

CHAPTER 4



Timeliness in processing of refunds

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

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

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

Table 4.1 : International standards of processing and adherence

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

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

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

I Time analysis: small taxpayer

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

4.5 Time analysis of the data showed that the average time taken for processing a refund through summary assessment leading to the issue of refund voucher was 10 months from the date of filing of return. 31 per cent of refunds were processed within 6 months but 20 per cent took over 18 months. There were 403 refunds that took two to four years, 243 refunds³⁶ that were not issued and 84 returns³⁷ that were not processed at all (August 2009).

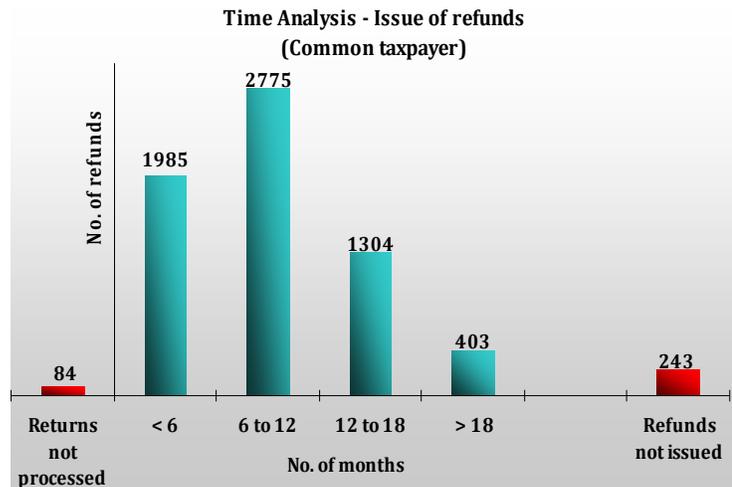


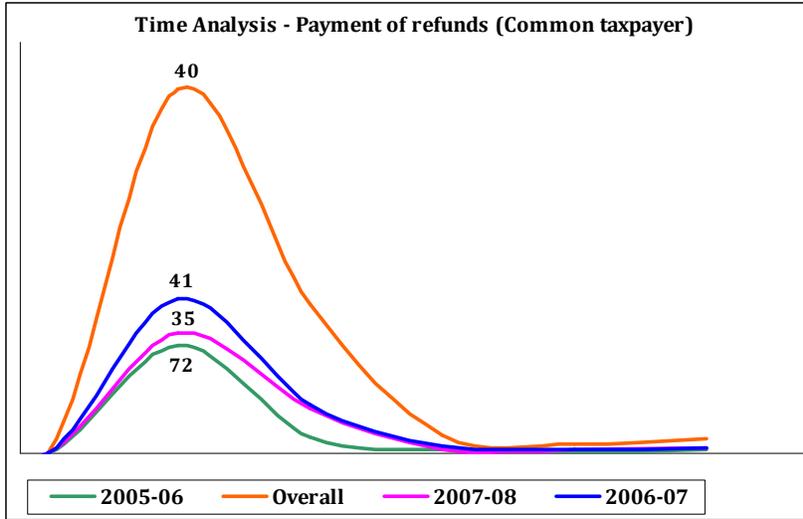
Chart 4.1: Issue of refunds -Time Analysis

4.6 Time taken to receive the refund by the taxpayer, from the date of preparation of refund voucher, was ascertained with reference to the date of encashment by the taxpayer from OLTAS. The average³⁸ time taken was 40 days.

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

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

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



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

Chart 4.2: Payment of refunds - Time Analysis

4.7 Year-wise analysis showed that though the average time taken for processing low value refunds has increased during the period 2005-08, the average time taken for encashment³⁹ of refunds by the assesseees showed a decreasing trend. On an average it took around 12 months for an assessee to receive the refund in 2007-08, a performance which is way below par with reference to the Department’s own targets as well as international standards.

