

# 'TAX' ING TIMES OF 'SCRUTINY'!

You often hear the words 'income tax scrutiny' these days and may wonder what they mean and signify. Let us try understand what they stand for and learn how to deal with this devil called 'scrutiny', suggests **Pradeep A Shah**, Chartered Accountant.

It is interesting to note there is no such term as a 'scrutiny assessment' in the Income Tax Act at all. But, as opposed to a summary assessment, this is made after your Return is filed, by calling for details to examine the veracity. A little background will help you understand.

Earlier, all assessments were regularly made after examining your Return. In spite of the substantial powers given to the assessing officers, no significant results were achieved in terms of curbing the evasion of tax. The authorities claimed the time available was not enough to carry out any worthwhile investigation if every case had to be examined. In order to overcome this, it was suggested only a few Returns where probabilities of under reporting, or non-disclosure of income were high, need be assessed in depth, to yield better results and save time. This is how the concept of scrutiny assessments came to be introduced in the IT Act.

Today an assessment takes place in two ways: 'summary assessment' and 'regular/ scrutiny assessment'. The first processes your Return and accepts it by making mere adjustments for prima-facie errors and passing 'an intimation' under section 143(1). The second selects the case for scrutiny by issuing a notice under section 143(2) for hearing, calling for details to examine the case, and then passing an order under section 143(3).

## You've Got 'Notice'?

The criteria for selecting a case for scrutiny, decided by CBDT, are generally not known. But one of them is the information collected by the tax authorities as Computer Assisted Scrutiny Selection Information, under AIR (Annual Information Report). If any information pertaining to you is reported under AIR, your case may be picked up for scrutiny. For example, if you have invested Rs 2 lakhs or more in a mutual fund, you may be called for scrutiny.

In the cases picked up for scrutiny only on the basis of an AIR information, the Assessing Officer (AO) has to mention in the notice that giving information and evidence on the points raised will suffice, and no personal attendance is required. However, the AO, with the permission of the Additional CIT/Joint CIT (Commissioner of Income Tax), may take up your case for detailed scrutiny. Such permission is very freely given and causes hardship to assesseees, particularly senior citizens.

While the tax authorities have the right to examine any tax cases in detail, it should be exercised with discretion and not used indiscriminately. Unfortunately, this does not happen in practice. It seems the authorities believe that a scrutiny assessment must result in substantial additions to the income. The end results are: one, high-pitched assessments resulting in sky-rocketing demands; two, tax officers going on fishing expeditions in the hope of discovering something which is just not there! Both these cause undue hardship to the assesseees. You may not be spared even if you have no income from business.

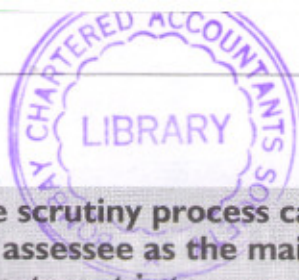
This arbitrary process of selection results in the loss of valuable time for both the department as well as the seniors required to make a number of visits. This is not at all tax-payer friendly and earns a bad name for the department. One wonders why instructions cannot be issued even if Returns of senior citizens are selected for scrutiny, and completed with the least inconvenience to them. This is all the more relevant where they have no or insignificant business income. Taking into consideration their health problems, limited mobility, loneliness and fading memories, the elderly should be relieved from this fear of scrutiny.

## Be Prepared!

A few suggestions for your benefit:

- ◆ Don't be afraid of scrutiny assessments.
- ◆ Carry yourself with dignity before the tax authorities. If you have not hidden any income and

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paid your taxes, you need not fear anyone.

- ◆ Don't succumb to any pressures for giving money, whether it comes from authorities or even your tax representatives.
- ◆ Keep the following details and records each year to make them readily available if and when called for:
  - Bank statements, summaries of bank accounts.
  - Details of purchases/sales of investments in share, securities, mutual funds, with supporting evidence.
  - Details of purchase/sale of immovable property, including premises in co-operative societies
  - Details of drawings of self and dependants.
  - Evidence for any claims for deductions, such as Life Insurance receipts, proof of payment to Public Provident Fund account, mediclaim insurance payment receipts, donation receipts etc.

**No doubt, the scrutiny process causes hardship to the assessee as the main focus of the IT department is to recover as much tax as possible. But taking proper measures by keeping your papers in order can mitigate the trouble.**

- And generally, all the details related to your Return and the claims made therein.

Let us hope the tax authorities understand your genuine difficulties and treat them with respect, consideration and sympathy due to them. Let them dispel the fear of the tax department in general, and scrutiny assessments in particular, from your minds. This is the minimum we can expect from the authorities.

*(The author is a member of Bombay Chartered Accountants' Society)*