

Chapter IV: Income Tax

4.1 Introduction

4.1.1 This chapter discusses the result of audit of assessments related to income tax audited during 2018-19. A total of 537.90 lakh ITRs⁶² were filed by non-corporate assessees during the FY 2017-18. The ITD completed a total of 3,18,197 non-corporate scrutiny assessments in FY 2017-18 or in earlier years in those units which were audited during 2018-19. Out of the 3,18,197 non-corporate scrutiny assessments, we checked 2,21,027 non-corporate scrutiny cases and found errors in 12,322 assessments. The incidence of errors in non-corporate scrutiny assessments checked in audit during 2018-19 was 5.57 *per cent* which was lower than the corresponding figure (5.67 *per cent*) during 2017-18. As the extent of examination by audit was limited to 69.46 *per cent* of non-corporate scrutiny assessments completed by AOs, Ministry may consider reviewing the cases in entirety. The nature of the errors points to manual override of the AST. The department needs to investigate such cases and take action as per law against the officials concerned.

4.1.2 A total of 77 high value income tax cases were referred to the Ministry during July 2019 to November 2019. Of these, 76 cases involve undercharge of ₹ 167.04 crore and one case involves overcharge of ₹ 3.32 crore. These cases of incorrect assessment point towards weaknesses in the internal controls on the assessment process being exercised by the Income Tax Department. Such errors have been continually pointed out in earlier audit reports as well. ITD may ascertain whether the instances of irregularities noticed are errors of omission or commission while ensuring necessary action as per law in cases involving errors of commission.

4.1.3 The categories of errors have been broadly classified as follows:

- Quality of assessments
- Administration of tax concessions/exemptions/deductions
- Income escaping assessments due to errors
- Others-Overcharge of tax/interest etc.

Table 2.10 (para 2.4.4) of this report shows the details of broad categories of errors in assessments and their tax effect.

4.1.4 The Ministry has conveyed its acceptance in 14 cases involving tax effect (TE) of ₹ 11.85 crore. The Ministry has not accepted two cases involving tax effect of ₹ 1.53 crore. In the remaining 61 cases, the ITD has accepted

62 Source: Central Board of Direct Taxes (CBDT)

17 cases involving tax effect of ₹ 71.28 crore (referred to in para 2.4.4 of this report). Out of 77 cases, ITD has completed remedial action in 48 cases involving tax effect of ₹ 83.88 crore and initiated remedial action in 12 cases involving tax effect of ₹ 53.50 crore.

4.2 Quality of assessments

4.2.1 AOs committed errors in the assessments ignoring clear provisions in the Act. These cases of incorrect assessments point to continuing weaknesses in the internal controls on the part of ITD which need to be addressed on priority. The cases of incorrect assessments involving arithmetical errors in computation of income and tax are difficult to accept as mere errors, in the days of calculators and computers. Further, application of incorrect rates of tax and surcharge, mistakes in levy of interest, excess or irregular refunds etc. point to either incompetence, or mischief, as well as weaknesses in the internal controls in ITD which need to be addressed. ITD may ascertain whether the instances of irregularities noticed are errors of omission or commission while ensuring necessary action as per law in cases involving errors of commission.

Table 4.1 shows the sub-categories of errors which impacted the quality of assessments.

Table 4.1: Details of errors in quality of assessment				(₹ in crore)
Sub-categories	Cases	TE	States	
a. Arithmetical errors in computation of income and tax	3	1.94	Maharashtra and Uttar Pradesh	
b. Incorrect application of rates of tax, surcharge etc.	23	16.23	Andhra Pradesh & Telangana, Assam, Chattisgarh, Gujarat, Haryana, Jharkhand, Maharashtra, Tamil Nadu, UT Chandigarh, Uttar Pradesh and West Bengal	
c. Errors in levy of interest	2	0.77	Punjab and Tamil Nadu	
d. Excess or Irregular refunds/ Interest on refunds	1	0.11	Madhya Pradesh	
Total	29	19.05		

4.2.2 Arithmetical errors in computation of income and tax

We noticed arithmetical errors in computation of income and tax in three cases involving tax effect of ₹ 1.94 crore in two states.

The Income Tax Act, 1961 provides that AO is required to make a correct assessment of the total income or loss of the assessee and determine correct amount of tax or refund, as the case may be.

