

**SEVENTY-EIGHTH REPORT**  
**PUBLIC ACCOUNTS COMMITTEE**  
**(1986-87)**

**(EIGHTH LOK SABHA)**

**RELIEFS AND REFUNDS**

**MINISTRY OF FINANCE**

**(DEPARTMENT OF REVENUE)**



*Presented in Lok Sabha on 9 April, 1987*  
*Laid in Rajya Sabha on 13 April, 1987*

**LOK SABHA SECRETARIAT**  
**NEW DELHI**

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## PART II\*

### Minutes of the sittings of the Public Accounts Committee:

(i) 4th October, 1985

(ii) 23rd March, 1987

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

# COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE.

## CHAIRMAN

Shri E. Ayyapu Reddy

## MEMBERS

### *Lok Sabha*

2. Shri J. Chokka Rao
3. Shri Amal Datta.
4. Shri Ranjit Singh Gaekwad
5. Shrimati Prabhawati Gupta
6. Shri G. S. Mishra
7. Shri Vilas Muttemwar
8. Shri G. Devaraya Naik.
9. Shri Rameshwar Neekhra
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11. Shri H. M. Patel.
12. Shrimati Jayanti Patnaik
13. Shri S. Singaravadivel
14. Shri Simon Tigga.
15. Shri Girdhari Lal Vyas

### *Rajya Sabha*

16. Shri Bhuvnesh Chaturvedi
17. Shri K. L. N. Prasad.
18. Shri Ghulam Rasool Kar
19. Shri A. K. Antony
20. Shri Nirmal Chatterjee
21. Shri M. S. Gurupadaswamy
22. Shri Virendra Verma

## SECRETARIAT

1. Shri K. H. Chhaya—*Joint Secretary.*
2. Shri S. M. Mehta—*Senior Financial Committee Officer.*

## INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf, this 78th Report of the Committee on paragraph 1.12 of the Report of the Comptroller and Auditor General of India for the year 1983-84, Union Government (Civil), Revenue Receipts, Vol. II, Direct Taxes relating to 'Reliefs and Refunds'.

2. The Report of the Comptroller and Auditor General of India for the year 1983-84, Union Government (Civil), Revenue Receipts, Vol. II, Direct Taxes was laid on the Table of the House on 10 May, 1985.

3. Under the provisions of the Income-tax Act 1961 an assessee becomes entitled to refund where tax paid by him exceeds the amount of tax payable or where as a result appellate orders an amount becomes due to him. Further, in the case of refund not granted within 3 months from the end of the month in which total income was determined or order under Section 240 was passed, simple interest at the rate of 15 per cent becomes payable to the assessee on the amount of refund. The Ministry of Finance also issued elaborate instructions for prompt authorisation of refunds. The Committee have noted with concern that as against a sum of Rs. 1.03 crores paid during 1979-80 as interest on belated refunds an amount of Rs. 7.12 crores was paid during 1983-84. The Committee have desired that officers held directly responsible for delaying issue of refund orders should be suitably penalised and that annual appraisal reports of the Commissioner of Income-tax should specifically mention about performance regarding issue of refunds.

4. The pendency of refund applications under Section 237 of the Income-tax Act 1961 has risen from 15269 at the end of 1979-80 to 37547 at the end of 1984-85, registering an increase of about 146 per cent. The Committee have expressed their displeasure over the lackadialical approach of the department to eliminate the delay in disposal of refund cases. In January 1976, the CBDT issued instructions in pursuance of the recommendation of the Direct Taxes Enquiry Committee made in 1971 that disciplinary action should be initiated in all cases where refund vouchers were not generally issued within 7 days of passing of the order. These instructions remained

unattended till October 1985 when during evidence the representative of the Ministry informed the Committee that 'We have started implementation now'. The Committee have desired that the functioning of the income-tax wards/circles be streamlined and suitable punishment awarded to the erring officials. The Committee have also desired to be kept informed of the success achieved in implementing the instructions issued in January 1976 for a period of 2 years and also of the action taken against the erring staff.

5. A number of cases of fraud involving huge amount of revenue have occurred in various income-tax words/charges. The Committee have expressed the view that these cases should be thoroughly investigated and analysed to find out the loopholes left in the system of authorising refunds and to take effective remedial measures for their rectification.

6. The Public Accounts Committee examined this para at their sitting held on 4 October, 1985. The Committee considered and finalised this Report at their sitting held on 23 March, 1987. Minutes of the sitting form Part II of the Report.

7. A statement containing conclusions and recommendation of the Committee is appended to this Report (Appendix V). For facility of reference these have been printed in thick type in the body of the Report.

8. The Committee place on record their appreciation of the assistance rendered to them in the examination of this Paragraph by the Office of the Comptroller and Auditor General of India.

9. The Committee would also like to express their thanks to the officers of the Ministry of Finance (Department of Revenue) for the cooperation extended to them in giving information to the Committee.

**NEW DELHI;**  
**3 April, 1987**  
**13 Chaitra, 1909 (Saka)**

**E. AYYAPU REDDY**  
*Chairman,*  
**Public Accounts Committee.**

## REPORT

### RELIEFS AND REFUNDS

#### *Audit Paragraph*

Where the amount of tax paid exceeds the amount of tax payable the assessee is entitled to a refund of the excess. If the refund is not granted by the department within three months from the end of the month in which the claim is made, simple interest at the prescribed rate becomes payable to the assessee on the amount, of such refund (*vide* Section 237 read with 243 of the Income-tax Act).

- (i) (a) The particulars of cases of refunds for which claims were made, the claims settled and the balance outstanding during 1983-84.

Financial year	Opening Balance	Claims received during the year	Total	No. of refunds made	Balance outstanding
1979-80 . . . . .	10,843	1,25,927	1,36,770	1,21,501	15,269
1980-81 . . . . .	15,269	1,33,691	1,48,960	1,31,584	17,376
1981-82 . . . . .	17,506	1,91,587	2,09,093	1,93,660	15,433
1982-83 . . . . .	15,433	1,34,306	1,49,739	1,22,680	27,059
1983-84 . . . . .	16,543	1,50,697	1,67,240	1,37,095	29,146

(b) Year-wise analysis of the balance claims as on 31 March, 1984.

Financial year in which application was made	No. of cases pending
1980-81 and earlier years	20
1981-82	60
1982-83	3,202
1983-84	25,864
<b>Total:</b>	<b>29,146</b>

- (ii) (a) The Act also provide for refund of any amount which may become due to an assessee as a result of any order passed in appeal or other proceedings without his having to make any claim in that behalf. Simple interest at the prescribed rate is payable to the assessee in such cases too.

£The discrepancy in the figures is under verification by the Ministry of Finance.

The particulars of assessments pending revision, revisions actually made and the no. of cases of assessment outstanding as on 31 March, 1984.

Financial year	Opening Balance	Assessment for revision during the year	Total	No. of assessments revised out of Col. 4	Number assessments which resulted in refunds as a result of revision out of Col. 5	Assessments pending revision
1979-80 . . . .	6,528	1,13,926	1,20,454	1,11,132	50,891	9,322£
1980-81 . . . .	9,240£	1,04,447	1,13,687	1,06,771	50,104	6,916£
1981-82 . . . .	6,961£	1,04,114	1,11,075	1,05,296	20,700	5,779
1982-83 . . . .	5,179	91,631	97,410	90,387	33,963	7,023£
1983-84 . . . .	7,554	78,257	85,811	77,600	29,178	7,888£

(b) Year-wise analysis £ of balance cases as on 31 March, 1984.

Financial year	No. of cases pending
1980-81 and earlier years	439
1981-82	429
1982-83	3,362
1983-84	3,742
<b>Total:</b>	<b>7,972</b>

£The discrepancy in the figures is under verification by the Ministry of Finance.

### (iii) Grant of Refunds.

The Central Board of Direct Taxes issued instructions in July 1980 regarding preparation of refund vouchers/advice notes, watching their encashment and their accountal, for compliance by field officers. These instructions have been issued primarily to prevent issue and encashment of fraudulent refund vouchers.

1.02. The procedures applicable in respect of issue of refund vouchers are as under:

For refunds upto Rs. 999:

The refund voucher will consist of three foils. The first foil will remain in the Refund Voucher Book as office copy. The second and third foils, will be sent to the assessee for presenting to the bank, indicated therein, for encashment. After payment, the bank will send the third foil alongwith a Bank Refunds scroll to the designated officer, who in turn will forward it to the concerned Income-tax Officer. The second foil alongwith another copy of scroll will be sent to the Zonal Accounts Officer.

For refund of Rs. 1,000 and above:

Here the refund vouchers will consist of only two foils of which the first foil will remain in the refund voucher book and the second foil will be issued to the assessee for presenting it to the bank for encashment. An advice note bearing the same number as that of the Refund Voucher is prepared, signed and simultaneously issued to the bank on which the Refund Voucher is drawn. The first foil of the Advice Note will remain in the book and the second and third foils are sent to the bank. The bank on presentation of the refund voucher would tally the amount with that noted in the Advice Note before honouring it. After making the payment, at the end of the day, the Bank will forward the third foil alongwith a scroll to the designated officer who will forward it to the concerned Income-tax Officer. The paid refund voucher, the second foil of the Advice Note alongwith another copy of the scroll are sent to the Zonal Accounts Officer concerned.

The observance of these instructions and the disposal of Refund claims by the field offices were generally reviewed in Audit in 1983-84 by test check of departmental records for the years 1980-81 to 1982-83. The results of the review are indicated below:—

**(a) Writing of Refund Vouchers**

It is laid down that after the refund voucher is written up by a Clerk or a Tax Assistant, it will be checked by a Supervisor or a Head Clerk before the same is put up to the Income-tax Officer for final check and signature. The person who writes the refund vouchers, and the one who checks the same, will have to put their signature



(with names in brackets) on the office copies of the refund vouchers and advice notes.

This procedure is not being observed in most of the Income-tax Wards, as will be evident from the following table:

Sl. No.	Commissioners Charges	No. of wards test checked	No. of wards not complying with Board's instruction
1	Bombay . . . . .	180	150
2	Calcutta . . . . .	58	54
3	Madhya Pradesh] . . . . .	13	9
4	Rajasthan . . . . .	24	23
5	Kerala . . . . .	18	18
6	Gujarat . . . . .	56	21
7	Haryana . . . . .	9	9
8	Himachal Pradesh . . . . .	5	5
9	Delhi . . . . .	37	37
10	Karnataka . . . . .	12	12

In 24 wards relating to five Commissioners' charges in Punjab the names of writer and checker were indicated only on 293 refund vouchers out of 13,291 refund vouchers issued during 1982-83. In Andhra Pradesh, in 53 wards the names of writer and checker were indicated only on 4,715 refund vouchers out of 24,206 vouchers issued during 1982-83.

*(b) Tallying of Paid Vouchers with office copies*

In order to help in detecting the encashment of bogus Refunds, specific checks are laid down. In case of refunds upto Rs. 999, on receipt of the third foil of the refund voucher, the Clerk or the Tax Assistant concerned will tally the amount paid with the office copy (first foil) of the refund voucher and also write the date of encashment in the space provided in the office copy. In regard to refunds of Rs. 1,000 and above, the Income-tax Officer himself on receipt of

the third foil of the Advice Note has to tally and also write out the date of encashment in the space provided in the office copy.

Omission to verify and tally the amount of refund already made with that shown in the office copy and the omission to indicate the date of encashment of the refund in the office copy, were noticed extensively. The following table summarises the results of test check by Audit:

Sr. No	Commissioners Charges	No. of wards test checked	No. of wards where tallying of paid vouchers with Office copy was not done
1	Bombay	180	149
2	Calcutta	58	54
3	Madhya Pradesh	13	11
4	Bihar	6	6
5	Rajasthan	24	22
6	Gujarat	56	32
7	Punjab	24	24
8	Haryana	9	8
9	Himachal Pradesh	5	5
10	Delhi	37	37
11	Karnataka	12	12

In Andhra Pradesh, in 53 wards selected for check the paid vouchers were not tallied with the office copy of the refund vouchers in 14,788 cases of refund of Rs. 282.56 lakhs out of 24,206 cases of refunds for Rs. 496.40 lakhs authorised during 1982-83.

In Kerala, in 18 wards selected for check the paid vouchers were not tallied with the office copy of refund vouchers in 3,905 cases of refund of Rs. 143.21 lakhs out of 5,091 cases of refunds for Rs. 205.11 lakhs authorised during 1982-83.

**(c) Quarterly verification of receipt of paid vouchers**

As a further check for detecting encashment of bogus refunds, the Income-tax Officer is required to make a quarterly verification from the office copies of the refund vouchers as well as the relevant entries in the Demand and Collection Register to find out the cases where the paid foils of refund voucher have not been received upto six months from the date of issue of refund voucher. In such cases, the Income-tax Officer will have to consult the records of the Central Treasury Units etc. and if necessary approach the concerned bank to ascertain the position about the encashment of the relevant refund vouchers to ensure that there has been no fraudulent payment.

Again extensive failure to conduct such quarterly verification was noticed as will be evident from the results of test check tabulated below:—

Sr. No.	Commissioners Charge	No. of wards test checked	No. of wards where quarterly verification was not done
1	Bombay	180	127
2	Calcutta	58	58
3	Assam	9	9
4	Madhya Pradesh	13	13
5	Bihar	6	6
6	Rajasthan	24	24
7	Gujarat	56	12
8	Punjab	24	22
9	Haryana	9	9
10	Andhra Pradesh	53	47
11	Himachal Pradesh	5	5
12	Orissa	12	12
13	Karnataka	12	12

It may be mentioned that as per records of the wards test checked in respect of 12,587 refund vouchers for amount of Rs. 259.97 lakhs issued during 1980-81 to 1982-83 in 5 units (as per details below) paid

vouchers were not available on record. As such it cannot be said that they have been encashed. The linking of refund vouchers issued with relevant paid vouchers is a very important check to detect fraudulent refund vouchers.

