduced, the net income revised upwards and demand for additional income tax raised. The revision of income tax was, however, not done resulting in short realisation of income tax by Rs. 49.97 lakhs. After the omission was brought to notice by Audit, action was taken by the assessing officer to revise the income tax demand and realise the same.

1.7 Asked what were the reasons for interest tax revision leading to a reduction of interest tax liability, the representative of the Ministry of Finance, Department of Revenue stated during evidence that the interest tax demand was reduced as a result of an appeal. The witness also stated that on revision of the interest tax demand the concerned officer should have initiated revision of income tax assessment also.

1.8 Asked why in the instant case revision of the income tax assessment was not initiated on revision of the interest tax liability of the assessee, the Ministry have stated that the mistake

occurred owing to frequent transfer of records and at the time of transfer of records the officer transferring the file did not mention the pendency in the revision of the income tax assessment consequent on the revision of interest tax assessment. The Ministry have admitted that to that extent there was a lapse. Asked what action was taken for this lapse, the representative of the Ministry stated during evidence that it was a case of oversight and a bonafide error.

1.9 In a subsequent note, furnished by the C&AG, it has, however, been pointed out that in the case under consideration there was no transfer of records after the revision of the interest tax assessment except for a merger of the concerned assessment range with another with no change in the incumbent who completed the interest tax revision and was in charge of the assessee for another 6 months till he was transferred.

1.10 In reply to a query whether the case was checked in internal audit of the Department, the Ministry have admitted that this could not be checked by the Internal Audit Wing of the Department.

1.11 Asked whether it would not be necessary to examine the other cases where such reduction in interest tax liability has taken place with a view to ensuring that the consequent revision of income tax assessment has also been initiated, the Chairman, Central Board of Direct Taxes, stated during evidence that after the omission in question came to notice, the Board has asked for a review of all the other cases in spite of the fact that there were not likely to be many such cases.

1.12 The Committee note that the interest tax liability is an admissible expenditure for purposes of income tax and that consequently the correct income chargeable to income tax is dependent on initial determination of the interest tax liability. The Committee have been informed in this regard that standing instructions already exist for coordinated action when more than one direct tax liability is involved. Notwithstanding these instructions, the Committee regret to note that in the case reported by Audit, coordinated action was not taken to initiate revision of the income tax assessments on revision of the interest tax liability of the Punjab National Bank. According to the Ministry, income tax assessments could not be revised owing to frequent transfer of records and that at

the time of transfer of records the officer transferring the file did not mention the pending action. The Ministry consider that to that extent there was a lapse. It is, however, understood from Audit that there was no transfer of records after the revision of the interest tax assessments except for a merger of the concerned assessment range with another with no change in the incumbent who completed the interest tax revisions and the assessing officer was in charge of the assessee for another 6 months till he was transferred. It is obvious that mere instructions for coordinated action when more than one direct tax liability is involved have not worked in this case and the omission to initiate revision of income-tax assessments consequent to revision of interest tax liability has taken place because there are no instruction or procedure to watch consequential revision in such cases. The Committee recommend that the Department should not rest with issue of instructions for coordinated action but devise suitable mechanism or procedure to watch consequential revision in cases where more than one direct tax laws are involved. The Committee would like to be apprised of the action taken in this regard.

1.13 The Committee consider it equally unfortunate that the omission to initiate action for revision of income tax assessments consequent on revision of interest-tax assessment of the Punjab National Bank could not be noticed even by the Internal Audit/Wing of the Department. The Committee would like to know whether the interest tax assessments are subject to scrutiny by the Internal Audit Wing and if these are subject to internal audit whether this particular case was reviewed in internal audit.

1.14 The Committee were informed during evidence that after this case was brought to notice by Audit, the Board has asked for a review of all cases to ensure that action to revise income tax assessments has invariably been taken consequent on reduction in the interest tax assessments. The Committee desire that they may be informed of the results of review of all cases and also of the action taken in cases where the assessments of income tax had not been revised after reduction in the interest tax assessments.

*Extent of arrears*

1.15 According to information furnished to the Committee in October 1988, the number of assessees under the Interest Tax Act has been about 80 and assessment of interest tax returns has been pending with the various authorities in the country to the following extent:

| Assessment year | No. of assessments/<br>re-assessment<br>pending |
|-----------------|---|
| 1975-76         | 22  |
| 1976-77         | 24  |
| 1977-78         | 28  |
| 1978-79         | 29  |
| 1979-80         | 30  |
| 1980-81         | 18  |
| 1981-82         | 32  |
| 1982-83         | 40  |
| 1983-84         | 44  |
| 1984-85         | 49  |
| 1985-86         | 54  |
| 1986-87         | 43  |
| Total           | 413   |

1.16 On the reasons for arrears in assessment of interest tax liability, the Chairman, Central Board of Direct Taxes admitted during evidence that "conceptually", interest tax is to be assessed first before income tax is assessed and attributed the accumulation of arrears in assessment to absence of any limitations in the Interest tax Act for completion of assessment by the Income tax Officer. He also stated that as in December 1988, 393 assessment cases were pending.