We give below two such illustrative cases:

4.2.2.1 In Uttar Pradesh, CIT Exemption Lucknow charge, AO completed the assessment of an Association of Person (AOP) for AY 2015-16 after scrutiny in December 2017 at an income of ₹ 99.22 lakh. Audit examination revealed that the AO had disallowed an amount of ₹ 39.44 lakh on account of addition of fixed asset. However, the said amount of ₹ 39.44 lakh was not added back to the income of the assessee while computing the taxable income. This error had resulted in short levy of tax of ₹ 22.65 lakh including interest. *The ITD rectified the error under section 154 of the Act (December 2018).*

4.2.2.2 In Maharashtra, PCIT 19 Mumbai charge, AO completed the assessment of an individual for AY 2009-10 under section 144 read with section 147 in March 2015 determining income at ₹ 91.80 lakh which was revised to ₹ 2.87 crore in December 2016. Audit examination revealed that while computing revised assessed income, the addition was made to the returned income of the assessee of ₹ 3.13 lakh instead of originally assessed income of ₹ 91.80 lakh. Thus, incorrect adoption of figure resulted in underassessment of ₹ 88.67 lakh involving short levy of tax of ₹ 39.18 lakh including interest. *The Ministry accepted the audit observation (January 2020) and took remedial action (October 2019) under section 154 of the Act.*

4.2.3 Application of incorrect rates of tax and surcharge

We noticed application of incorrect rates of tax and surcharge in 23 cases involving tax effect of ₹ 16.23 crore in 11 states.

Section 115BBE(1) provides that where the total income of an assessee includes any income referred to in section 68, section 69, section 69A, section 69B, section 69C or section 69D, the income-tax payable shall be aggregate of the amount of income-tax calculated on income referred to in section 68, section 69, section 69A, section 69B, section 69C or section 69D, at the rate of 30 per cent.

We give below two such illustrative cases:

4.2.3.1 In West Bengal, Pr. CIT-Central 1 Kolkata charge, AO completed the assessment of a HUF for AY 2015-16 under section 143(3) read with section 153C of the Act in December 2017 at an income of ₹ 5.90 crore. Audit examination revealed that AO had made an addition of ₹ 5.84 crore to the income of the assessee under section 68 and 69 of the Act, as such, the addition made under the said section should have been taxed at the rate of 30 per cent. However, AO treated the addition of ₹ 5.84 crore as long term capital gain and taxed accordingly. This error had resulted in short levy of tax of ₹ 87.93 lakh including interest. *The Ministry accepted the audit observation (December 2019) and took remedial action (April 2018) under section 154 of the Act.*

4.2.3.2 In Gujarat, Pr.CIT-5 Ahmedabad charge, AO completed the assessment of an individual for AY 2013-14 under section 143(3) read with section 147 of the Act in December 2017 at an income of ₹ 5.66 crore. Audit examination revealed that AO had added back an amount of ₹ 5.66 crore to the income of the assessee on account of unexplained cash credit. However, tax on income was levied at the rate of 20 *per cent* instead of applicable rate of 30 *per cent*. This error had resulted in short levy of tax of ₹ 75.50 lakh including interest. *The Ministry accepted the audit observation (December 2019) and took remedial action (July 2018) under section 154 of the Act.*

Section 4(1) of the Income Tax Act, 1961 provides that income tax is chargeable for every assessment year in respect of the total income of the previous year of an assessee, according to the rates prescribed under the relevant Finance Act.

We give below three illustrative cases:

4.2.3.3 In Tamil Nadu, CIT-1 Madurai charge, AO completed the assessment of an artificial juridical person for AY 2009-10 in February 2016 at an income of ₹ 117.45 crore. Subsequently, the assessment was revised in March 2017 to give effect to the appeal order, wherein the income was reduced to ₹ 83.74 crore. Audit examination revealed that, while giving effect to the appellate order, AO did not levy surcharge leviable at the rate of 10 *per cent* as per the relevant Finance Act provisions. The error had resulted in short levy of tax of ₹ 2.59 crore.