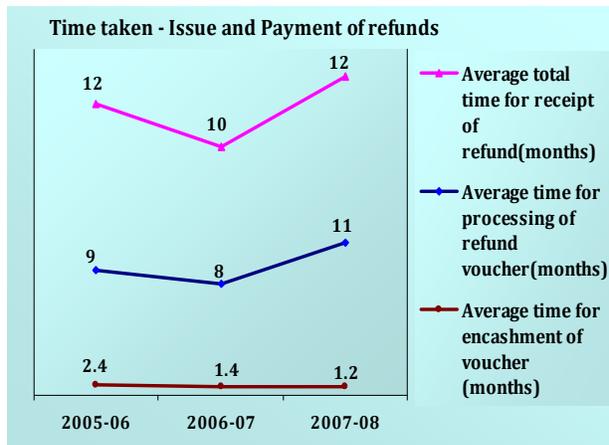


Chart 4.3: Issue and payment of refunds-Annual trends

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

³⁹ Encashment details as indicated by DG (Systems)

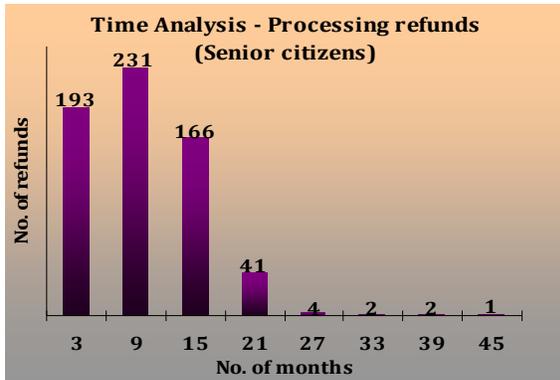


Chart 4.4: Issue of refunds (Senior citizens)

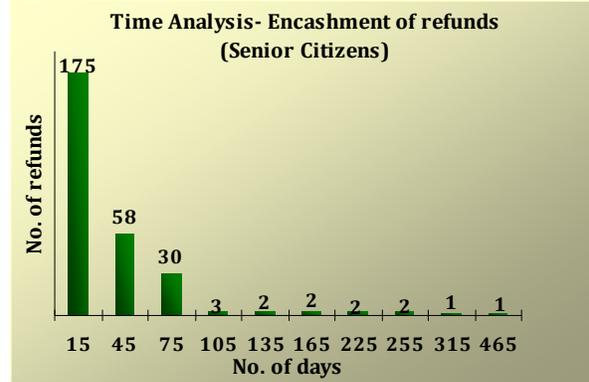


Chart 4.5: Payment of refunds (Senior citizens)

II Timeliness: high value refunds

4.9 We found delays in processing in high value refunds akin to that of low value refunds; but where the refund value itself was high, the impact of delays was many-fold. The government suffered monetary loss on account of higher interest payments; the cost to the assessee was high; and the pending refunds of high value distorted the actual collection of revenue more significantly. We found 34 cases of refunds⁴⁰ of Rs. 2212.6 crore where the Department paid avoidable interest in excess of Rs. 25 lakh each, because of the inability to process the claims within the relevant assessment year. The total amount of avoidable interest paid in these delayed refunds was Rs. 69.5 crore.

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

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

Issue of vouchers: high value refunds

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

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

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

4.10.1 CBDT's instructions⁴¹ clearly lay down that refunds should be issued on the basis of annual return of income or loss immediately, without waiting for the scrutiny assessment. We found that these instructions were not being adhered to which resulted in delays. In 47 cases involving refunds of Rs. 325.7 crore⁴², refunds were determined at the processing stage but issued only after completion of scrutiny assessment. The delays⁴³ were substantial, averaging to 28 months leading to avoidable payment of interest.



Chart 4.6: Timeliness- High Value Refunds

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

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

4.10.2 There were 49 cases involving refund⁴⁴ of Rs. 772.7 crore, where the refunds were determined but the final refund vouchers were not prepared within the prescribed time limit⁴⁵ of 30 days. We noticed delays of more than one year (i.e. more than 30 days after the determination of refund) in 11 cases and more than three years in nine cases.

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

The assessment of Sri Bajrang Jute Mills Ltd. for the two assessment years was processed in March 2001 and January 2002 determining a refund of Rs. 82.6 lakh and Rs. 29 lakh respectively which were not issued to the assessee. The assessee filed petitions repeatedly but refund of Rs. 99.7 lakh was issued in June 2008 after adjusting the pending demands of the earlier assessment years resulting in a delay of 86 months (for A. Y. 1999-2000) and 76 months (for A. Y. 2000-01). This also led to an avoidable interest loss of Rs. 39.5 lakh. The Department replied (August 2009) that the delays were due to change of incumbent in July 2007. The reply ignores the 5-6 years delay prior to the change in incumbency.

⁴¹ Board's circular no. 549 dated 31.10.1989

⁴² in Assam, Delhi, Kerala, Madhya Pradesh, Maharashtra and Rajasthan charges

⁴³ delay has been worked out from the end of the relevant assessment year.