	No. of wards checked	Number	Refunds vouchers for which paid Vouchers are not available
		(Amount in lakhs of Rupees)	
Calcutta . . . . .	58	1129	105.72
Rajasthan . . . . .	24	676	20.58
Gujarat . . . . .	27	1315	13.04
Punjab . . . . .	24	4757	49.01
Andhra Pradesh	53	4710	71.62
		12,587	259.97

In an Income-tax Ward in Tamil Nadu three refund voucher forms and corresponding advice notes were removed from respective refund orders/advice books and refund orders totalling to Rs. 1,26,278 were issued under the signature of a 'fictitious' Income-tax Officer, using stolen seal of one of the Income-tax Officers, favouring a 'fictitious' assessee. The refunds were encashed in December 1981. The Government suffered a loss of Rs. 1,26,278.

The fraud came to the notice of the Department on 22nd January 1982. A case was registered with Central Bureau of Investigation who finalised their report on 31st December 1983, recommending regular departmental action for major penalty against a staff officer of the Reserve Bank of India and an Assistant in the concerned Income-tax Ward and minor penalty against the Income-tax Officer of the concerned Ward. Further action is pending (September 1984).

**(d) Maintenance of Daily Tally Register (Refunds)**

On receipt of distribution Memo along with copies of refund advices from the District Collection Unit/Local Treasury Unit (in places where more than one Income-tax Officer functions) the Income-tax Officer should record the particulars of the Memo and advice notes and the amount involved in them in a register called Daily Tally Register (Refunds) and segregate refunds according to income-tax,

wealth-tax and gift-tax. After noting the refunds in the respective Daily Refund Register, and the Demand and Collection Register, the Income-tax Officer has to indicate total number of refund advices and the amount thereof in respect of each tax as entered in the Daily Collection Register, in the Daily Tally Register and ensure that action had been taken on all refund advices received in his office.

This important register was not maintained in 125 wards out of 180 in 20 Commissioners' charges in Bombay, in 48 out of 58 wards in 15 Commissioners' charges in Calcutta, in 8 wards in Assam, in 11 wards out of 13 in Madhya Pradesh, in 6 wards in Bihar, in 17 out of 24 wards in 2 Commissioners' charges in Rajasthan, in 40 wards out of 56 relating to 6 Commissioners' charges in Gujarat, in 17 wards of 24 in 5 Commissioners' charges in Punjab, in 9 wards in Haryana, in 37 wards out of 53 in Andhra Pradesh, in 5 wards of Himachal Pradesh, 32 wards out of 37 in Delhi and 11 wards out of 12 wards in Karnataka.

*(e) Maintenance of Register of Refund Applications*

(1) In order to ensure prompt disposal of refund applications, a Register of Refund Application in the prescribed form is required to be maintained in each office. The Income-tax Officer should personally review this register periodically.

It was noticed in Audit that in 9 wards in Assam, 13 wards in Madhya Pradesh, 6 wards in Bihar, 5 wards in Rajasthan, 31 wards in Gujarat, 15 wards in Punjab, 9 wards in Haryana, 5 wards in Himachal Pradesh, 12 wards in Orissa, 57 wards in Calcutta and 12 wards in Karnataka, the control Register was not maintained. In the absence of these it was not possible to ascertain the number of pending refund claims and their age.

(2) The number of refund applications pending on 31st March of the five years 1980 to 1984, as per the figures furnished by the Ministry are:—

March ending	No. of applications
1980	15,269
1981	17,376
1982	15,433
1983	27,059
1984	29,146

In the absence of the prescribed register in many income-tax wards, the veracity of figures cannot be verified.

(f) *Delay in authorisation of Refunds due*

Where the refund is delayed beyond three months, Government have to pay interest at 12 per cent per annum (15 per cent per annum from 1st October 1984) on the amount of refund due from the day following the expiry of 3 months to the day on which the refund is granted.

A review of refund vouchers issued during the three years 1980-81 to 1982-83 in selected wards of certain charges disclosed refund amounting to Rs. 284.59 lakhs (4,133 refund vouchers) had been authorised after delays ranging from six months to more than three years. The details are as under:—

Refund authorised after delay of

Charges	6 months to 1 year		1 year to 3 years		More than 3 year	
	Items	Amount	Items	Amount	Items	Amount
1 Bombay . . .	2657	139.39	185	15.89	45	1.79
2 Calcutta . . .	483	108.30	351	9.76	57	1.63
3 Others . . .	187	1.71	157	5.97	11	0.15
<b>TOTAL: . . .</b>	<b>3327</b>	<b>249.40</b>	<b>693</b>	<b>31.62</b>	<b>113</b>	<b>3.57</b>

Such interest paid, on account of delay in authorising refunds during the five year period 1979-80 to 1983-84 is as below:\*

Year	Amount (Rupees in lakhs)
1979-80 . . . . .	103.18
1980-81 . . . . .	239.18
1981-82 . . . . .	254.99
1982-83 . . . . .	289.27
1983-84 . . . . .	564.78

\*Figures have been furnished by the Ministry of Finance

## 1.03. Conclusion:

- (1) Instructions of the Central Board of Direct Taxes also require that the Inspecting Assistant Commissioners should in the course of periodical inspections check that the system of issuing refunds and the various checks, prescribed are being strictly adhered to. The Test Check in Audit had, however, shown that the procedure evolved by the Central Board of Direct Taxes in July 1980 to safeguard against bogus or fraudulent refunds etc. remains largely to be implemented by the field formations.
  
- (2) There is no control whatsoever in regard to timely and expeditious disposal of refund claims as is evident from non-maintenance of Register of Refund application and heavy interest payments on belated refund authorisations.

1.04. This review was sent to the Ministry of Finance in October 1984; their reply is awaited. (November 1984).

[Paragraph 1.12 of the Report of the C&AG of India for the year 1983-84, Union Government (Civil)—Revenue Receipts, Vol. II (Direct Taxes)].

1.05. Paragraph 1.12(i) and (ii) of the Report of the C&AG of India for 1984-85, Union Government (Civil), Revenue Receipts, Vol. II, Direct Taxes on 'Relief and Refunds' reads as follows:—

“(i)(a) The particulars of cases of refunds for which claims were made, the claims settled and the balance outstanding during 1984-85.

Financial year	Opening Balance	Claims received during the year	Total	No. of refunds made	Balance outstanding
1980-81 . . . . .	15,269	1,33,691	1,48,960	1,31,584	17,376£
1981-82 . . . . .	17,506£	1,91,587	2,09,093	1,93,660	15,433
1982-83 . . . . .	15,433	1,34,306	1,49,739	1,22,680	27,059
1983-84* . . . . .	27,059	1,40,163	1,67,222	137,981	29,241†
1984-85 . . . . .	29,221†	1,50,161	1,79,382	1,41,835	37.54

(b) Year-wise analysis of the balance claims as on 31 March 1985.

Financial years in which application was made

	No. of cases pending
1981-82 and earlier years . . . . .	13
1982-83 . . . . .	279
1983-84 . . . . .	7,036
1984-85 . . . . .	30,219
Total.	37,547

£ and † The discrepancy in figures is under verification by Ministry of Finance.

\*Figures furnished by Ministry of Finance in March 1985 have been adopted.

(ii)(b) The Act also provides for refund of any amount which may become due to an assessee as a result of any order passed in appeal or other proceedings without his having to make any claim in that behalf. Simple interest at the prescribed rate is payable to the assessee in such cases too.

The particulars of assessment pending revision, revisions actually made and the number of cases of assessments outstanding as on 31 March, 1985.



Financial year.	Opening Balance	Assessments for revision during the year	Total	No. of assessments revised out of Col. 4	No. of assessments which resulted in refunds as a result of revision of Col.5	Assessments pending revision
1	2	3	4	5	6	7
1980-81 . . . . .	9,240	1,04,447	1,13,687	1,06,771	50,104	6,916
1981-82 . . . . .	6,961	1,04,114	1,11,075	1,05,296	20,700	5,779
1982-83 . . . . .	5,779	91,631	97,410	90,387	33,963	7,023
1983-84* . . . . .	7,023	80,061	87,043	79,302	29,222	7,782
1984-85 . . . . .	7,782	66,760	74,542	68,859	27,935	5,683

£ The discrepancy in figures is under verification by Ministry of Finance  
 \*Figures furnished by Ministry of Finance in March 1985 have been adopted.

(b) Year-wise analysis of balance as on 31 March 1985.

Financial year	No. of cases pending
1981-82 and earlier years	294
1982-83	398
1983-84	473
1984-85	4,518
Total:	5,683

1.06. Sections 237, 240, 243 and 244 of the Income Tax Act, 1961 read as follows:

"237. If any person satisfies the Income-tax Officer, that the amount of tax paid by him or on his behalf or treated as paid by him or on his behalf for any assessment year exceeds the amount with which he is properly chargeable under this Act for that year, he shall be entitled to a refund of the excess.

240. Where, as a result of any order passed in appeal or other proceeding under this Act, refund of any amount becomes due to the assessee, the Income-tax Officer shall except as otherwise provided in this Act, refund the amount to the assessee without his having to make any claim in that behalf.

243. (1) If the Income-tax Officer does not grant the refund,—

- (a) in any case where the total income of the assessee does not consist solely of income from interest on securities or dividends, within three months from the end of the month in which the total income is determined under this Act, and
- (b) in any other case, within three months from the end of the month in which the claim for refund is made under this Chapter,

the Central Government shall pay the assessee simple interest of fifteen per cent per annum on the amount directed to be refunded from the date immediately following the expiry of the period of three months aforesaid to the date of the order granting the refund. Explanation: If the delay in granting the refund within the period of three months aforesaid is attributable to the assessee, whether wholly or in part, the period of the delay attributable to him shall be excluded from the period for which interest is payable.

- (2) Where any question arises as to the period to be excluded for the purposes of calculation of interest under the provisions of this section, such question shall be determined by the Commissioner whose decision shall be final.

244. (1) Where a refund is due to the assessee in pursuance of an order referred to in section 240 and the Income-tax Officer does not grant the refund within a period of three months from the end of the month in which such order is passed, the Central Government shall pay to the assessee simple interest at fifteen per cent per annum on the amount of refund due from the date immediately following the expiry of the period of three months aforesaid to the date on which the refund is granted.

(1A) Where the whole or any part of the refund referred to in sub-section (1) is due to the assessee, as a result of any amount having been paid by him after the 31st day of March, 1975, in pursuance of any order of assessment or penalty and such amount or any part thereof having been found in appeal or other proceeding under this Act to be in excess of the amount which such assessee is liable to pay as tax or penalty, as the case may be, under this Act, the Central Government shall pay to such assessee simple interest at the rate specified in sub-section (1) on the amount so found to be in excess from the date on which such amount was paid to the date on which the refund is granted:

Provided that where the amount so found to be in excess was paid in instalments, such interest shall be payable on the amount of each such instalment or any part of such instalment, which was in excess, from the date on which such instalment was paid to the date on which the refund is granted:

Provided further that no interest under this sub-section shall be payable for a period of one month from the date of the passing of the order in appeal or other proceeding:

Provided also that where any interest is payable to an assessee under this sub-section, no interest under sub-section (1) shall be payable to him in respect of the amount so found to be in excess.

(2) Where a refund is withheld under the provisions of section 241, the Central Government shall pay interest at the aforesaid rate on the amount of refund ultimately determined to be due as a result of the appeal or further proceeding for the period commencing after the expiry of three months from the end of the month in which the order referred to in section 241 is passed to the date the refund is granted."

1.07. The arrangements that exist at present for dealing with refund claims of assessee *suo moto* or otherwise as explained by the Ministry, are as follows:—

"The whole responsibility of granting refund is on the assessing officer. As soon as a *suo moto* refund application is receiv-

ed, the Record Keeper is required to consult the Permanent Accounts Number Register. In case the name of the refundee is not already borne on the Permanent Accounts Number Register, appropriate entries are made in this Register and the Register of refund application. In case of the old refundee, date of receipt of return and application is entered in the Permanent Accounts Number Register and also in the Register of Refund Applications. After this is done, the refund claim is scrutinised with a view to finding out whether:—

- (i) The application is within time;
- (ii) the tax deduction vouchers relate to the relevant year;
- (iii) the ownership certificates are properly signed; and
- (iv) the return of income is properly filed.

If any defect is noticed, the claimant is asked to set it right immediately to avoid delay in disposal of the refund.

In other cases, where refund arises on completion of regular assessment on account of excess payment of pre-paid taxes or on account of reduction in appeal, revision or rectification of mistakes etc., no formal application for refund is required. The I.T.O. grants such refunds on his own after giving effect to the order of Appellate Authorities or Revisionary Authority. In these cases, since regular assessments have already been completed once, the I.T.O. has only to give effect to the appellate orders etc. and determine the refundable amount, if any. A copy of the appeal-effect orders etc. alongwith refund vouchers, if any is required to be issued to the assessee in whose case such order is passed."

1.08. The procedure for preparation of refund vouchers has been laid down in Circular No. 39 dated 15-7-1980 (Appendix I) issued by the Directorate of O&M Services, (Income Tax).

1.09. According to the Circular No. 39 with a view to facilitating the easy encashment of refund of small tax-payers, the Board decided that the Advice Notes in respect of refund orders upto Rs. 999/- will not be issued with effect from 11-1-1980. The refund vouchers in these cases will be issued from books to be specially printed for this purpose and the vouchers will bear the legend "valid for amounts

upto Rs. 999/- only" at the top and numbers for corresponding advice note etc. will be missing. The refund vouchers book in such cases will have three foils. The assessee will be sent second and third foils and he will present both the foils of the refund vouchers issued to him to bank for encashment and the bank will make immediate payment. The third foil will be sent subsequently by the Bank to the designated officer.

Part 'B' of the Circular explains the procedure for refund of Rs. 1000/- or more for which Advice Note will be issued. The refund vouchers book in these cases will have two foils and the second foil will be issued to the assessee. The second and third foil of corresponding advice note will be sent to the bank who will after encashment of refund enter the same in refund scroll and return one set of scroll and the third foil of advice note to the designated officer. The procedure more or less remains the same in respect of refund of Rs. 1000/- or more.

Part 'C' of the circular provides that to avoid hardship to assesseees who do not have a bank account, uncrossed vouchers may be issued provided such an assessee gives in writing that the vouchers should not be crossed. It further provides that where the vouchers exceeding Rs. 500/- is not crossed, the bank should be requested to insist on the identification of the payee before making the payment. In case of refunds of Rs. 1000/- and more the bank is also to verify before hand that the Income-tax Officer has in fact sent a separate Advice Note indicating that the voucher is not crossed.