4.2.3.4 In CIT Panchkula, Haryana charge, AO completed the assessment of a Trust for AY 2014-15 after scrutiny in December 2016 at an income of ₹ 40.76 crore, which was further assessed at ₹ 29.15 crore under section 154 in March 2017. Audit examination revealed that while calculating tax liability under section 154 of the Act, the AO had not charged surcharge leviable at 10 *per cent*. The error had resulted in short levy of tax of ₹ 1.20 crore including interest. *The Ministry accepted (December 2019) the audit observation and rectified the error (July 2018) under section 154 of the Act.*

4.2.3.5 In Uttar Pradesh, Pr. CIT Kanpur charge, AO completed the scrutiny assessment of an AOP for AYs 2014-15 and 2015-16 in December 2016 at an income of ₹ 8.09 crore and ₹ 10.18 crore respectively. Audit examination revealed that the AO, while computing tax demand for the respective AYs, did not levy surcharge applicable at the rate of 10 *per cent*. This error had resulted in short levy of tax of ₹ 35.49 lakh including interest for both the AYs. *The ITD rectified the error under section 154 of the Act (February 2019).*

4.3 Administration of tax concessions/exemptions/deductions

4.3.1 The Income Tax Act, 1961 allows concessions/exemptions/deductions to the assessee in computing total income under Chapter VI-A and for certain

categories of expenditure under its relevant provisions. We observed that the AOs have irregularly extended benefits of tax concessions/exemptions/deductions to ineligible beneficiaries. These cases point out weaknesses in the administration of tax concessions/deductions/exemptions on the part of ITD which need to be addressed. ITD may ascertain whether the instances of irregularities noticed are errors of omission or commission while ensuring necessary action as per law in cases involving errors of commission. Table 4.2 shows the sub-categories which have impacted the administration of tax concessions/exemptions/deductions.

Table 4.2: Sub-categories of errors under Administration of tax concessions/exemptions/deductions			(₹ in crore)		
Sub-categories	Nos.	TE	States		
a. Irregular exemptions/deductions/relief given to individuals	01	0.26	Delhi		
b. Irregular exemptions/deductions/relief given to Trusts/Firms/Societies/AOPs	05	18.73	Gujarat, Madhya Pradesh, Maharashtra and Rajasthan		
c. Incorrect allowance of Business Expenditure	10	81.43	Andhra Pradesh & Telangana, Delhi, Jharkhand, Maharashtra, Odisha, Uttar Pradesh, Uttarakhand and West Bengal		
d. Irregularities in allowing depreciation/business losses/capital losses	14	21.30	Andhra Pradesh & Telangana, Bihar, Delhi, Jharkhand, Kerala, Madhya Pradesh, Maharashtra, Punjab, Rajasthan and West Bengal		
Total	30	121.72			

4.3.2 Irregular exemptions/deductions/relief given to Trusts/Firms/Societies/AOPs

We noticed irregular exemptions/deductions/relief given to trusts/firms/societies/AOPs in five cases involving tax effect of ₹ 18.73 crore in four states.

The Income Tax Act, 1961 provides that AO is required to make a correct assessment of the total income or loss of the assessee and determine correct amount of tax or refund, as the case may be. Further, for the purposes of determining quantum of deduction under section 80-IA of the Act, the profits and gains of an eligible business shall be computed as if such eligible business was the only source of income of the assessee during the previous year.

We give below one such illustrative case:

4.3.2.1 In Rajasthan, Pr. CIT-I Jaipur charge, AO completed the assessment of a firm for AY 2015-16 after scrutiny in November 2017 at an income of ₹ 45.43 lakh after allowing deduction under section 80-IA of ₹ 41.14 lakh on profit from eligible business of 'Solar Energy Plant'. Audit examination revealed that the depreciation of ₹ 30.03 lakh pertaining to the 'Solar Energy

Plant' was debited to profits & gains of assessee's other business instead of profits & gains of eligible business of 'Solar Energy Plant'. This resulted in excess allowance of deduction under section 80-IA of ₹ 30.03 lakh involving short levy of tax of ₹ 11.58 lakh including interest.

4.3.3 Incorrect allowance of Business Expenditure

We noticed Incorrect allowance of Business Expenditure in 10 cases involving tax effect of ₹ 81.43 crore in eight states.

Section 43B of the Income Tax Act, 1961 provides for deduction towards certain expenditure only when the same has actually been paid in the previous year on or before the due date of filing return of income

We give below one illustrative case:

4.3.3.1 In Odisha, PCIT-II, Bhubaneswar charge, the assessment of an artificial juridical person for AY 2015-16 was completed after scrutiny in December 2017 determining loss at ₹ 165.90 crore. Audit examination revealed that liability of ₹ 269.39 crore towards "Employees benefit expenses" and "Interest on loan" for the previous year relevant to AY 2015-16 was payable on or before the due date of filing of return of income. However, as per the Auditor's Report (Form 3CD), the assessee had not paid the said liability on or before the due date of filing of return, which attracted the provisions of section 43B of the Act, and therefore the same was required to be disallowed. Non-disallowance of the unpaid liability had resulted in excess determination of loss to the extent of ₹ 112.20 crore, which resulted in potential tax effect of ₹ 38.14 crore. *The ITD accepted (November 2018) the audit observation and stated that remedial action under section 147/263 of the Act was being initiated.*

