

Summary of Recommendations

Audit recommends that:

- *The CBDT may consider requesting the Central and State level registering bodies and regulatory authorities governing the Co-operative Societies and Co-operative Banks for instituting the seeding of PAN in their databases and facilitate a structured and institutional sharing of information. A process may be devised to track and monitor any change in the status of the assessee.*

(Paragraph 2.1.1)

- *Appropriate action as per provisions of the Act may be initiated against the non-filers/stop filers to detect the tax evasions. Survey may be utilised to identify Co-operative Societies/ Banks still outside tax net and bring them within the tax net.*

(Paragraph 2.2.1, 2.2.2)

- *The CBDT may ensure that the ITD checks for the actual status of the applicant vis-a-vis its name and activity carried out while allotting PAN to Co-operative Societies. In order to enable easy identification and monitoring of exemptions availed by the assessees, ITD may consider affixing fourth letter as 'A' to the PAN of Co-operative Society. It may also ensure that the change in status of assessees is adequately examined.*

(Paragraph 2.3, 3.1)

- *Evidential proof of a certificate of registration of Co-operative Societies/ Co-operative Banks by Registrar and details of members is essential for completion of assessments. ITD may issue necessary instructions to the Assessing Officers as well as strengthen the internal control mechanisms to ensure that provisions of the Act are being complied with.*

(Paragraph 2.6.1, 2.6.2, 2.6.3)

- *The CBDT may instruct Assessing Officers that the accounts of the Co-operative Societies/ Banks may be accepted by them only when their audit was found to have been conducted by empanelled auditors. Further, the instances of non-compliance to this regulatory requirement may be reported to the concerned regulatory authorities (ROCS, RBI etc.).*

(Paragraph 2.6.1, 2.6.2, 2.6.3)

- *The CBDT may inquire into the reasons for mismatch between data as per assessment records and as recorded in ITD systems with a view to eliminate weaknesses in the system. Necessary corrective action may be completed in a time bound manner.*

(Paragraph 2.4)

- *The CBDT may examine the action initiated in cases where incorrect ITR forms were filed by assessees in the Co-operative Sector and ensure that such returns are treated as invalid at ITR processing stage at CPC Bengaluru. Further, the claim of deductions allowed as Co-operative Societies/Co-operative Banks, if any, may be disallowed in such cases.*

(Paragraph 2.5.2)

- *The CBDT may consider devising a Standard Operating Procedure (SOP) for testing the principles of mutuality during scrutiny assessments of Co-operative Societies. It may also consider adopting a consistent approach for assessment of Co-operative Societies to address the practice of registering nominal and associate members with unequal rights as regular members, which defeat the principle of mutuality.*

(Paragraph 3.2.3)

- *The CBDT may devise a mechanism to effectively monitor the nature of activities undertaken by a Co-operative Society while also verifying the incomes on which deduction is being claimed by the Co-operative Societies/ Banks to ensure allowance of claim to eligible assessees only.*

(Paragraph 3.8)

- *To ensure allowance of deduction to eligible assessees only, minimise possibility of ineligible claims and for effective monitoring of claims, the activity code and status code of assessee may be linked with the sub-sections of 80P and 36(1) of the Act under which deduction is claimed at the stage of filing of income tax return. The instances where deductions claimed by assessees engaged in ineligible activities was disallowed during assessment may be used used to identify activities, sector(s) and assessees to accord priority in selection for scrutiny in subsequent years. The same may also be reported to the concerned regulatory authorities (ROCS, RBI etc.).*

(Paragraph 3.10)

- *The actual claim of deduction made under section 36(1)(viiia) of the Act may be captured alongwith distinct figures/ details of deduction claimed on total income and rural advances in the relevant schedule of*

ITR forms for effective monitoring, better MIS and assessment of impact of deduction as the actual claim is not getting captured in the existing format.

(Paragraph 3.11.2)

- *Class of assessees and sections of the act under which the possibility of irregular allowance of claims were higher may be identified and monitored. ITD may devise a checklist outlining the same for use by the Assessing Officers to prevent recurrence of irregular allowance of deductions.*

(Paragraph 3.1 to 3.7)

- *The CBDT may examine the reasons for wide variations in the applicability of same law under similar conditions and issue directions, if required, to ensure consistency and uniformity in assessment of similar class of assessees engaged in similar activities in Co-operative sector. CBDT may also co-ordinate with regulatory bodies to align the assessment of such assessees in accordance with the categorisation under the structure of Co-operative Banking as per the regulatory bodies. The instances of ineligible assessees claiming deductions admissible to Co-operative Societies and engaged in commercial banking business noticed during assessment procedure may be reported to the regulatory authorities (RBI, ROCS etc.)*

(Paragraph 3.9)

- *The CBDT may issue SOP for assessment of claims made by sugar manufacturing Co-operative Societies under section 36(1)(xvii) to ensure that the allowance of deduction is in accordance with Government policies with respect to pricing of sugar at Central and State level.*

(Paragraph 3.13)

- *The CBDT may revisit the assessments involving errors and irregularities in computation of income, tax, interest etc. to ascertain the reasons for errors and put in place a robust IT system and internal control mechanism to eliminate possibility of avoidable errors and to ensure compliance to provisions and conditions laid down under the Income Tax Act by the Assessing Officers. CBDT may like to introduce a quality assurance mechanism to ensure that errors in computations of tax are minimized.*

(Paragraph 4.2 to 4.10)

- *The reasons for irregular allowance of inadmissible claims and items of expenditure and deductions despite there being clear provisions in the Act may be reviewed by CBDT. The ITD may identify items of expenses and deductions with higher propensity of irregular allowance and devise a checklist outlining the same for use by the Assessing Officers to prevent recurrence of irregular allowance.*

(Paragraph 4.4)

- *The CBDT may ascertain whether the errors/ irregularities are errors of commission and take necessary action as per law in such cases. ITD may take remedial measures to prevent recurrence of errors and irregularities.*

(Paragraph 4.2 to 4.10)

- *The CBDT may ensure that the ITD should focus on reconciliation of claims, through CPC-Bengaluru, actively, to resolve the differences in claims and payments and evolve means to avoid possibilities of non-matching of the same.*

(Paragraph 4.12)

- *The CBDT may consider assigning/ updating codes as per the nature of business or activity ascertained during assessment for effective monitoring of the claims of deduction as per the nature of activities undertaken by Co-operative Societies and Co-operative Banks.*

(Paragraph 4.11)

- *ITR-5 may capture list of all Members of a Co-operative Society, along with their PAN, for the previous year relevant to the Assessment Year of filing of return. Quoting of PAN may be made mandatory for deposits received above a threshold amount by Co-operative Societies. Further, the CBDT may consider reporting instances involving significant quantum of unexplained cash credits to the regulatory authorities (RBI, ROCS etc.) to facilitate monitoring of probable financial irregularities.*

(Paragraph 4.9)

Income Tax Department's response to audit observations and recommendations is discussed in the audit report along with further comments of audit.