The Inspecting Assistant Commissioners have been asked that in the course of periodical inspections by them, they should check that the system of issuing of refunds and the various checks prescribed in the circular are being strictly adhered to.

1.10. In reply to a question as to what steps the Ministry proposed to take to arrest the upward trend in the pendency of applications for refunds which have gone up from 27,053 in 1982-83 to 29,241 in 1983-84, the Ministry stated as under:—

"The Board have issued instruction No. 1647 (F. No. 212/920/85-IT A. II) dated 11-9-1985. The Inspection Division of the Central Board of Direct Taxes have been specially asked to monitor compliance of these instructions while inspecting the work of Income-tax Circles and report to the Chairman for directing appropriate disciplinary proceedings both

against Income-tax Officers and Assistant Commissioners in cases where Board's instructions have not been followed."

1.11. Asked to explain as to what role is played by the Internal Audit to ensure that the procedure prescribed for obtaining refund voucher books, issue of refunds, receipt back of refund vouchers and tallying of the amount of refunds actually made with that shown in the vouchers is properly followed, the Ministry stated in a note:

"While the Internal Audit set-up of the I.T. Department has nothing to do with the obtaining of refund voucher books and also with receipt back of refund vouchers and tallying of the amounts etc., there is an Internal Audit Organisation working under the Chief Controller of Accounts, Central Board of Direct Taxes which looks into the correctness of all receipts and refunds and other subsidiary registers. These inspection parties which are located in several zonal headquarters of Chief Controller of Accounts, Central Board of Direct Taxes ensure by test check that challans and refunds have been properly posted with due classification in the Daily Collection Register and Demand and Collection Register in the Income-tax Offices. The Internal Audit parties are exercising following checks:—

**(A) Stock Registers of Refund order books:**

These parties check the stock registers to see that these are properly maintained. They also check to see whether leaves contained in the books received have been checked and have been corrected and that the certificate to this effect is recorded on the books. The Internal Audit parties are expected to ensure that the provisions contained in the DOMS circular No. 39 dated 15-7-1980 in this regard are complied with in general.

**(B) Issue of refunds, receipt back of refund vouchers and tallying of amount of refunds actually made with that shown in Refund Vouchers:**

The Internal Audit parties see whether or not the date of encashment are noted in the office copy. The Internal Audit parties are required to check the advices of refunds of Income-tax of Rupees one thousand and above, with the amount indicated in counter-foils, refund bills, registers and refund orders, passed by the Income-tax Officer in the assessee's files. From May, 1980, the percentage of check

to be exercised by the Internal Audit parties has been increased from 15 to 25 of the advices of refunds for two selected months in a year."

1.12. In reply to a question whether any review had been conducted to see how far the prescribed procedure had been followed by the field officers, the Ministry of Finance (Department of Revenue) stated:

"The procedures prescribed in the authorisation of refunds due to the assesseees, accounting of refunds and preparation of refund vouchers are being continuously reviewed and rationalised by the Board. Such reviews and rationalisation of the procedure comprise:—

- (a) Changes in procedure already made and enforced in the field offices;
- (b) changes in procedure proposed to the Board through Study Reports sent by the Directorate of Organisation and Management Services (IT); and
- (c) changes in procedure under examination.

The recommendations for streamlining of the procedures and control mechanism regarding the issue of refunds are under constant watch of the Board.

The Summarised procedure for issue of refund of direct taxes was introduced by the Board under Circular No. 39. A Committee is also examining the adoption of MICR Technology for the issue of refunds. Detailed instructions for the preparation of refund vouchers under the new scheme will be issued thereafter.

The system of accounting of refunds was also examined in detail and a revised procedure for accounting was introduced under C.B.D.T. Circular F. No. 385/85/78/IT(B) dated 30-11-1979 (Appendix II)".

1.13. Asked to state the role of the Inspecting Assistant Commissioner to ensure that a system of issuing refunds and the various checks prescribed are being strictly adhered to, the Ministry stated in reply:

"The number of inspections completed by the inspecting Assistant Commissioners in respect of the work of ITOs from 1980-81 to 1984-85 is shown below:—

Financial year	No. of Inspections completed
1980-81	692
1981-82	516
1982-83	704
1983-84	721
1984-85	905

The proforma for inspections to be made by the Inspecting Assistant Commissioners has been devised to incorporate statistical information regarding different aspects of the ITOs work such as workload and disposal of assessments, demand created and collection made, penalties for disposal and actually, disposed off etc. The statistical portion of the proforma has also an item (item No. 12) which deals with refund, rectification and appeal effects. The different columns of this item are as under:—

Pendency b/f at the beginning of the year	Net effect of addn./deletion upto end of year (including current workload)	Total work load (1+2)	Disposal upto the end of year	Balance pending at the end of year (3-4)	Target set for disposal upto end of year	Excess/short-fall with ref. to target
1	2	3	4	5	6	7

Each Income-tax Officer whose work is inspected has to give information in respect of the work done regarding refund rectification and appeal effects in the above proforma. No separate column for specific comments on this item has been prescribed in the proforma. However, if there is heavy pendency at the end of the year, the same is bound to be reflected in the overall evaluation of the ITO's work. According to the guidelines issued for the inspection work the Income-tax Officer is required to keep in view *inter alia* the work relating to refund also."

1.14. The Committee desired to know the total amount of refund involved in the pending refund applications as on 31 March, 1984 and



the total amount of interest paid on belated refunds during the last five years 1979-80 to 1983-84. The Ministry of Finance (Department of Revenue) stated:

"The total amount of refund involved in the refund applications pending as on 31-3-84 cannot be furnished. This is for the reason that amount involved may be known only at the time of determination of total income, tax thereon, taxes paid and amount refundable to the applicant. The amount of refund worked out by an applicant in the claim of refund is not entered in the register of refund applications because the amounts of refund claimed and refund ultimately worked out by the Department may vary."

1.15. The amounts of interest paid on belated refunds during the years from 1979-80 to 1983-84 are as follows:

Financial Year	Amount of interest paid on belated refunds (Rs. in thousands)
1979-80	104
1980-81	42
1981-82	2317
1982-83	298
1983-84	199

\*Sources: Reports of the Comptrollers and Auditor General of India and Directorate of Inspection (RS & PR).

1.16. During evidence the representative of the Ministry of Finance while replying to a query from the Committee about the steps the Board intended to take to implement the Central Board of Direct Taxes directions, stated:

"We have issued instructions recently that the refund vouchers must go along with the assessment orders and the Asstt. Commissioners should check it once a month. The implementation is being tightened up and we hope to tighten it up further."

1.17. As regards the various records maintained by the Department for keeping a watch over the prompt grant of refunds due to the

assessee as a result of appellate orders and the approximate amount of refund locked up in cases pending for giving effect to Appellate Orders as on 31 March, 1984, the Ministry have stated *inter alia*:

“Register of appeals, revision petitions and references, commonly known as “ITNS-61” is prescribed to keep a watch over the prompt grant of the refunds due to the assesseees as a result of Appellate Orders.”

\* \* \* \*

Further, in order to ensure that effect to Appellate Orders are given promptly, instructions No. 967 (F. No. 263/6/76-ITJ) dated 5-7-76, have been issued by the Board on the recommendations made by the Commissioners Conference held from 9th to 11th May, 1976, The Board decided that the practice of sending consolidated lists of Tribunals Orders by the Commissioners of Income-tax and the A.A.Cs. Orders by IACs to the Income-tax Officers for reporting on one of the copies of the lists, the dates of giving effect to the Appellate orders and the dates of issue of refund orders, wherever should be adopted in all the charges of the Commissioners of Income-tax to achieve the aim that all Appellate Orders should be given effect to within a fortnight of their receipt by the I.T.O.”

1.18. The amount of interest paid on belated refunds resulting from appellate orders during 1979-80 to 1983-84 are as follows:

Financial Year	Number of cases	Amount of Interest** paid (Rs.in. thousands)
1979-80 . . . . .	4099	10214
1980-81 . . . . .	4513	23872
1981-82 . . . . .	4790	22925
1982-83 . . . . .	5785	21817
1983-84 . . . . .	5539	71042

\*\* Sources: Reports of the Comptroller and Auditor General of India and Directorate of Inspection (RS & PR).

1.19. During evidence the representative of the Ministry of Finance while replying to observations of the Committee for inducting more staff and to weed out undesirable elements to expedite issue of refund vouchers stated as under:

“As I have already told you, the machinery has been tightened up. It will be tightened up still further. As you know we have an acute shortage of staff.”

1.20. To an enquiry from the Committee about the instructions of the Board that refunds should be settled within one month of receipt of the application, the witness stated:

“If it is a simple case, it is one month and if it is a complicated case, then three months time is taken for refund.”

1.21. To a question whether the Commissioners or the Board get regular reports from the Income tax Officers (Refunds) about delayed refund authorisation and the amount of interest involved, the Ministry have stated:

“No regular report from Income-tax Officers (Refunds) are being called for about delayed refund authorisation and the interest amount involved. It is agreed that such feed back information is necessary to have better control on this area of work. The Board would consider the suggestion at the earliest.”

1.22. As a result of test checks of certain Income-tax charges/wards, the Audit noticed certain short-comings or irregularities such as non-compliance of Board's instructions regarding writing up of refund vouchers, omission to verify and tally the amount of refund already made with office copies, failure to conduct quarterly verification, non-availability of paid vouchers, non-maintenance of daily tally register and register of Refund Applications etc. The Ministry of Finance, on being addressed as to whether any enquiry has been made to find out the position in this regard in other wards/charges not covered by Audit, have stated:

“On account of volume of proposed exercise, it is not feasible to ascertain the position in this regard from all the income tax officers situated all over the country.”

1.23. The Ministry have, however, issued instructions (No. 1687) on 5-2-1986 (See Appendix IV) drawing attention to the irregularities/shortcomings pointed out by Audit.

1.24. On 6 January, 1986, the Ministry of Finance (Department of Revenue) issued Instructions No. 1680 (Appendix III) to all the Commissioners of Income-tax directing them *inter alia* as follows:

“The Board desired that steps should be taken to carry out surprise inspections by the Commissioners/Inspecting Assistant Commissioners of Income-tax to find out cases of delay. The Commissioners of Income-tax/Inspecting Assistant Commissioners of Income-tax are directed to ensure elimination of delays in these areas of work and to see that specific cases coming to their notice in the course of surprise inspections or regular inspections or as a result of complaint, are carefully and promptly investigated. The Inspecting Assistant Commissioners should inspect this aspect of work in each Income-tax Officer's circle once a month and in moffusil charges whenever they visit these circles. In cases where effect to Appellate Order is not given and rectification application is not disposed of within a month for no sufficient reason, the Commissioners of Income-tax/Inspecting Assistant Commissioners should obtain the written explanation of the concerned officials. With a view to preventing lapses suitable deterrent action should be taken in appropriate cases against the erring officials.

The Inspection Division of the Board has been asked to specifically monitor compliance in this regard while inspecting the work of Income-tax Circles and report to the Chairman for initiating appropriate disciplinary proceedings both against officers and Asstt. Commissioners in cases where Board's instructions have not been followed.”

1.25. The Audit para makes mention of certain cases of frauds noticed in the issue of refund orders. The Ministry of Finance (Department of Revenue) who were addressed in the matter furnished the particulars of frauds in the issue of refunds during 1979-80 to 1983-84 as follows:

1. *Commissioner of Income Tax (Baroda)*

A. Case where refund has been encashed for a higher amount by interpolating the figures in the second and third foils of the refund orders and advice.

Sl. No.	Name of the assessee	Date of Issue	Revenue involved	Remarks
1	Shri Bhupendra G. Patel (Bhupendra Gordhanbhai Patel)	27-8-82	10,000	As seen from the counter-foil of advice note a refund order bearing identical number & date had been issued for a sum of Rs. 1200/-. Subsequently, it transpired that the said R.O. had in fact, been encashed for a sum of Rs. 11,200/-. Though the asstt. is said to have been made and entered in the D & C register at sr. No. 248/44, the asstt. records are not available. Only the return of income come together with the dividend warrants is on record. There is, however, no indication of the return having been processed for the purpose of making the asstt. which is purported to have been made and entered in the — D & C register at sr. No. 248/44. As per the return filed on 23-6-1981 by Shri Bhupendra Gordhanbhai Patel, the total income returned is Rs. 13,412/- and the amount refundable on account of tax deducted at source and paid in advance has been calculated at Rs. 1207/-. Though the refund due was Rs. 1207/-, it has been fraudulently issued for Rs. 11200/- in favour of Shri Bhupendra G. Patel. The said refund order was encashed through Savings Bank Account No. 4498/31 with Anand Urban Co-operative Bank Ltd., in the name of Shri Bhupendra Govindlal Patel.

B. Cases Where credit has been given on the basis of "bogus" advance tax challans resulting in refunds.

Sl. No.	Name of the assessee	Date of Issue	Revenue involved	Remarks
2.	Rameshbhai Chhotabhai Patel	23-9-82	4,750	Credit had been given for Rs. 4750 on the basis of "bogus" advance tax challan resulting in a refund of Rs. 108/- instead of demand of Rs. 4642/-.
3.	Harishbhai Maganlal Gajjar	6-8-82	6,075	Credit had been given for Rs. 6075/ on the basis of "bogus" advance tax challan resulting in a refund of Rs. 5570/- and a refund of Rs. 5955/- including Rs. 385 for the preceding asstt. year 80-81 was issued.
4.	Thakorbhai C. Shah	6-8-82	3,405	On the basis of order u/s. 143(1) dated 20-7-82 a refund order for Rs. 3405/- was issued and encashed through the account of Smt. M.P. Soni with Anand Urban Co-operative Bank Ltd., Subsequently, another refund order No. A 011289 for Rs. 3395/- was issued to the B/I assessee on 6-11-82. <u>128669</u>
5.	Dahyabhai Premjibhai Jethwa	25-8-82	2,300	Credit had been given for Rs. 2300/- on the basis of "bogus" advance tax challan resulting in a refund of Rs. 2300/-.
6.	Chhotusa Sedarasa Diwan	25-8-82	1,650	Credit had been given for Rs. 1650/- on the basis of "bogus" advance tax challan resulting in a refund of Rs. 1650/-.

C. Cases where the amount as per the counterfoil is a two digit figure whereas the amount as per the 3rd foil is a three digit figure, the latter being the amount for which the refund has been actually encashed.