Section 37 (1) of the Income Tax Act, 1961 provides that any expenditure not being in the nature of capital expenditure or personal expenses of the assessee, laid or expended wholly and exclusively for the purpose of the business or profession shall be allowed in computing the income chargeable under the head "profit and Gains of business or profession". Further, CBDT has clarified vide instruction number 17 of 2008 dated 26.11.2008 that section 37 of the Act envisages that an amount debited in the profit and loss account in respect of an accrued or ascertained liability only is an admissible deduction, while any provision in respect of any unascertained liability or a liability which has not accrued, do not qualify for deduction.

We give below one illustrative case:

4.3.3.2 In Maharashtra, Pr. CIT 2 Aurangabad charge, AO completed the scrutiny assessment of an AOP for AY 2013-14 in January 2016 determining total income at ₹ 7.01 crore. Audit examination revealed that the assessee had debited an amount of ₹ 34.94 crore to the Profit and Loss Account towards provision for overdue interest. As the said expenditure was merely a provision which was unascertained in nature and hence the same was required to be added back to the income of the assessee. The error had resulted in under

assessment of income of ₹ 34.94 crore involving short levy of tax of ₹ 14.47 crore including interest. *The ITD rectified the error (December 2018) under section 263 of the Act.*

Section 40a(ii) of the Income Tax Act, 1961 provides that any sum paid on account of any rate or tax levied on the profits or gains of any business or profession shall not be deducted in computing the income chargeable under the head "Profits and gains of business or profession".

We give below one illustrative case:

4.3.3.3 In Maharashtra, Pr. CIT 1 Kolhapur charge, AO while completing assessment of an AOP for AY 2015-16 after scrutiny in December 2017 at an income of ₹ 56.47 crore, allowed expense of ₹ 4.01 crore towards income tax paid which was not an allowable expense as per the aforesaid provision of the Act. This error had resulted in under assessment of income of ₹ 4.01 crore involving short levy of tax of ₹ 1.81 crore including interest. *The Ministry accepted the audit observation (March 2020) and took remedial action (January 2019) under section 154 of the Act.*

4.3.4 Irregularities in allowing depreciation/business losses/capital losses

We noticed Irregularities in allowing depreciation/business losses/capital losses in 14 cases involving tax effect of ₹ 21.29 crore in 10 states.

Under section 72 of the Income Tax Act, 1961, where for any assessment year, the net result of computation under the head 'Profits & Gains of Business or Profession' is a loss to the assessee, not being a loss sustained in a speculation business, and such loss cannot be wholly set off against income under any other head of income in accordance with the provisions of section 71, so much of the loss as has not been so set off or, where he has no income under any other head, the whole loss shall be carried forward to the following assessment year. Further, section 80 provides that no loss shall be allowed to be carried forward or set off if the return of income is not filed within the stipulated time.

We give below three such illustrative cases:

4.3.4.1 In West Bengal, Pr. CIT-4 charge, AO completed the assessment of an Individual for AY 2015-16 under section 144 of the Act in December 2017 at an income of ₹ 14.73 crore after allowing set-off of brought forward business loss of ₹ 4.74 crore. Audit examination revealed that brought forward business loss of ₹ 4.74 crore was inclusive of loss of ₹ 2.53 crore pertaining to AY 2011-12. However, for the AY 2011-12, assessee had a loss of ₹ 27.88 lakh only, and hence, excess set off of loss of ₹ 2.25 crore was allowed to the assessee. This irregularity had resulted in short levy of tax of ₹ 1.02 crore including interest.

4.3.4.2 In Bihar, Pr. CIT Bhagalpur charge, AO completed the assessment of an AOP for AY 2013-14 after scrutiny in February 2016 at nil income after allowing set-off of losses of ₹ 15.45 crore relating to AY 2011-12. Audit examination revealed that return of income for AY 2011-12 was filed at a loss of ₹ 20.88 crore on 30 March 2012. As the return of income for the AY 2011-12 was filed after the due date⁶³ of filing of return of income under section 139(1), loss for the AY 2011-12 was not allowable to be carried forward and set-off in subsequent years. The error had resulted in short computation of income of ₹ 15.45 crore with consequent short levy of tax of ₹ 6.41 crore including interest. *The ITD accepted the audit observation (January 2018) and rectified the error under section 147 read with section 143(3) in November 2017.*