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

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

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

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

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

4.10.3 We found 30 cases⁴⁶ involving refund of Rs. 47.1 crore where the refunds were determined during the period April 2005 to December 2008 but were yet to be issued till the date of audit (March 2009).

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

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

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

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

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

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

4.10.4 Refund vouchers, regardless of the amount involved, are required⁴⁷ to be dispatched within 15 days of the assessment order resulting in refund. However, these instructions are not being complied with. In five circles/wards of Rajasthan, we found 36 refund vouchers amounting to Rs. 2.1 crore which were dispatched after 47 to 285 days of the assessment order.

⁴⁶ in Assam, Chhattisgarh, Himachal Pradesh, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan and Uttar Pradesh.

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

4.10.5 We found delays ranging from 52 days to almost 10 months in according administrative approval⁴⁸ at various stages in 11 cases⁴⁹ involving refund of Rs. 224.9 crore leading to payment of avoidable interest of Rs. 10.7 crore.

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

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

III Refund banker scheme

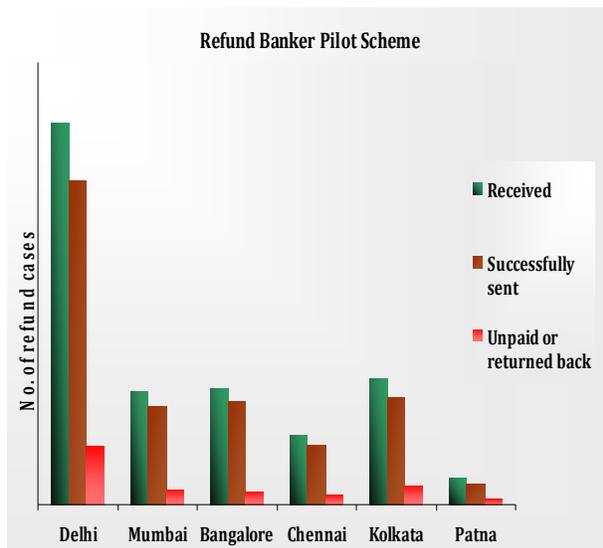


Chart 4.7: Refund Banker Scheme- Performance results

4.11 Government introduced the Refund Banker Scheme (January 2007) which became operational for taxpayers assessed in Delhi and Patna in the first phase. It was later (September 2007) extended to four other cities - Bangalore, Chennai, Mumbai and Kolkata (except for company and exemption refunds). Under this scheme, the data on income tax refunds determined are picked up electronically by the authorized banks and remitted to the bank account of the taxpayers through ECS⁵⁰ or Banker's cheque sent to the taxpayers to the address indicated in the return.

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

4.11.2 The departmental reports show a success rate of 85⁵¹ per cent in transmission of refunds. Chart 4.8 illustrates the results. However, the scheme has had its glitches with software problems (Appendix II). B bogus refunds in four cases were also detected.

⁴⁸ Refer paragraph 3.31

⁴⁹ Goa, Jharkhand, Karnataka, Madhya Pradesh and Rajasthan

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

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

4.11.3 Our sample⁵² check of low value refunds showed that in Delhi, Kolkata and Patna the introduction of the refund banker scheme has substantially reduced the average time taken in the payment of refunds after their issue. In Delhi the average time taken was decreased by 73 per cent, in Kolkata by 49 per cent and in Patna by 54 per cent.

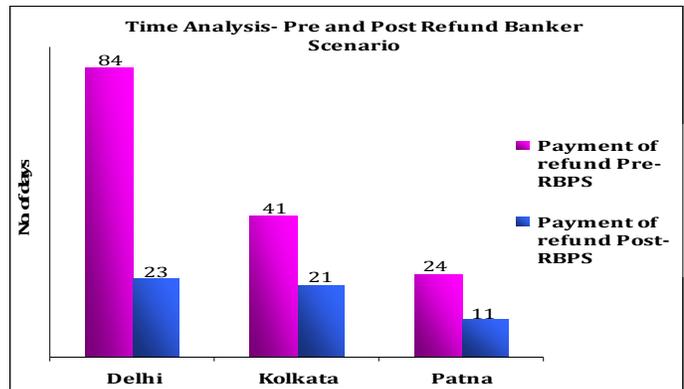


Chart 4.8: Payment of low value refunds-Pre and Post RBPS

4.12 Recommendations

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

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

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

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

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

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

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

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

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

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

The Ministry accepted the recommendation.