Sl. No.	Name of the Assessee	Date of Issue	Amount of revenue involved
1	2	3	4
			Rs.
7.	B. K. Sone	24-6-82	900
8.	B. R. Patel	24-6-82	900
9.	M.C. Thakker	23-6-82	800
10.	Govindbhai B. Pell	24-6-82	900
11.	N. C. Patel	24-6-82	900
12.	D. P. Pathak	24-6-82	800
13.	D. D, Jadeoja	24-6-82	800
14.	R. D. Sawak	28-6-82	900
15.	M.S. Patel	5-8-82	700
16.	Ambubhai S. Patel	10-8-82	600
17.	C. M. Patel	19-7-82	800

- 1). Cases where the amount as per the counter-foil is a two digit figure whereas the amount as per the 3rd foil is a three digit figure, the latter being the amount for which the refund has been actually cashed and further the name of the refundee as per the counter-foil of refund orders and the name of the refundee as per the 3rd foil of the refund orders are different.

Sl. No.	Name of the Assessee	Date of Issue	Amount of refund Ra.	Amount as per 3rd foil of the R.Os (Rs.)	Name of Refundee as per 3rd foil of R.Os	Name of Refundee as per 3rd foil of R.Os	Remarks
18	B. C. Patel	. . . . .	37	937	B. C. Patel	Vohra Rasulbhai Mohmedbhai	
19	Subhash R. Patel	. . . . .	34	634	Subhash R. Patel	Sulerman V. Vohra	Paid in cash

E. Case where forged challans of advance tax payments were inserted into the records thereby creating refund

Sl. No.	Name of the Assessee	Period	Amount of revenue involved
20.	Shri Shirish Thakorbbhai Anand	1982	Rs. 1400



2. *Commissioner of Income-tax Cochin:*

No. of Cases	Period	Brief History	Amount of revenue involved	Remarks
1	2	3	4	5
(R.s.)				
1.	1979-80	Refund orders issued to certain employees working at Trivandrum were encashed by Sh.C.K. Kumaran, a notice server of the Department.	968/—	The services of the employee have been dismissed on 9-8-83 after completion of Enquiry Proceedings.

3. *Commissioner of Income-tax, Delhi-IV, New Delhi :*

1	1979-80	An assessee, Smt. Maliti-Devi got issued a duplicate refund order in respect of A.Y. 78-79 by filing a duplicate return and claiming refund after completion of original assessment proceedings.	3,895/—	A criminal complaint for offences punishable under sections 420/467/471 of Indian Penal Code was filed in the Court against the accused. The assessee was convicted of the charges. Revised petition before Addl. Session Judge, Delhi is pending.
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4. *Commissioner of Income-Tax, Jaipur :*

6	1981-82	A search was conducted at the residence of an Advocate, Shri Maliram Bidasar on 12-8-81. He allegedly filed claims of refund in respect of six persons including in his own name by filing fraudulent TDS certificates and claiming refund in respect thereof.	55,323/—	Follow-up action is being taken.
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5. *Commissioner of Income-tax, Jullundhur :*

1	1982-83	An assessee, M/s, Agarwal Furnitures after completion of regular assessment for A.Y. 1981-82 got issued another refund of Rs. 56,841 on 25-2-1983. This refund was already issued to the assessee and encashed by them on 12-5-82. However, this came to the notice of the Department before the refund was encashed and loss of revenue was avoided.	Nil	Nil
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6. *Commissioner of Income-tax, Nasik :*

29	1979-80 to 1982-83	In all the 29 cases on a cross verification of TDS certificates with the disbursing authorities, it was found that these assesseees had fraudulently claimed refunds on the basis of forged documents.	2,31,734/—	Proper remedial actions to recover these amounts was immediately taken up.
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No. of cases	Period	Brief History	Amt. of revenue involved	Remarks
1	2	3	4	5
<b>7. Commissioner of Income-tax, Rajkot :</b>				
(Rs.)				
2	1980-81 to 1983-84	Fraudulent claim of refunds on account of forged TDS certificates from contract receipts were made.	21,540/-	In one case, amount of refund issued recovered and in another case recovery of the refund is in progress.
<b>8. Commissioner of Income-tax, Trivandrum :</b>				
2	1979-80	In both cases, duplicate certificates filed by an advocate, N.K. Mohnot Income-tax practitioner of 16, Raman Rd. Madras along with relevant returns and refunds obtained.	12,560/-	The advocate Shri Mohnot is being prosecuted,
<b>9. Commissioner of Income-tax, Visakhapatnam :</b>				
2	1979-80	Refund vouchers relating to Palacole Circle though issued properly, were encashed fraudulently by the dispatch clerk of the Circle in December, 79.	1,808/-	The clerk has been dismissed from Govt. service on 1-4-1985.
<b>10. Commissioner of Income-tax, West Bengal, Calcutta :</b>				
	1980-81 to 1981-82	Refund vouchers fraudulently encashed by three outsiders and two employees, a Head clerk and a Tax Assistant.	1,24,618/-	All the accused are being tried at a special court at Calcutta on the basis of criminal case instituted by CBI. A sum of Rs. 33,208, lying in the bank account of the head clerk in a fictitious name stands attached both by the Deptt. of CBI. Revenue loss therefore amounts to Rs. 91,410/-
<b>11. Commissioner of Income-tax, Tamil Nadu</b>				
	1979-80 to 1983-84	Brief History of three cases is given below :	2,77,066/-	

(1) *Shri H.N. Marappa, Income Tax Officer and Shri P. Srinivasaraghavan, Income Tax Assistant.*

Three Income-tax refund vouchers (one dated 7-12-81 for Rs. 47,200/-, second dated 3-12-1981 for Rs. 32,847/- and the

third dated 4-12-1981 for Rs. 46,231/-) for sums totalling to Rs. 1,26,278/- were removed clandestinely from the Refund Order Book of the Income-tax Officer, City Circle-I (5), Madras and the refund orders were prepared in the name of a fictitious assessee by name G. Krishnamurthy and signed in the name of a fictitious ITO using apparently a stolen seal of the ITO concerned. The corresponding "advice notes" were also similarly removed from the relevant book and prepared on the same lines as the refund vouchers. A current account was opened in the Indian Bank, Harbour Branch, Madras in the name of the fictitious assessee and the refund orders were encashed through this account. The matter was noticed on 22-11-1982 and on the same day it was brought to the notice of the CBI (SPE), Madras. After further investigation, the matter was referred back to the IT Department by the CBI for departmental action against two Income-tax Officials viz. (i) Shri P. Srinivasaraghavan, Tax Assistant in Company Circle and (ii) Shri H. N. Marappa, Income-tax Officer (Group 'B') who was then ITO, City Circle-I(5), Madras. The CBI also recommended departmental action for major penalty against Shri G. J. P. Varakumar the concerned staff officer in the Reserve Bank of India, Madras whose negligence resulted in the encashment of the fraudulent refund orders. Major penalty action under rule 14 of the CCS (CC&A) Rules has been initiated against the Tax Assistant Shri P. Srinivasaraghavan on the charge that he forged the signature of the 5th Income-tax Officer, City Circle-I, Madras as "P. Rangan" in the refund vouchers and corresponding advice notes. The enquiry proceedings in his case are pending. As regards the ITO, Shri H. N. Marappa, Minor Penalty action under rule 16 of the CCS (CC&A) Rules was initiated on the charge that he was negligent in not keeping the refund vouchers etc. in his personal custody, and the penalty of withholding of increment for a period of two years without cumulative effect, has been imposed.

The local standing counsel has advised that the loss suffered should be got reimbursed by the R.B.I. either from out of recovery from their official (whose negligence has resulted in the encashment of the refund orders) or otherwise. This has been brought to the notice of the

Board for necessary action. Board's reference is F.No. 401/1/82-ITCC.

Amount of loss of revenue Rs. 1,26,278/-.

(2) G. Swamikkan, Lower Division Clerk

- (i) In the case of V.S. Vajdyanathan of Pattukottai, a contractor of Public Works Department, a refund of Rs. 489 was issued on 21-10-1980.
- (ii) In the case of T.G. Sankar Rao, a landlord of Thanjavur, a refund of Rs. 443 was issued on 31-10-1980. The Refund Order which was sent by RPAD on 7-11-1980 was returned as the assessee died on that very day.
- (iii) In the case of Shri Rasu Vilvarayar, a Public Works Department contractor of Thanjavur, a refund of Rs. 250 was issued on 31-12-1980.
- (iv) In the case of Shri Vedamuthu, a Public Works Department contractor of Thanjavur, a refund of Rs. 229 was issued. The Refund Order which was sent by Registered Post was however not delivered to the assessee.
- (v) In the case of Shri John Monis, a Public Works Department contractor, a refund of Rs. 756 was issued on 25-11-1980. The Refund Order which was sent by Registered Post was returned undelivered.

Shri G. Swamikkan, a Lower Division Clerk working in the Income-tax Office, Thanjavur, had gained possession of the above five refund orders and got them discounted less commission charges to local financiers (one Shri Palanithurai in the case of the first four Refund Orders). Investigation by Central Bureau of Investigation disclosed that Shri Swamikkan had forged the signatures of the assesseees or caused to be forged their signatures and thereby obtained pecuniary gain to himself. Shri Swamikkan was prosecuted. The Special Judge, Tiruchirappally found him guilty under sections 381, 420, 467 and 471 IPC and also under section 5(1) (d) read with 5(2) of Prevention of Corruption Act, and sentenced him to one year rigorous imprisonment. The official has been dismissed from service under rule 19(1) of the Central Civil Service [(Classification, Control & Appeal) Rules, 1965.

Amount of loss to revenue was Rs. 2,167.

(3) Shri T. Srinivasan, Income-tax Officer, City Circle—IV, Madras,

Shri B. Yogalingam, Income-tax Inspector, City Circle—IV, Madras:—

During investigations by the Central Bureau of Investigation, it was noticed that during the year 1983-84 in pursuance of a conspiracy between the aforesaid two officials, Shri C. N. Gowrisankar, Chartered Accountant, Madras, Shri N. K. Mohnot, a tax consultant, Madras and Shri Sadagopan, Chartered Accountant, Madras, in respect of five tax deduction certificates in the names of (i) Shri G. Krishnan, (ii) Shri M. Johnson, (iii) Shri V. M. S. Noor Mohamad, (iv) Shri T. Rajasekaran and (v) Shri S. Palani—who are non-existent claimants—Shri B. Yogalingam made a report that the claimants are in existence and Shri T. Srinivasan, Income-tax Officer passed refund orders for Rs. 17,190/-, Rs. 31,979/-, Rs. 24,708/- Rs. 36,504/- and Rs. 38,243/- totalling Rs. 148,621/-. The CBI have filed an FIR before the Special Judge (Sessions) Madras on 31-5-1985 and are investigating the case. The two officials have been placed under suspension.

Amount of loss revenue Rs. 1,48,621.

Subsequently, the Ministry of Finance (Department of Revenue) furnished the details of the case as follows:

“Shri Narendra Kumar Mohnot (N. K. Mohnot) is an I.T.P. practising under the name and style of M/s. N. K. Mohnot & Co. having its office at No. 16, Ramanan Road, Madras-79. A search was conducted at his place towards the end of 1983. Subsequent investigation brought to light a conspiracy on the part of the said I.T.P. and his associates in making false claims before the refunds of tax deducted at source by the Madras Race Club from race winnings. It was found that with the connivance of certain officials of the Race Club, he obtained details of the Jack-Pot Winnings, gave forged applications to the Race Club for issue of duplicate TDS certificates in respect of those winnings, filed false returns of income in those

names forging the signatures of the winners and obtained refunds in some cases in Tamil Nadu. The real owners had filed returns and collected refunds on the basis of original TDS certificates. When they were examined, they denied knowledge about the applications for issue of duplicate TDS certificates by the Race Club. They also denied having filed the return for second time or engaging the said ITP as their representative. In two cases, Shri N. K. Mohnot even managed to intercept the original TDS certificates issued to two real winners and filed returns in their names forging their signatures before the ITO, Trivandrum and got refunds. The total amount involved in salaries circle, Madras is reported to be Rs. 10,40,279.01. A sum of Rs. 3,03,730 has been recovered.

The matter is still under the investigation by the CBI, Madras and the ITO has been placed under deemed suspension with effect from 13-3-85 as he was under the police custody exceeding 48 hours."

1.26. On an enquiry as to the method to find out if the certificate of tax deducted at source was fudged, the witness replied:

"We have been proceeding on the footing that people would not fudge. Now we have come to know about certain instances of fraud committed. We are now considering to introduce standard forms printed in the Security Press. As there is no standard form, this fudging of applications becomes very easy."

1.27. Asked as to what was the method adopted to know the exact amount of tax deducted at source, the witness stated:

"For the salaried people they have to file the annual returns. For contractors etc., the paying departments send the information. We cross-check the information."

He further added:

"...we cross-check the information with the annual returns and we correlate the two. Frauds are few and far between. And in every case, the fraud is detected by the Department itself."

1.28. The Direct Taxes Enquiry Committee in paragraph 6.142 of its report submitted in December, 1971 had stated as under:

"There is a general complaint that refund claims are not settled expeditiously and that there is considerable delay in issuing refund vouchers. We find that instructions have been issued from time to time that refund claims should be disposed of with expedition and that refund vouchers should invariably accompany the order which gives rise to the refund. We are told that quite often refund vouchers are not issued for long periods after the relevant orders have been passed. When they are issued at last, often the advice notes are not simultaneously sent to the Bank or Treasury with the result that the refund vouchers cannot be encashed. We find no justification for officers ignoring the Board's directives repeatedly. We recommend that disciplinary action should be initiated in all cases where the refund voucher does not issue within seven days of the passing of the order."

1.29. In pursuance of these recommendations the Government of India, Central Board of Direct Taxes issued instructions in January 1976 stating as under:

"The Direct Taxes Enquiry Committee in para 6.142 of its report has recommended that disciplinary action may be initiated in all the cases where the refund voucher is not issued within seven days of the passing of the order. This recommendation has been accepted by the Government in principle.

The Board desire that the disciplinary action may be initiated in cases where the refund vouchers are not issued within seven days of the passing of the order except under exceptional circumstances warranting the delay beyond seven days. It shall be the responsibility of the Inspecting Assistant Commissioners to ensure that these instructions are strictly adhered to. They may ensure that monthly certificates are furnished to the Commissioners to the effect that no refund order has been delayed beyond seven days and where refunds have been delayed these delays are properly explained."