4.3.4.3 In Rajasthan, Pr. CIT-1 Jaipur charge, AO completed the assessment of an Individual for AY 2010-11 under section 143(3) read with section 147 of the Act in December 2017 at an income of ₹ 2.32 lakh. Audit examination revealed that profit of ₹ 57.34 lakh was assessed as unaccounted income to be taxed under the head 'income from other sources' out of total business profit of ₹ 1.18 crore. Thus, only ₹ 60.88 lakh remained under the head profits and gains of business or profession against which brought forward business loss could be set off. However, the AO had allowed set off of brought forward business loss of ₹ 1.14 crore. This error had resulted in excess set-off of business loss of ₹ 53.49 lakh and under assessment of income by equal amount involving short levy of tax of ₹ 31.23 lakh including interest.

4.4 Income escaping assessments due to errors

4.4.1 The Income Tax Act, 1961 provides that the total income of a person for any previous year shall include all incomes from whatever source derived, actually received or accrued or deemed to be received or accrued. We observed that the AOs did not assess/under assessed total income that was required to be offered to tax. Table 4.3 shows the sub-categories which have resulted in income escaping assessments.

63 Due date for filing of return of income for AY 2011-12 was 30 September 2011.

Table 4.3: Sub-categories of errors under income escaping assessments due to errors				(₹ in crore)
Sub-categories	Nos.	TE	States	
a. Incorrect classification and computation of capital gains	06	1.93	Haryana, Himachal Pradesh, Madhya Pradesh, Maharashtra, Punjab and Rajasthan	
b. Incorrect computation of income	06	10.89	Maharashtra, Odisha, Rajasthan and Uttar Pradesh	
c. Income not assessed/under assessed under special provisions	02	1.27	Assam and Tamil Nadu	
d. Unexplained Investment/cash credit	03	12.18	Gujarat and Maharashtra	
Total	17	26.27		

4.4.2 Incorrect classification and computation of Capital Gains

We noticed Incorrect classification and computation of Capital Gains in six cases involving tax effect of ₹ 1.93 crore in six states.

Under section 50C of the Income Tax Act, where the consideration received or accruing as a result of the transfer by an assessee of a capital asset, being land or building or both, is less than the value adopted or assessed or assessable by any authority of a State Government for the purpose of payment of stamp duty in respect of such transfer, the value so adopted or assessed or assessable shall, for the purposes of section 48, be deemed to be the full value of the consideration received or accruing as a result of such transfer.

We give below one illustrative case:

4.4.2.1 In Rajasthan, Pr. CIT-1 Jaipur Charge, AO completed the scrutiny assessment of an individual for the AY 2015-16 at an income of ₹ 1.12 crore in December 2017. Audit examination revealed that the AO assessed long term capital gain of ₹ 1.02 crore on sale consideration received on sale of land of ₹ 1.23 crore (being one-fourth share of ₹ 4.92 crore). However, the value of land was assessed at ₹ 7.38 crore by sub-Registrar Amer, and thus, ₹ 7.38 crore was deemed to be the full value of the consideration for computing capital gain instead of ₹ 4.92 crore. Hence, long term capital gain was required to be computed at ₹ 1.85 crore (being one-fourth share of ₹ 7.38 crore). This error had resulted in short computation of capital gain of ₹ 61.50 lakh involving tax effect of ₹ 18.53 lakh including interest.

4.4.3 Incorrect computation of income

We noticed Incorrect computation of income in six cases involving tax effect of ₹ 10.88 crore in four states.

As per provision under section 143(3) of Income Tax Act, AOs are required to make correct assessment of income of the assessee and determine the correct amount payable by the assessee or refundable to the assessee as the case may be. The Board has also issued instructions to the AOs to ensure correct assessment of total income or loss of the assessee in a scrutiny assessment. Valuation of stock is a vital factor in determining the taxable income of an assessee from business as correct profits cannot be ascertained unless the opening and closing stock are valued correctly. Though the valuation of stock does not generate funds, it does affect taxable income of the business. It was judicially held by Apex Court that closing stock must be valued correctly for ascertainment of true trading results [A.L.A. firm v. CIT [1991] 189 ITR 285(SC)]. Further, it was also held in case of CIT v. British Paints India Ltd.[1991] 188 ITR 44(SC) that incorrect valuation of closing stock is likely to result in a distorted picture of the true state of the business for the purpose of computing the chargeable income. The profit of one year is likely to be shifted to another year which is an incorrect method of computing profits and gains for the purpose of assessment.