1.17 On the extent of demand raised in finalised assessments and awaiting realisation, the Ministry gave the following information as on 31st March, 1988:

|                                     | (Rs. in thousands) |
|-------------------------------------|--------------------|
| (1) State Bank of Indore . . . . .  | 5600               |
| (2) State Bank of Bikaner . . . . . | 3840               |
| (3) Banaras State Bank Ltd.         | 301                |
| (4) Nedungudi Bank Ltd. . . . .     | 207                |
| (5) J&K Bank Ltd. . . . .           | 192                |
| (6) New Bank of India Ltd. . . . .  | 183                |
| (7) Syndicate Bank . . . . .        | 142                |
| (8) South Indian Bank Ltd. . . . .  | 83                 |
| (9) Danalakshmi Bank Ltd. . . . .   | 24                 |
| Total . . . . .                     | 10,572             |

1.18 On the progress made for realisation of these arrears, the Ministry have stated that in two cases (amount involved Rs. 4.93 lakhs), the appeals were pending, in two cases (amount involved Rs. 3.25 lakhs) the demands were being linked and adjusted with reference to assessments for subsequent periods, in one case (amount involved Rs. 3.14 lakhs), the dues were subsequently realised in full and in one more case (amount involved Rs. 94.40 lakhs), only Rs. 56.00 lakhs were awaiting recovery for which the assessee has applied for rectification. In the circumstances the Ministry stated that no special recovery steps were called for at this stage.

1.19 Considering the fact that the number of assessees is only 80, and the number of pending cases about 400, the Committee do not find any justification for the large number of arrears in assessment. Had the standing instructions for simultaneous action on all tax law assessments been translated into action and compliance ensured by the internal audit, Commissioners of Income tax etc., the

Committee are confident that the arrears would not have been accumulated. In any case the Committee consider it necessary for a time bound programme should be drawn by the Ministry for liquidating the arrears and a report about the progress furnished to the Committee.

*March 7, 1989*

*Phalguna 16, 1910 (Saka)*

AMAL DATTA.

*Chairman,*

*Public Accounts Committee*

## APPENDIX I

(Vide Para 1.1 of the Report)

*Audit para 4.69 of the report of C&AG of India for the year ended 31 March, 1987, Union Government (Revenue receipts—Direct Taxes) regarding omission to revise the Income Tax assessment consequential to revision of interest Tax Assessment*

In computing the business income of a scheduled bank, the interest tax payable by the bank under the provisions of the Interest Tax Act, 1974 for any assessment year shall be deductible from the business income of the bank for that assessment year.

In the assessments to income-tax of a scheduled bank for the assessment years 1981-82 and 1982-83 made in February 1984 and March 1984 respectively, deduction of Rs. 5,18,79,830/- and Rs. 13,06,58,352/- on account of interest tax liability of the bank determined under the provisions of the Interest Tax Act, 1974. In October 1983 for the above assessment years, was allowed by the department. The assessments to interest tax of the bank for the assessment years 1981-82 and 1982-83 were revised in January 1985 as a result of which its interest tax liability for the two assessment years was reduced to Rs. 4,67,88,534/- and Rs. 12,71,34,566/- respectively. Consequently, the income tax assessments of the bank were also required to be revised on the basis of reduced interest tax liability of the assessee. Failure of the department to revise the income tax assessments resulted in under-assessment of the income of the bank by Rs. 50,91,396/- and Rs. 35,23,786/- for the assessment years 1981-82 and 1982-83 respectively and consequential short levy of total tax of Rs. 49,96,762/- for the two assessment years.

The Ministry of Finance have accepted the objection.



## APPENDIX II

### Statement of observations/Recommendations

| Sl. No. | Para No. | Ministry/Deptt.<br>concerned | Observation/Recommendation  |
|---------|----------|------------------------------|---|
| 1       | 2        | 3                            | 4   |
| 1       | 1 12     | Finance<br>(Revenue)         | <p>The Committee note that the interest tax liability is an admissible expenditure for purposes of income tax and that consequently the correct income chargeable to income tax is dependent on initial determination of the interest tax liability. The Committee have been informed in this regard that standing instructions already exist for coordinated action when more than one direct tax liability is involved. Notwithstanding these instructions, the Committee regret to note that in the case reported by Audit, coordinated action was not taken to initiate revision of the income tax assessments on revision of the interest tax liability of the Punjab National Bank. According to the Ministry, income tax assessments could not be revised owing to frequent transfer of records and that at the time of transfer of records the officer transferring the file did not mention the pending action. The Ministry consider that to that extent there was a lapse. It is, however, understood from Audit that there was no transfer of records after the revision of the interest tax assessments except for a merger of the concerned assessment range with another with no change in the incumbent who completed the</p> |

interest tax revisions and the assessing officer was in charge of the assessee for another 6 months till he was transferred. It is obvious that mere instructions for coordinated action when more than one direct tax liability is involved have not worked in this case and the omission to initiate revision of income tax assessments consequent to revision of interest tax liability has taken place because there are no instructions or procedure to watch consequential revisions in such cases. The Committee recommend that the Department should not rest with issue of instructions for coordinated action but devise suitable mechanism or procedure to watch consequential revision in cases where more than one direct tax laws are involved. The Committee would like to be apprised of the action taken in this regard.

10

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3

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