1.30 The Committee also enquired during evidence as to the number of cases in which the Ministry initiated disciplinary action. The Chairman, Central Board of Direct Taxes stated:

“As I said earlier, we have started implementation now.”

1.31 The question of refunds in the Income-tax Department also formed subject matter of consideration by the Estimates Committee who in their Twenty Ninth Report, which was presented to Lok Sabha on 26th April, 1982, observed as under:

“3.65. The system of refunds in the Income-tax Department continues to be the subject of widespread criticism. The Committee regret that even though after a detailed study of the problem they had made numerous recommendations for streamlining the refund system in their Report on the Income-tax Department (Paras 2.115-2.120, 9th Report—1980-81) they find that the Ministry has not been able to bring about much of an improvement in this field. The same old complaints have been made to the Committee this year also. To recapitulate, assessment orders which result in refund are served late; when they are served, they are not always accompanied by refund vouchers; when assessees approach the Department for refund vouchers, the lower staff expects tips and if tips are not paid, harassment starts; refund vouchers, where issued, reach the assessees after the validity period is over necessitating revalidation; bank advice is not always issued simultaneously; and last but not the least, interest on refunds is not paid automatically. The Ministry has informed the Committee that it has issued instructions from time to time that refund must accompany the assessment order itself and that the refund, where due, must be issued within seven days of the completion of an assessment. If this is not done by any officer strict disciplinary action is required to be taken against the officer concerned. The supervisory officers, the Ministry states, are supposed to look into these matters and take necessary action. On the basis of a study made by the Ministry, the Committee were informed that out of 250 cases only in five cases the refund had not been given within the time allowed. In 52 cases relating to appeals prompt refund was not given in 20 cases and interest for delayed refund was granted in 12 cases. This study amply corroborates the general feeling prevailing among assessees that system of refund



is unsatisfactory and inefficient. The Ministry has attributed delays in issue of refunds to inadequacy of staff and certain other reasons. The Committee need not point out that these are the internal problems of the Department with which assessees are not at all concerned; they are interested only in getting refunds promptly and without difficulty and rightly so. It is a duty cast on the Income-tax Department to ensure prompt and full payment of refund and interest on delayed refunds without any delays or harassment. For this purpose whatever administrative reform or augmentation of staff is required within the Department, should be done forthwith and the inadequacy of staff or any other constraint should not continue to be given as an excuse for delay in the issue of refunds."

"3.66. Delay is not the only cause of complaint in this context. The assessees face harassment at the hands of the staff in various other forms, as indicated in the preceding paragraphs. This shows failure of the supervisory officers to exercise a proper check on the lower staff and can't but be deplored. The Committee believe that if the Income-tax Officers and their seniors are efficient and honest no assessment order could issue without a concurrently dated refund voucher including interest for the period of delay where due, and no delay in its despatch could take place. Where an assessee approaches the Department for obtaining a refund voucher on the ground of its non-receipt alongwith the assessment order or for revalidation of a refund voucher, or for issue of a bank advice, the matter should be looked into with a view to fixing responsibility for the harassment to the assessee and officials concerned taken to task. The Committee would like the Ministry to pay serious heed to the assessees' dissatisfaction with the working of refund system and take conclusive measures to remedy the situation under intimation to the Committee."

1.32 According to the provisions of the Income-tax Act, 1961 an assessee becomes entitled to refund where tax paid by him exceeds the amount of tax payable, or where as a result of appellate orders or other proceedings under the Act an amount becomes due to him. The Income-tax Act, 1961, also provides that in the case of refund not granted within 3 months from the end of the month in which total income was determined under the Act, or the claim for refund was made, or an order under Section 240 was passed, as the case may be, simple interest at the rate of 15 per cent per month shall become

payable to the assessee on the amount of refund. The Ministry of Finance have issued elaborate instructions for prompt disposal of cases of refunds.

1.33 The Committee cannot but view with concern the fact that despite the plethora of instructions issued from time to time, the outstanding cases pertaining to refunds continue to rise in number and the issuance of refunds of income-tax continues to be delayed and has become chronic irritant to the tax payers. The pendency of refund applications under Section 237 of the Income-tax Act, 1961 which stood at 15,269 at the end of 1979-80 rose to as high as 37,547 at the end of the year 1984-85 registering an increase of about 146 per cent. Even in the case of refunds due under Section 240 of the Income-tax Act, where an Income-tax Officer, has suo moto to give effect to the appellate orders and to determine the refundable amount, if any, as many as 5683 cases were pending disposal at the end of 1984-85.

1.34 The Committee understand that pursuant to the recommendations of the Direct Taxes Enquiry Committee and to ensure that the refund orders are issued as expeditiously as possible, the Central Board of Direct Taxes issued instructions in January 1976 to initiate disciplinary proceedings in cases where refunds were not generally issued within 7 days. The Committee's inquiry during evidence as to the number of cases in which such disciplinary action had been initiated elicited the response "We have started implementation now". The fact that instructions issued in 1976 should start being implemented in 1985 by the Board itself reflects a very sad state of affairs to say the least. Delays cause avoidable hardship to the tax payers and also become causes of corruption. The Committee consider that mere issue of instructions from time to time without any will to implement the same is indicative of the lackadaisical approach of the Department to solve this chronic problem. The Committee are firmly of the view that in order to ensure issue of refund vouchers promptly and without harassment to the assessees, it is imperative to streamline the functioning of the Income-tax Wards/Circles, to intensify inspection by Commissioners of Income-tax/Inspecting Assistant Commissioners of Income-tax and to award suitable deterrent punishment to the erring officials.

1.35 A review undertaken by Audit of refunds made during the three years from 1980-81 to 1982-83 in selected wards of certain charges, had disclosed that refunds amounting to Ra. 284.59 lakhs in respect of 4133 refund vouchers were authorised after delays ranging from six months to more than three years. The Committee regret

that despite their recommendations and the recommendations of the Estimates Committee, the system of payment of refunds in the Income-tax Department continues to be dilatory and inefficient as ever. The Committee are unable to accept that "acute shortage of staff" could be an impediment in the expeditious issue of refund orders. It is imperative that all refunds are issued as expeditiously as possible as the assesseees are not concerned with these internal matters of the department and are entitled to have refunds issued promptly and without any difficulty.

1.36 The Committee are distressed to find that as against a sum of Rs. 1.03 crores only paid during the year 1979-80 as interest on belated refunds (both suo moto and otherwise), an amount of Rs. 7.12 crores was paid during the year 1983-84. This shows the magnitude of the problem and the ineptitude of the Government to bring about much of an improvement in this field. The Committee, however, note that the Government are seized of the enormity of the problem and the Board had asked the Inspection Division of the Central Board of Direct Taxes to monitor compliance of the instructions issued in this regard from time to time while inspecting the work of Income-tax Circles and to report to the Chairman for initiation of appropriate disciplinary proceedings both against Income-tax Officers and Assistant Commissioners in cases where Board's instructions had not been followed. The Committee would like to be apprised of the progress made in this regard. The Committee desire that officers held directly responsible for delaying issue of refund orders should be suitably penalised. The Committee also recommend that the annual appraisal reports of the Commissioners of Income-tax should specifically mention about performance regarding the prompt issue of refund payments. The Committee would like to be informed of the position in this regard.

1.37 The Committee are surprised to find that no regular report is called for by the Board or the Commissioners of Income-tax from the Income-tax Officers (Refunds) about delayed authorisation of refund. The Committee recommend that demarcation of duties and responsibilities for prompt payment of refunds should be clear and specific so as to be able to pin-point lapses, delays etc. and that periodical reports on the disposal of refund cases should be called for from each refund authorising officer to ensure effective control over the disposal of refund cases.

1.38 The Committee also desire that the Ministry of Finance must insist on strict enforcement of the instructions which were formulated and issued as long ago as in January, 1976. Any breach in implementation of these instructions must be severely penalised. The

Committee desire to be kept informed for a period of two years about the success achieved in the implementation of the instructions issued in January, 1976 and the action taken against erring officials for not implementing the instructions.

1.39 The Central Board of Direct Taxes issued instructions in July 1980 to be observed by the income-tax authorities for preventing issue and encashment of bogus refunds. The Committee are distressed to say that these instructions had not been observed scrupulously as is evident from the following facts pointed out by Audit:

- (i) Refund Voucher written by a Clerk or Tax Assistant and checked by the Supervisor is required to be finally checked and signed by Income-tax Officer. The person who writes and the one who checks the refund voucher put their signatures on the office copies thereof and advice notes. Out of 412 income-tax wards inspected by the Audit, the above procedure was not followed in as many as 238 wards. Omissions were also noticed in 24 wards in Punjab and 53 wards in Andhra Pradesh.
- (ii) On receipt of third foil of the refund voucher the amount paid is required to be tallied with the office copy of refund vouchers and date of encashment indicated therein. Out of 424 wards test checked, omissions to tally the paid vouchers with office copies were noticed in 360 wards. Omissions of this type were also noticed in 53 wards and 18 wards in Andhra Pradesh and Kerala charges respectively.
- (iii) A quarterly verification is to be made by Income-tax Officer from office copies of refund vouchers as well as from Demand and Collection Registers to find out whether all the paid foils of refund vouchers have been received within 6 months of issue of refund vouchers and if not, an inquiry would be made to see that no fraudulent payment had been made. Out of 461 wards test checked, such a verification was not done in 356 wards. It was also noticed that in 186 wards, 12,587 paid vouchers issued during 1980-81 to 1982-83 for Rs. 259.97 lakhs were not available on records.

The Ministry of Finance (Department of Revenue) have since issued further instructions on 6 January and 5 February 1986 inviting attention of all the Commissioners of Income-tax to the above

observations of the Audit and directing them to make surprise inspection to find out cases of delay and to take deterrent action against the erring officers. The Committee feel that these instructions, if implemented scrupulously would go a long way in improving the position. The Committee hope that the Ministry would not now rest content with the mere issue of the instructions and would monitor the position periodically to ensure that the lapses pointed out by the Audit are not repeated. The Committee would like to be apprised of the results achieved by the implementation of the instructions issued by the Ministry of Finance.

1.40 The Committee note that a number of cases of fraud involving huge amounts of revenue have occurred in various income-tax wards/charges. Notable among those charges are Baroda (where 20 cases of fraud involving total revenue of Rs. 38,651 occurred in 1982 alone), Nasik (where 29 cases involving revenue of Rs. 2,31,734 occurred during 1979-80 to 1982-83), Tamil Nadu (where only 3 cases involving revenue to the tune of Rs. 2,77,060 occurred during 1979-80 to 1983-84). The Committee regret to say that many of the frauds have occurred after the issue of instructions of July 1980. The Committee desire that the cases of fraud should be thoroughly investigated and analysed to find out the loopholes left in the system of authorising refunds and to take effective remedial measures to plug the same so that the unsatisfactory situation is not repeated in future.

NEW DELHI;

3 April, 1987

13 Chaitra, 1909 (Saka)

E. AYYAPU REDDY

Chairman,

Public Accounts Committee.

## APPENDIX I

(Vide Para 1.08 of the Report)

DOMS Circular No. 39

F. No. 22/24/76-AP/DOMS  
Directorate of O&M Services (I. Tax)  
New Delhi

Dated: 15-7-1980

To

All Commissioners of Income-tax.

SUBJECT: Simplification of procedure for issue of refunds of Direct Taxes—Issue of refund vouchers upto Rs. 999/- without advice notes—regarding—

Sir,

With a view to facilitating the payment of refunds to small taxpayers, the Central Board of Direct Taxes had earlier taken a decision that the advice notes in respect of direct taxes refund orders upto Rs. 999/- will no longer be issued. The revised procedure takes effect from 1-1-1980 and is contained in the following paras.

### A. PROCEDURE FOR REFUNDS UPTO Rs. 999

Refund voucher forms for refunds upto Rs. 999/- have been printed at the India Security Press, Nasik on water marked paper with the legend "Government of India" printed all over in micro-print. The books of refund vouchers as also each voucher contained therein are machine numbered. Each book of refund vouchers containing 100 vouchers, serially numbered, also bears the legend "Valid for amounts upto Rs. 999/- only" at the top, for which there will be no corresponding books of advice notes. Each book has to be stamped with the stamp of the Office of issue. The month and date of issue of the book is to be written in words and not in figures.

3. The refund vouchers for the amounts upto Rs. 999/- will consist of three foils, marked "First foil", "Second Foil" and "Third Foil" to be used as under:—



- (vi) A note to the effect that the amount of the refund voucher is below a specified amount expressed in whole rupees which is in excess of the amount of the refund voucher by Rupee one should be recorded prominently at the top of the voucher in red ink. Thus "Under rupees nine hundred and one only" means that the refund voucher is for Rs. 900/- and similarly "Under Rupees fifty six only" will mean that it is for Rs. 55/-. This note should be written by the ITO in his own hand before putting his signature.
- (vii) After the refund voucher is written by a UDC or a Tax Assistant, it will be checked by a Supervisor or a Head Clerk before the same is put up to the ITO for final check and signature. The person who writes the refund voucher and the one who checks the same will put their signatures (with names in brackets) on the office copies of the refund vouchers and advice notes.

5. On receipt of the "Third Foil" of the Refund Voucher, the UDC or the Tax Assistant concerned will tally the amount paid with the office copy (First Foil) of the refund voucher and also write the date of encashment in the space provided in the office copy. Entries of the amounts paid will then be made under proper classification in the Register of Daily Refunds and the foil of the refund voucher kept in the file of the assessee. A note of the amount paid will also be made in the collection part of the Demand and Collection Register in Red Ink. It is needless to say that entries of all refunds from whichever proceedings they may arise must be made in the appropriate section of the D & CR.

6. Checks prescribed in para 5 above will help in detecting the encashment of bogus refunds, if any. As a further check, however, the ITO will make a quarterly verification from the office copies of the refund vouchers as well as the relevant entries in the Demand and Collection Register to find out the cases where the paid foils of refund voucher have not been received upto 6 months from the date of issue of refund voucher. In such cases, the ITO will consult the records of the CTU/DCU/LTU/ZAO and if necessary will approach the concerned bank to ascertain the position about the encashment of the relevant refund vouchers, particularly to ensure that there has been no fraudulent payment.