We give below one illustrative case:

4.4.3.1 In Odisha, PCIT-I Bhubaneswar charge, AO completed the assessment of a firm for AY 2014-15 after scrutiny in November 2017 determining total income at ₹ 17.80 crore. Audit examination of statutory return vis-à-vis quantitative details furnished in auditors report (form 3CD) revealed that the quantity of closing stock of iron ore was 82,888.29 MT, the value of which furnished by assessee through annual mining return (i.e. Form H-1) was computed at ₹ 18.81 crore. However, the assessee in its Profit & Loss Account as well as in the Balance Sheet for the year ending 31st March 2015 had disclosed the value of closing stock at ₹ 1.88 crore instead of ₹ 18.81 crore resulting in under valuation of closing stock to the extent of ₹ 16.93 crore (₹ 18.81 crore – ₹ 1.88 crore) involving tax effect of ₹ 7.69 crore. *The ITD replied (August 2018) that remedial action had been taken. However, copy of rectification order was not made available to audit.*

4.4.4 Income not assessed under special provisions

We noticed Income not assessed under special provisions in two cases involving tax effect of ₹ 1.26 crore in two states.

Section 115JC of the Income Tax Act, 1961 provides that where the regular income tax payable for a previous year by a person, other than a company, is less than the alternate minimum tax payable for such previous year, the adjusted total income shall be deemed to be the total income of the person for such previous year and he shall be liable to pay income-tax on such total income at the rate of eighteen and one-half per cent.

We give below one illustrative case:

4.4.4.1 In Tamil Nadu, PCIT-1, Chennai charge, AO completed the scrutiny assessment of a firm for AY 2014-15 in December 2016 at 'nil' income under normal provisions, after setting off of the brought forward losses. Audit noticed that alternate minimum tax on the total income as per section 115JC of the Act should have been levied as tax on regular assessment which was nil. The error had resulted in non-levy of tax under section 115JC of ₹ 1.15 crore. *The ITD rectified the error under section 263 of the Act (April 2019).*

4.4.5 Unexplained Investment/cash credit

We noticed errors related to unexplained Investment/cash credit in three cases involving tax effect of ₹ 12.18 crore in two states.

Section 68 of the Income Tax Act, 1961 provides that where any sum is found credited in the books of an assessee maintained for any previous year, and the assessee offers no explanation about the nature and source thereof or the explanation offered by him is not, in the opinion of the AO, satisfactory, the sum so credited may be charged to income-tax as the income of the assessee of that previous year.

We give below one illustrative case:

4.4.5.1 In Gujarat, Pr. CIT-I Ahmedabad Charge, AO completed the assessment of an Individual for AY 2015-16 under section 144 read with section 143(3) in December 2017 at an income of ₹ 29.79 crore. Audit examination revealed that AO had disallowed ₹ 29.76 crore on account of unexplained cash deposit under section 68 of the Act and added this amount to the income of the assessee. However, as per bank statement of the assessee, there was cash deposit of ₹ 30.88 crore which remained unexplained. Thus, instead of ₹ 29.76 crore, cash deposit of ₹ 30.88 crore was required to be disallowed under section 68 of the Act. This error had resulted in under assessment of income of ₹ 1.12 crore involving tax effect of ₹ 55.91 lakh including interest. *The ITD rectified the error under section 154 of the Act (May 2018).*

4.5 Conclusion and Recommendation

- (i) Assessing Officers (AOs) committed errors in the assessments ignoring clear provisions of the Act. The cases of incorrect assessments involving arithmetical errors in computation of income and tax are difficult to accept as mere errors, in the days of calculators and computers. Further, application of incorrect rates of tax and surcharge, errors in levy of interest, excess or irregular refunds etc. point to either incompetence, or mischief, as well as weaknesses in the internal controls in ITD which need to be addressed. The existing scrutiny assessment procedure is opaque.
- (ii) While the Ministry has taken action to initiate correction in these cases, it may be pointed out that these are only a few illustrative cases. In the entire universe of all assessments, including non-scrutiny assessments, there is every likelihood of such errors, of omission or commission, in many more cases. The CBDT not only needs to revisit its assessments, but also put in place a fool proof IT system and internal control mechanism to eradicate, so-called “errors”.
- (iii) In view of repetitive nature of the errors, ITD should take remedial steps to prevent recurrence.
- (iv) *The CBDT may examine whether the instances of “errors” noticed are errors of omission or commission and if these are errors of commission, then ITD should ensure necessary action as per law.*