## B. PROCEDURE FOR REFUNDS OF Rs. 1000/- OR MORE FOR WHICH ADVICE NOTE WILL BE ISSUED

7. These refund voucher forms and advice notes are also printed at the India Security Press, Nasik on water marked paper with the legend "Government of India" printed all over in micro-print. The books of refund vouchers and advice notes as also each voucher contained therein are machine numbered. The refund vouchers will bear the same number as the advice notes. The refunds for Rs. 100/- and above are issued from the books of refund vouchers containing 100 vouchers, numbered serially which also bear the legend "valid for amounts of Rs. 1000/- and above" at the top. Each book is to be stamped with the stamp of the office of issue. The month and date of issue of the book is to be written in words and not in figures.

8. These refund vouchers, viz. for Rs. 1000/- or more, will consist of only two foils, of which one foil, the "First Foil" will remain in the refund voucher book and the "Second Foil" will be issued to the assessee for presenting it to the bank for encashment.

9. Instructions contained in para 4 above for writing refund vouchers upto Rs. 999/- shall be observed for writing refund vouchers for higher amounts also.

### 10. Advice Notes

(i) Where the amount of refund is Rs. 1000/- or more, an Advice Note bearing the same number as that of the Refund Voucher is prepared, signed and simultaneously issued to the Bank on which the Refund Voucher is drawn. Accordingly, the Income-tax Officer has to take care that the Advice Note for a particular Refund bears the same number as that of the corresponding Refund Voucher.

(ii) The book of Advice Notes will consist of three foils marked "First Foil", "Second Foil" and "Third Foil". The first Foil will remain in the Advice Note book and will serve as office copy. The "Second Foil" and "Third Foil" will be sent to the Bank. The Bank on receipt of the advice note will make payment on account of the refund voucher presented by the tax payer and all such refunds made in a day would be entered in the separate scroll of refunds for each Major Head mentioned in para 2 above. One set of such scrolls with the "Third Foil" of the advice note in each case would be sent to the designated officer in the same manner as for the bank scrolls or receipts, who will forward the same to the concerned Income-tax Officer in the prescribed manner. The other set of scrolls accompanied by the "Second Foil" of the advice Note and the paid refund voucher will be sent directly to the Zonal Accounts Officer concerned.

(iii) Particulars, such as the date of issue, name of payee, amount of refund, etc., should be correctly noted in the Advice Note. While writing the amount in words in the Advice Note, the word "only" should be inserted at the end and care should be taken to leave no space for interpolation.

(iv) The Refund Voucher of Rs. 1000/- or more will not be encashed unless the Advice Note is received by the Bank. The classification head to which the refund amount has to be debited must also be noted in the Advice Note.

(v) In order to ensure correct encashment of the Refund Voucher, the Advice Note must be sent direct to the Bank.

(vi) The fact whether a Refund Voucher has been crossed or not, should be stated in the Advice Note.

11. On receipt of the "Third Foil" of the Advice Note, the Income-tax Officer will himself tally the amount paid with the office copy of the Refund Voucher and also write the date of encashment in the space provided in the office copy. Entries of the amounts paid will then be made under proper classification in the Register of Daily Refunds and the foil of the Advice Note kept in the file of the assessee. A note of the amount paid will also be made in the Collection Part of the Demand and Collection Register in red ink.

12. The instructions contained in para 6 regarding quarterly verification of the receipt of paid foils of refund vouchers upto Rs. 999 will apply *mutatis mutandis* to the receipt of advice notes in the case of refund vouchers for higher amounts also.

13. The books of refund vouchers, both for refunds upto Rs. 999 and for refunds of Rs. 1000 or more, as well as the Advice Notes will remain in the personal custody of the Income-tax Officer who will intimate to the Reserve Bank of India or to the branch of the State Bank or its subsidiary, as the case may be, the book which he is using. In the case of special circles, e.g., Investigation Circle, Salary Circle, etc. who have to issue refund vouchers at more than one Bank branches within the accounts jurisdiction of the concerned Zonal Accounts Officer or at the Bank in the accounts jurisdiction of another Z.A.O., the number of all the books brought into use will be notified to the ZAO concerned who will in turn intimate the concerned banks in his accounts jurisdiction and where banks are outside his jurisdiction intimate through the concerned Z.A.O.

14. There will ordinarily be one Refund Voucher Book for all the branches of State Bank or its Subsidiaries for district or a circle but the Commissioner of Income-tax may, at his discretion, prescribe Refund Voucher Books separately, for some branches where he may consider it necessary to do so.

15. A refund voucher is like a cheque payable to order. It is for this reason that the books of Refund Vouchers should be kept in the personal custody of the Income-tax Officer.

#### C. PROCEDURE FOR ISSUE OF UNCROSSED VOUCHERS ON REQUEST FROM THE ASSESSEE.

16. The existing instructions that all refund vouchers of the value of Rs. 500 or more should invariably be crossed and made payable on the 'payee's account only' would continue to be followed. However, sometimes, it may happen that certain assessees do not have a bank account and they find it difficult to encash a crossed Refund Voucher. To avoid hardship to such assessees, uncrossed voucher may be issued, provided the assessee gives in writing that the voucher should not be crossed. Where the voucher exceeding Rs. 500 is not crossed, the bank should be requested to insist on the identification of the payee before making the payment. In case of refunds of Rs. 1000 and above the bank is also to verify before hand, that the Income-tax Officer has in fact sent a separate Advice Note indicating that the voucher is not crossed.

17. The Inspecting Assistant Commissioners should in the course of periodical inspections, check that the system of issuing refunds and the various checks prescribed are being strictly adhered to.

18. These instructions may be brought to the notice of all the officers working in your charge for strict compliance.

Yours faithfully,  
Sd/- (A. C. Jain)  
Director.

## APPENDIX II

(Vide para 1.12 of the Report)

F. No. 385/85/78-IT(B)

Government of India

Central Board of Direct Taxes

New Delhi, the 30th November, 1979.

.. OFFICE MEMORANDUM

**SUBJECT: ACCOUNTING OF RECEIPT OF DIRECT TAXES—MODIFICATION IN THE PROCEDURE—REGARDING—.**

The working of the system of accounting for Direct Taxes receipt and refunds which has been in operation since 1st April, 1977 was examined recently by a Committee constituted by the Central Board of Direct Taxes with a view to bring about simplicity, promptness and effectiveness in the working of the system.

2. The recommendations of the Committee were considered by the Board. The suggestions of various Commissioners of Income-tax were also invited. The Board has now decided to make certain changes in the existing system of accounting.

3. Briefly stating, the changes are:—

- (a) The recording of a running serial number on each challan and against entry in the scroll will be discontinued. The control on the distribution of challans will be exercised only with reference to the total number of challans and the amount involved in them.
- (b) A Rubber Stamp indicating the month of account would be affixed by the CTU/LTU/STU on each challan/refund advice. Its accounting would be done in that month irrespective of the date of payment/refund or the date on which the challan/refund advice is received by the DCU/LTU/ITO. The 'month of account' would normally be the month for which local bank's scrolls are received by the 5th of the next following month.

- (c) Central Daily Collection Registers/Central Registers of Daily Refunds will be maintained in the DCUs/LTUs in which the challans/refund advices will be entered. Detailed accounts containing major, minor and sub-head wise classification of payments will be compiled and furnished to the ZAOs (in case of DCUs; through the CTUs) as well as to the Cs.I.T. The Cs.I.T. may, however, dispense with the maintenance of these registers if, considering the small number of ITOs under any DUC/LTU they are able to ensure that the rendering of detailed accounts by the individual ITOs are *not delayed on any account*.
- (d) The out-station challans will be accounted for by the Designated Officer who receives them and *not* by the Designated Officer to whom they pertain and are sent subsequently.

4. The details of the changes in the system of receipt accounting are explained in the following paragraphs.

5. Distribution of challans/Advice notes and compilation of detailed accounts:

- (a) On receipt of challans/refund advices in the CTU/LTU/STU, the present procedure of assigning a CTU/LTU/STU number of each of the challans/refund advices and giving the same serial number in the scroll will be dispensed with.
- (b) Instead, on receipt of the challans/refund advices and after exercising the checks prescribed in the booklet prepared by the Directorate of OMS(IT) New Delhi in March 1977 titled 'System of Accounting for Direct Taxes receipts and refunds' as amended from time to time (hereinafter referred as DOMS booklet, a Rubber stamp indicating the month of account should be affixed on each challan/refund advice. The month of account will, for this purpose, be the month in which the focal point bank scrolls are accounted for by the Designated Officers. Such scrolls, as at present, would be the ones received upto the cut off date viz. the 5th of the following month. The date of the scroll will be that of the main scroll of the focal point bank and *not* of the link branch or of the receiving branch. In other words, the challans/refund

advices received from the focal point bank by the Designated Officer under the focal point banks' main scrolls for the month of January 1980 (or of earlier month not accounted for) received upto 5th February, 1980 will be accounted for the accounts for the month of January, 1980 and a Rubber Stamp indicating "January, '80" as the month of account would be affixed on each such challan/refund advice.

- (c) The challans/refund advices received in the CTUs would be distributed to the DCUs as at present. The CTU Distribution Memos need only show the total number of challans/refund advices and their total amount. The column in the Distribution Memo for recording serial number (col. 1) and amount (col. 3) will, however, continue to be filled in to facilitate the tally of the challans/refund advices according to their numbers and total amount.
- (d) In order to ensure that all challans/refund advices received by the CTUs have been distributed/accounted for its necessary that entries in all the columns of the Daily Tally Registers of collections/refunds are properly made and tallied as at present.
- (e) At the level of LTUs and DCUs a revised procedure will be introduced for compiling the detailed accounts. At present the LTUs/DCUs are distributing the challans/refund advices received by them to their ITOs and watching receipt of detailed accounts from the latter. Instead, the LTUs/DCUs, will, themselves, compile the detailed accounts in respect of these challans/refund advices.
- (f) In order to enable the ITUs/DCUs to prepare detailed accounts, they will maintain the following 3 daily collection Registers (CDCRs) and three Central Registers of Daily Refunds (CRDRs).
  - (i) Central Daily Collection Register of Corporation Tax. '020'.
  - (ii) Central Daily Collection Register of Taxes on income tax other than corporation tax '021'.
  - (iii) Central Daily Collection Register of E.D. '031', W.T. '032', G.T. '033' and other heads of account.

- (iv) Central Register of Daily Refunds of Corporation Tax '020'.
- (v) Central Register of Daily Refunds of Taxes on Income-tax other than Corporation Tax '021'.
- (vi) Central Register of Daily Refunds on account of E.D. '031', W.T. '032', G.T. '033' and other heads of account.
- (g) On receipt of challans by the LTU/DCU, and after exercising the checks prescribed in the DOMS booklet challans/refund advices will be segregated ITO wise. They will be entered in the respective CDCR/CRDR and the CDCR/CRDR number will be noted on each challan/refund advice. Before making entry in the CDCR/CRDR, the LTUs/DCUs will also check the classification on the challans/refund advices and make necessary corrections thereon as per the procedure prescribed in the DOMS's Circular No. 26(R. No. 22-4-76—AP/DOMS/Vol. I/ dated 30-6-1978)
- (h) Formats of the CDCRs/CRDRs are enclosed at Annexure I to VI. *The CsIT may make their own arrangements to registers printed locally.* The existing DCRs may also be used if necessary, by making suitable changes in the columns. While the immediate requirements for the next few months may be met as above, efforts will be made by the Board to get these registers printed by DI (RS&P) and to supply them to the CsIT on a regular basis.
- (i) The challans/refund advices which do not pertain to the DCU to whom they are sent, would be returned, if detected before entry in its CDCR/CRDR. However, if such challans/refund advices are detected after the entry has been made they will be sent to ITOs concerned or the CTU as "Accounted for challans/refund advices" as per the procedure prescribed in the DOMS booklet. No attempt need be made in such cases to cancel the entry in the CDCR/CRDR or to make any adjustment in lieu thereof.
- (j) Where the number of ITOs under any DCU/LTU is small, there may be no difficulty in getting the detailed accounts from the ITOs. In that case there will be no need to maintain the CDCR/CRDR by that DCU/LTU. This may be decided by the Cs IT subject to their ensuring that the

*rendering of detailed accounts by the ITOs is not delayed on any account. In such cases the DCUs/LTUs will continue to perform the existing functions of consolidating the detailed accounts and sending them.*

- (k) After entry in the CDCR/CRDR, the DCUs/LTUs will distribute the challans/refund advices to the individual ITOs. These Distribution Memos will show the CDCR/CRDR number and the amount of each challans/refund advice and will be prepared in triplicate as at present. Two copies of these Distribution Memos will be sent to the individual ITOs alongwith challans/refund advices. The individual ITOs will enter the challans/refund advices in their Daily Collection Registers/Daily Refund Registers and the Demand and Collection Registers and return one copy of the Distribution Memo after indicating the Demand and Collection Register number against the entry of each challan/refund advices. Thus, the DCUS/LTUs will ensure that all the challans/refund advices which are to be noted in the D&CR have been noted by the individual ITOs. Any misclassification still persisting in the challans/refund advices noticed by the individual ITOs will also be intimated by them to the DCUs/LTUs for making necessary corrections in their CDCRs and accounts.
- (l) The detailed accounts statements major/minor sub-headwise will be compiled by the OCUs/LTUs on the basis of entry of challans/refund advices in the respective Central Daily Collection Registers/Central Registers of Daily Refunds. The detailed accounts statements so compiled will be sent to the respective Designated Officer/Zonal Accounts Officer. A copy thereof will also be sent to the CIT concerned. This copy will be made use of by the CIT for preparation of all statistical and managerial control statements to be furnished by him to the Board.

#### *6. Accounting of Suspense Challan/Refund Advice*

(a) The challans/refund advices whose destination cannot be known and which remain unaccounted for i.e. suspense challans/Refund Advices will be accounted for by the CTUs/LTUs concerned after all efforts to locate their destination have failed for 3 months from the month of account. In other words, the CTUs/LTUs will render detailed accounts for all such suspense challans/refund advices received in the month of account of say April, 1980, latest



alongwith the detailed accounts for the month of July, 1980. However, detailed accounts of such challans/refund advices received during the last quarter of the financial year i.e. from January to March should be rendered as early as possible but latest along with the accounts for the month of March to ensure that they are accounted for in the same financial year. Another Rubber Stamp indicating "Accounted-for" should be affixed on such suspense challans/refund advices to avoid their subsequent accounting when their destination becomes known. For the purposes of making entries of suspense challans/refund advices the CTUs/LTUs will maintain Central DCR/Central Registers of Daily Refunds as may be necessary.

(b) Subsequently, if the destination of the suspense challans/refund advices becomes known, they will be transferred to the ITOs concerned after ensuring that the stamp "Accounted for challan/refund advice" has been duly affixed on each such challan/refund advice in accordance with the procedure in part VIII of the DOMS booklet.

#### 7. Accounting of inter|inter-zonal transfer challans|refund advices:

It has been decided that inter/intra-zonal challans/refunds advices (i.e. challans/refund advices pertaining to other Designated Officer either within the zone or outside the zone) received by a Designated Officer should be accounted for in the detailed accounts by the Designated Officer receiving such challans/refund advices. The detailed procedure is as follows:—

- (a) On the basis of information given on the challans/refund advices (and after correcting obvious misclassifications, if any), the receiving Designated Officer will classify the amounts to various minor sub-heads by entering them in the respective CDCRs/CRDRs. These classified challans/refund advices will be included in the detailed account to be rendered by the receiving Designated Officers. In cases where it is not possible to classify the challans/refund advices to the proper head for want of details, these challans/refund advices will be kept in the Suspense Register and dealt with like other 'Suspense Challans/Refund Advices'.
- (b) Designated Officer will, however, continue to maintain inward/outward Collection Transfer registers as prescribed in DOMS booklet.

- (c) Such challans/refund advices after entering in the CDCRs/CRDRs will be treated as 'Accounted for challans/refund advices' and dealt with, *mutatis mutandis*, in the manner prescribed in Part VIII of the DOMS booklet.
- (d) Such challans/refund advices will be sent by the Designated Officer to the Designated Officer concerned of the respective CIT who will keep a separate record of these challans/refund advices and send the same to the assessing ITO concerned for entry in his DCR and D&CR.
- (e) Proforma accounts of these transfers from the other zones will be maintained by the Cs IT on the basis of information collected periodically from the Designated Officers so that these may be utilised by the Board while arriving at the Statewise collection of various taxes.

**8. Rendering of simple accounts/major head-wise accounts|Additional Information Statement ..**

The existing instructions regarding the rendering of the above accounts to the Zonal Accounts Officer and the CCA will continue to be followed except for some changes as indicated below:—

- (a) Since the transfer challans/refund advices are to be accounted for by the Designated Officers receiving the same as indicated in para 7 above, the preparation of simple accounts showing the details of transfers in/transfers out as prescribed in para 4.10 of booklet titled 'Departmentalised Accounting System for Direct Taxes Receipt and Refunds' issued by the C.B.D.T. in 1977 Will be dispensed with. Instead, the major headwise accounts of the challans/refund advices received will be kept by the designated officer and a copy of the same will be sent by him to the Zonal Accounts Officer.
- (b) There should normally be no differences between this account sent by the Designated Officers to the ZAOs to the CCA but if there are any differences, these will be reconciled by the ZAO on the lines prescribed in para 5.2 (viii) of the booklet referred to at 8(a) above.
- (c) The Designated Officers of CTUs will watch the receipt of the detailed accounts from the DCUs and render the same to the ZAO who will in turn render the same to the CCA.

- (d) At present, the additional information statements are being furnished by the Cs IT to the Board by the 30th of the following month. In the revised procedure, it should be possible for the Cs IT to get full information regarding the detailed accounts of receipts from the Designated Officers by the 25th of the following month. This information can be utilised by them for submitting the Additional Information Statement. In other words, there will only be one set of figures called 'the detailed accounts statements' and these will be utilised by the Cs IT to exercise managerial control as well as to render managerial statements to the Board.

9. The dates for rendering the various accounts to the various authorities will be revised as follows:

- |   |                                     |
|---|-------------------------------------|
| (a) Telegraphic intimation of receipts figures from Cs IT to the Board (No change from existing position)                                   | 7th of the succeeding month.        |
| (b) Major headwise accounts from the Designated officers to the ZAO   | 8th of the succeeding month.        |
| (c) Major head wise accounts for ZAOs to CCA (on the basis of bank scrolls without waiting for 'B' above)                                   | 8th of the succeeding month.        |
| (d) Major head-wise accounts from CCA to the Board/CCA  | 15th of the succeeding month.       |
| (e) Detailed Accounts Statement from the Designated officers to the ZAO   | 25th of the succeeding month.       |
| (f) Detailed Accounts Statement from Cs IT to the Board. (This will be sent in place of Addl. information Statement being sent at present.) | 30th of the following month.        |
| (g) Detailed accounts Statement from ZAO to CCA   | 30th of the following month.        |
| (h) Detailed Accounts Statements (consolidated) from CCA to the CGA   | 15th of the second following month. |

The above dates have been prescribed keeping in view the speedy flow of challans/refund advices on account of abolition of individual numbering system and simplification of Distribution Memos, reduction in the number of accounting units from 2500 to about 500, managerial needs of the Board and timely rendering of accounts to the Controller General of Accounts. As the challans/refund advices will now be distributed more promptly by the CTU to the DCUs throughout the month and Central DCRs/CRDRs will be maintained by them, DCUs should be in a position to render the detailed accounts to the CTU which has only to consolidate these accounts and send the same to the ZAO by 25th of the following

month. LTUs can also conveniently adhere to these dates as they themselves have to post the challans/refund advices in the CDCRs/CRDRs and prepare the accounts.

Major headwise accounts from the designated officer to the ZAO (as at 'B' above) is necessary for the purpose of reconciliation with the ZAO's figures. As the transfer/suspense challans/refund advices will now be accounted for by the Designated Officer receiving them, the major headwise accounts to be furnished by the Designated Officer to the ZAO will only show totals of the bank scrolls received under each major head from the focal point bank during a particular month, for which detailed account has to be sent subsequently.

#### 10. *Other Miscellaneous Instructions:*

(a) Both, the Designated Officer and the ZAO will maintain appropriate records to watch the receipts of missing challans/refund advices and issue of scrolls by the bank in respect of discrepancies notices.

(b) The Designated Officers while rendering the detailed accounts will also include in such accounts suspense and inter-zonal transfer challans/refund advices.

(c) DCUs/LTUs while posting the challans/refund advices in the CDCRs/CRDRs should follow the existing instructions of the Board issued for allocation of amounts of surcharge on the income tax deposited by the assesseees where payment of surcharge has not been shown separately on the challans/refund advices. It must also be ensured that in case of challans/refund advices issued by the ITOs themselves the allocation between Income-tax and surcharge has been shown correctly and accounted for as such in the detailed accounts.

(d) Changes in classification from one major head to another in respect of suspense and transfer challans/refund advices will be made at the level of the Designated officers by keeping prescribed records.

11. The existing procedure already prescribed in the 'System of Accounting for Direct Receipts and Refunds' issued by DOMS and 'Departmentalised Accounting System for Direct Taxes Receipts and Refunds, issued by CBDT will continue to be followed except the changes as indicated above. These booklets will be revised and issued in due course.

12. The above proposals are likely to result in reduction in the staff requirements in the CTUs, but some reinforcement at the level of the DCUs/LTUs will be necessary as these units have been made

the basic accounting units. However, in view of the simplification in the documentation procedures and reduction in the number of accounting points, it should be possible for the Commissioners of Income-tax to divert some staff from the CTUs to DCUs. Regarding LTUs also suitable internal adjustments in the staff dispositions may be made by the Commissioners of Income-tax.

13. It has been decided to introduce the new procedure w.e.f. 1-1-1980 that is, for all the challans/refund advices relating to the month of January, 1980 onwards. If, however, there is some administrative delay for introducing the procedure relating to the maintenance of Central D.O.Rs by the DCUs/LTUs, this may be done from a later date but not in any case later than 1-4-1980, and the rest of the procedures may be introduced w.e.f. 1-1-1980 onwards.

14. It is, therefore, requested that immediate action should be taken to acquaint the staff with the revised procedure. Any further clarification needed in the matter may be addressed to the undersigned by name with a copy to Chief Controller of Accounts, Central Board of Direct Taxes.

15. The receipt of this Memo may please be acknowledged.

Sd/-

(S. R. Wadhwa)

Secretary, Central Board of Direct Taxes

Copy forwarded for information and necessary action to:—

1. All Commissioners of Income-tax (with 10 spare copies)
2. All Zonal Accounts Officers, CBDT.
3. The Director, O&M Services, Income-tax, Aiwan-e-Ghalib, New Delhi.
4. The Director (RS&P), Mayur Bhavan, New Delhi. Para 5(h) of the memo may, in particular be seen for urgent necessary action.
5. DI (IT&Audit)
6. DI (INV.)/DI (R&S)/DOMS/DI (P7PR), New Delhi.
7. Asstt. Director of Inspection (Bulletin), New Delhi.
8. Bulletin Section of DI (RS&P) with 6 spare copies.
9. All officers and sections in the Technical Wing of Central Board of Direct Taxes.

10. Hindi Section with the request to furnish stencils of Hindi version of the above instructions.
11. Section Officer (Ad. VII)
12. Chief Controller of Accounts (CBDT), New Delhi.
13. Inspection Division of CBDT, Vikas Bhavan, New Delhi (with 4 spare copies).
14. ITCC Section — 2 spare copies.
15. Ministry of Law, Justice and Company Affairs (Deptt. of Legal Affairs), New Delhi.
16. C&AG, New Delhi (30 copies).
17. Director, I.R.S. (Direct Taxes) Staff College, Nagpur.
18. DI (Recovery)/DI (Publication).

Sd/-

(V. K. Swaminathan)

*Desk Officer*

*Central Board of Direct Taxes*



CENTRAL REGISTER OF DAILY REFUNDS OF CORPORATION TAX (020) TO BE MAINTAINED BY DISTRICT COLLECTION UNIT/LOCAL TREASURY UNIT

Sl. No.	Date of encashment of Refund	Refund Voucher No.	Name of Refundee	P. A. N.	Assmt. year	Refund on account of				Remarks	
						Income Tax	Sur-charge	Total Col. 7 & 8	Sur-tax		Other Receipts
1	2	3	4	5	6	7	8	9	10	11	12



**ANNEXURE-III**  
**CENTRAL DAILY COLLECTION REGISTER OF TAXES ON INCOME OTHER THAN CORPORATION TAX (0 20) TO BE MAIN-  
 TAINED BY DISTRICT COLLECTION UNIT/LOCAL TREASURY UNIT**

Sl. No.	Date of payment	Name of Assessee payer (in case of TDS)	PAN/TDS No.	Assmt. year F.Y. (for TDS)	IT on union emolu-ments	Income-Tax					
						Advance Payment	Sur-charge	Self-assess-ment	Sur-charge	Regular payment including proceeds by way of super-tax	Surcharge
1	2	3	4	5	6	7	8	9	10	11	12

**Tax deducted at source from**

Sl. No.	Description	13	14	15	16	17	18	19	20
13	Salary of Govt. employees other than Govt. employees S. 192								
	Salary of emp-loyees other than Govt. employees S. 192			Interest on securities S. 193	Dividends S. 194	Interest other than interest on securities S. 194A	Winnings from lotteries & cross-word puzzles S. 194BB	Winnings from horse race S. 194 BB	Payments to contractors/ sub-contractors S. 194 C

Sl. No.	Description	Total	BPT	BPT	Other Receipts			Remarks	
					Sur-charge	Penalties			
						U/s 271 (f) (c)	Other than u/s 271 (f) (c)		Interest Recoveries
21	Insurance Commission S. 194D	24	25	26	27	28	29	30	31



**APPENDIX III**

(Vide Para 1.24 of the Report)

**INSTRUCTION No. 1680.**

**F. No. 212/1043/85-ITA, II**

**GOVERNMENT OF INDIA**

**MINISTRY OF FINANCE**

**Department of Revenue**

**Central Board of Direct Taxes**

*New Delhi, the 6th January, 1986.*

**To**

**All Chief Commissioners (Admn.) and  
Commissioners of Income-tax.**

**Sir,**

**SUBJECT:** *Prompt action—giving effect to appellate orders, applications for rectification of mistakes and adjustments of prepaid taxes—*

**The Board vide Instruction No. 1534 [F. No. 279/74/76-IT(j)] dated 3-1-1983 had prescribed several controls at different levels such as at the level of Income-tax Officer, Inspecting Assistant Commissioner, Commissioner of Income and Central Board of Direct Taxes for ensuring prompt action in the matter of giving effect to Appellate orders. It is of paramount importance to ensure that all appellate, revisionary or other orders are served in time and are given effect to with the utmost promptness. This will not only eliminate avoidable payment of interest but will also help the department avoid adverse criticism of its functioning.**

**2. The Board would also like to impress upon the officers the importance of proper recording of the payments made by the assesses in the Demand and Collection Registers and avoiding the irregularity of not giving credits for prepaid taxes while making final assessment.**

3. Likewise, a proper register for recording the receipt and disposal of applications for rectification of mistakes, should be maintained by each Income-tax Officer and Inspecting Assistant Commissioner (Assessment) and the applications should be disposed of within a month of their receipt.

4. The Board desires that steps should be taken to carry out surprise inspections by the Commissioners/Inspecting Assistant Commissioners of Income-tax to find out cases of delay. The Commissioners of Income-tax/Inspecting Assistant Commissioners of Income-tax are directed to ensure elimination of delays in these areas of work and to see that specific cases coming to their notice in the course of surprise inspections or regular inspections or as a result of complaint, are carefully and promptly investigated. The Inspecting Assistant Commissioners should inspect this aspect of work in each Income-tax Officer's circle once a month and in month's charge whenever they visit these circles. In case where effect to Appellate Order is not given and rectification application is not disposed of within a month for no sufficient reason, the Commissioners of Income-tax/Inspecting Assistant Commissioners should obtain the written explanation of the concerned officials. With a view to preventing lapses suitable deterrent action should be taken in appropriate cases against the erring officials.

5. The Inspection Division of the Board has been asked to specifically monitor compliance in this regard while inspecting the work of Income-tax Circles and report to the Chairman for initiating appropriate disciplinary proceedings both against officers and Assistant Commissioners in cases where Board's instructions have not been followed.

6. The above instructions may please be brought to the notice of the officials working in your charge.

7. Hindi version will follow shortly.

Yours faithfully,

Sd/- GIRISH DAVE,

*Under Secretary to the Govt. of India.*

Copy forwarded to:—

1. P. S. to Chairman, Member (Inv.), Member(L), Member (WT&J), Member (S&T), Member (R&A) and Member (IT).
2. All Officers and Technical Sections of the C.B.D.T. Director of Inspection (Inv.)|IT&Audit|Vigilance|Recovery|Intelligence/RS&P/Special Inv./Survey.

3. Deputy Director of Inspection (PP&R), New Delhi.
4. Assistant Director of Inspection (Bulletin), New Delhi.
5. Comptroller and Auditor General of India (50 copies).
6. Competent Authority, Madras|Delhi|Bombay|Calcutta.
7. Joint Secretary & Legal Adviser, Ministry of Law, Shastri Bhavan, New Delhi.
8. Directorate of O & M Services (I.T.), Aiwan-E-Ghalib, Mata Sundri Lane, New Delhi (5 copies).
9. Director, National Academy of Direct Taxes, Post Box No. 40, Nagpur.

Sd/-

(Girish Dave)

*Under Secretary to the Govt. of India.*

## APPENDIX IV

(Vide Para 1.23 of the Report)

INSTRUCTION No. 1687.

F. No. 228/23/85-ITA. II

GOVERNMENT OF INDIA

MINISTRY OF FINANCE

(Department of Revenue)

Central Board of Direct Taxes

New Delhi, 5th February, 1986.

To

All Chief Commissioners (Admn.)  
& Commissioners of Income-tax.

Sir,

**SUBJECT:** *Procedure regarding issue of Refund Vouchers—Observance of—regarding*

Instructions were issued *vide* Directorate of O and M Services (Income-tax) Circular No. 39 (F. No. 22/24/76-AP-DOMS) dated 15-7-1980 regarding preparation of Refund Vouchers/Advice Notes and watching their encashment. The instructions were issued primarily to prevent the issue and encashment of fraudulent Refund Vouchers.

2. On test check conducted by the Receipt Audit in 1983-84, it has been observed in the Comptroller and Auditor General's Report for the year 1983-84 that the procedures laid down in the aforesaid circular are not being observed in following respects in most of the Income-tax Wards:—

**(a) Writing of Refund Vouchers**

It is laid down that after the Refund Voucher is written by a Clerk or a Tax Assistant, it will be checked by a Supervisor or Head Clerk before the same is put up to the Income-tax Officer for final check and signature. The person who writes the Refund Voucher and the one who, checks the same, have to put their signatures (with name

in brackets) on the office copies of the Refund Vouchers and Advice Notes. The receipt audit has pointed out that out of 412 Income-tax Wards inspected by them, the above procedure was not being followed in 328 Wards. Omissions were also noticed in 24 Wards in Punjab and 53 Wards in Andhra Pradesh.

**(b) Tallying of paid Vouchers with office copies:**

In case of refund upto Rs. 999 on receipt of the third foil of the Refund Vouchers, the Clerk or the Tax Assistant concerned is required to tally the amount paid with the office copy (first foil) of the Refund Voucher and also write the date of encashment in the space provided in the office copy. In regard to refunds of Rs. 1000 and above, the Income-tax Officer himself, on receipt of the third foil of the Advice Note, has to tally the amount paid with the office copy of the Refund Voucher and also write the date of encashment in the space provided in the office copy. The receipt Audit has noticed that out of 424 Wards text checked, omissions to tally the paid vouchers with the office copies occurred in 360 Wards. Similarly, in Andhra Pradesh and Kerala Charges also omissions of this type were noticed in 53 Wards and 18 Wards respectively.

**(c) Quarterly verification of receipt of paid vouchers:**

According to the prescribed procedure, a quarterly verification is to be made from the office copies of the Refund Vouchers as well as the relevant entries in the Demand and Collection Register to find out the cases where the paid foils of Refund Vouchers have not been received upto 6 months from the date of issue of Refund Vouchers and necessary investigations made to ensure that there has been no fraudulent payment. The audit has pointed out that in 356 Wards out of 461 test checked by it, such a verification was not made. The Audit has further, pointed out that in 186 Wards, 12,587 paid vouchers issued during 1980-81 to 1982-83 for Rs. 259.97 lakhs were not available on record.

3. According to para 17 of the Directorate of O & M Services (Income-tax) Circular No. 39 dated 15-7-1980, the Inspecting Assistant Commissioners are required to check in the course of their periodical inspections that the system of issuing refunds and the various checks prescribed in the Circular are being strictly adhered to. The

large scale omissions pointed out by Audit in the observance of prescribed procedure/checks regarding issue etc. of refunds shows that the Inspecting Assistant Commissioners have not been exercising this important check during their inspection.

4. The Commissioners of Income-tax are, requested to impress upon all the Income-tax Officers to see that the prescribed procedure for issue etc. of Refund Vouchers are strictly observed. They are further requested to impress upon the Range Inspecting Assistant Commissioners also to exercise the necessary check during their inspection that the various checks prescribed are being adhered to strictly.

5. Hindi version will follow shortly.

Yours faithfully,

Sd/-

(Girish Dave)

*Under Secretary to the Government of India.*

Copy forwarded to:—

1. P.S. to Chairman, Member (Inv.), member (L), Member (WT&J), Member (S&T), Member (R&A) and Member (IT).
2. All Officers and Technical Sections of the C.B.D.T.
3. Director of Inspection (Inv.)/IT & Audit/Vigilance/Recovery/RS&P/Intelligence/Special Inv./Survey.
4. Deputy Director of Inspection (PP&PR), New Delhi.
5. Assistant Director of Inspection (Bulletin), New Delhi.
6. Comptroller and Auditor General of India (50 copies).
7. Competent Authority, Madras/Delhi/Bombay/Calcutta.
8. Joint Secretary and Legal Adviser, Ministry of Law, Shastri Bhavan, New Delhi.
9. Directorate of O & M Services (Income-tax), Aiwan-E-Ghalib, Mata Sundri Lane, New Delhi.
10. Director, National Academy of Direct Taxes, Post Box No. 40, Nagpur.

Sd/-

(Girish Dave)

*Under Secretary to the Government of India.*



# APPENDIX V

(Vide Introduction)

## Statement of Conclusions/Recommendation

Sl. No.	Para No.	Ministry/ Deptt.	Recommendations
1	2	3	4
1	1.32	Finance (Rev.)	<p>According to the provisions of the Income-tax Act, 1961 an assessee becomes entitled to refund where tax paid by him exceeds the amount of tax payable, or where as a result of appellate orders or other proceedings under the Act an amount becomes due to him. The Income-tax Act, 1961, also provides that in the case of refund not granted within 3 months from the end of the month in which total income was determined under the Act, or the claim for refund was made, or an order under Section 240 was passed, as the case may be, simple interest at the rate of 15 per cent per month shall become payable to the assessee on the amount of refund. The Ministry of Finance have issued elaborate instructions for prompt disposal of cases of refunds.</p>

2 1.33

-Do-

The Committee cannot but view with concern the fact that despite the plethora of instructions issued from time to time, the outstanding cases pertaining to refunds continue to rise in number

and the issuance of refunds of income-tax continued to be delayed and has become chronic irritant to the tax payers. The pendency of refund applications under Section 237 of the Income-tax Act, 1961 which stood at 15,269 at the end of 1979-80 rose to as high as 37,547 at the end of the year 1984-85 registering an increase of about 146 per cent. Even in the case of refunds due under Section 240 of the Income-tax Act (where an Income-tax Officer (has *suo-moto* to give effect to the appellate orders and to determine the refundable amount, if any, as many as 5683 cases were pending disposal at the end of 1984-85.

3 1.34 Finance (Rev.)

The Committee understand that pursuant to the recommendations of the Direct Taxes Enquiry Committee and to ensure that the refund orders are issued as expeditiously as possible, the Central Board of Direct Taxes issued instructions in January 1976 to initiate disciplinary proceedings in cases where refunds were not generally issued within 7 days. The Committee's inquiry during evidence as to the number of cases in which such disciplinary action had been initiated elicited the response "We have started implementation now". The fact that instructions issued in 1976 should start being implemented in 1985 by the Board itself reflects a very sad state of affairs to say the least. Delays cause avoidable hardship to the tax payers and also become causes of corruption. The Committee consider that mere issue of instructions from time to time without any will to implement the same is indicative of the lack-

1 2 3 4

diasical approach of the Department to solve this chronic problem. The Committee are firmly of the view that in order to ensure issue of refund vouchers promptly and without harassment to the assesses, it is imperative to streamline the functioning of the Income-tax Wards/Circles, to intensify inspection by Commissioners of Income-tax/Inspecting Assistant Commissioners of Income-tax and to award suitable deterrent punishment to the erring officials.

4 1.35 -do-

A review undertaken by Audit of refunds made during the three years from 1980-81 to 1982-83 in selected wards of certain charges, had disclosed that refunds amounting to Rs. 284.59 lakhs in respect of 4133 refund vouchers were authorised after delays ranging from six months to more than three years. The Committee regret that despite their recommendations and the recommendations of the Estimates Committee, the system of payment of refunds in the Income-tax Department continues to be dilatory and inefficient as ever. The Committee are unable to accept that "acute shortage of staff" could be an impediment in the expeditious issue of refund orders. It is imperative that all refunds are issued as expeditiously as possible as the assessee are not concerned with these internal matters of the department and are entitled to have refunds issued promptly and without any difficulty.

5 1.36 -do-

The Committee are distressed to find that as against a sum of Rs. 1.03 crores only paid during the year 1979-80 as interest on belated refunds (both *suo moto* and otherwise), an amount of

Rs. 7.12 crores was paid during the year 1983-84. This shows the magnitude of the problem and the ineptitude of the Government to bring about much of an improvement in this field. The Committee, however, note that the Government are seized of the enormity of the problem and the Board had asked the Inspection Division of the Central Board of Direct Taxes to monitor compliance of the instructions issued in this regard from time to time while inspecting the work of Income-tax Circles and to report to the Chairman for initiation of appropriate disciplinary proceedings both against Income-tax Officers and Assistant Commissioners in cases where Board's instructions had not been followed. The Committee would like to be apprised of the progress made in this regard. The Committee desire that officers held directly responsible for delaying issue of refund orders should be suitably penalised. The Committee also recommend that the annual appraisal reports of the Commissioners of Income-tax should specifically mention about performance regarding the prompt issue of refund payments. The Committee would like to be informed of the position in this regard.

6 1.37 Finance (Rev.)

The Committee are surprised to find that no regular report is called for by the Board or the Commissioners of Income-tax from the Income-tax Officers (Refunds) about delayed authorisation of refund. The Committee recommend that demarcation of duties and responsibilities for prompt payment of refunds should be clear and specific so as to be able to pin-point lapses, delays etc. and that periodical reports on the disposal of refund cases should be called

for from each refund authorising officer to ensure effective control over the disposal of refund cases.

7 1.38 The Committee also desire that the Ministry of Finance must insist on strict enforcement of the instructions which were formulated and issue as long ago as in January, 1976. Any breach in implementation of these instructions must be severely penalised. The Committee desire to be kept informed for a period of two years about the success achieved in the implementation of the instructions issued in January, 1976 and the action taken against erring officials for not implementing the instructions.

8 1.39 The Central Board of Direct Taxes issued instructions in July 1980 to be observed by the income-tax authorities for preventing issue and encashment of bogus refunds. The Committee are distressed to say that these instructions had not been observed scrupulously as is evident from the following facts pointed out by Audit:

(i) Refund Voucher written by a Clerk or Tax Assistant and checked by the Supervisor is required to be finally checked and signed by Income-tax Officer. The person who writes and the one who checks the refund voucher put their signatures on the office copies thereof and advice notes. Out of 412 income-tax wards inspected by the Audit, the above procedure was not followed in as many as 338 wards. Omissions were also noticed in 24 wards in Punjab and 53 wards in Andhra Pradesh.

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(ii) On receipt of third foil of the refund voucher the amount paid is required to be tallied with the office copy of refund voucher and date of encashment indicated therein. Out of 424 wards test checked, omissions to tally the paid vouchers with office copies were noticed in 360 wards. Omissions of this type were also noticed in 53 wards and 18 wards in Andhra Pradesh and Kerala charges respectively.

(iii) A quarterly verification is to be made by Income-tax Officer from office copies of refund vouchers as well as from Demand and Collection Registers to find out whether all the paid foils of refund vouchers have been received within 6 months of issue of refund vouchers and if not, an inquiry would be made to see that no fraudulent payment had been made. Out of 461 wards test checked, such a verification was not done in 356 wards. It was also noticed that in 186 wards, 12,587 paid vouchers issued during 1980-81 to 1982-83 for Rs. 259.97 lakhs were not available on records.

The Ministry of Finance (Department of Revenue) have since issued further instructions on 6 January and 5 February 1986 inviting attention of all the Commissioners of Income-tax to the above observations of the Audit and directing them to make surprise inspection to find out cases of delay and to take deterrent action against the erring

officers. The Committee feel that these instruction, if implemented scrupulously would go a long way in improving the position. The Committee hope that the Ministry would not now rest content with the mere issue of the instructions and would monitor the position periodically to ensure that the lapses pointed out by the Audit are not repeated. The Committee would like to be apprised of the results achieved by the implementation of the instructions issued by the Ministry of Finance.

9 1.40 Finance (Rev.)

The Committee note that a number of cases of fraud involving huge amounts of revenue have occurred in various income-tax wards| charges. Notable among those charges are Baroda (where 20 cases of fraud involving total revenue of Rs. 38,651 occurred in 1982 alone), Nasik (where 29 cases involving revenue of Rs. 2,31,734 occurred during 1979-80 to 1982-83), Tamil Nadu (where only 3 cases involving revenue to the tune of Rs. 2,77,066 occurred during 1979-80 to 1983-84). The Committee regret to say that many of the frauds have occurred after the issue of instructions of July 1980. The Committee desire that the cases of fraud should be thoroughly investigated and analysed to find out the loopholes left in the system of authorising refunds and to take effective remedial measures to plug the same so that the unsatisfactory situation is not repeated in future.