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Why such errors in processing tax returns?

CPC needs to create taxpayer trust in the system, by ensuring that the software used for processing is accurate, and does not generate such erroneous intimations

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In the past one or two months, a large number of taxpayers have received intimations of processing of their income tax returns by the Centralised Processing Centre (CPC) of the

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income tax department. The one thing common to these intimations is that there are significant errors in processing of tax returns.

Quite a few charitable trusts claiming income tax exemption have received intimations showing that the amount of income and expenditure as processed, besides tax deducted at source (TDS), are nil. The surprising part is that the column pertaining to the comparative amounts, as shown in the return of income, shows the correct amounts. Obviously, the tax returns have been correctly filed, but there have been errors in processing them. Effectively, this has resulted in denial of refund to these trusts. Interestingly, some of these trusts have also received intimations stating that the refunds granted to them could not be credited to their bank accounts, as all the required bank details were not available in their returns, in spite of all the relevant details being contained in the tax returns.

Another set of charitable trusts have received intimations, showing that income tax exemption has been denied to them in respect of their income, thereby raising huge tax demands, running into crores of rupees in some cases. The intimation clearly shows that the assesseees have furnished full details of their registration for exemption, besides having complied with the requirement of filing the audit report. This denial of exemption is in spite of the fact that, under law, such a denial of exemption cannot be done while issuing an intimation on processing of the return of income, but can only be done during the course of a scrutiny assessment. Again, in most of these cases, trusts have been denied refunds due to them in respect of TDS.

In both these types of cases, the surprising part is that taxpayers are unable to even make an online application for rectification of the mistakes when they login to their accounts on the tax department's e-filing portal, as is normally possible when there are mistakes in processing the returns of income.

The third type of cases are entities entitled to large refunds for the year ended March 2016. These entities' tax returns are yet to be processed and refunds yet to be issued—the statutory period for processing their tax returns expired in March 2018, though the returns should have been processed long back as per the targets of the income tax department.

When one looks at all these, three possible reasons for the errors and omissions spring to mind. The first is that the software team or vendors used by the tax department is prone to making errors, or is not competent to devise software to process the tax returns without making mistakes. This reflects badly on the income tax department's process of hiring people for the job. Further, the computerised processing of income tax returns has been in force for the past several years—there can be no excuse for such blatant mistakes.

The second possible reason could be that the law is so complex, that even those processing the tax returns do not understand it properly. This, however, does not seem to be the correct reason, as even a layman can understand that there have been mistakes, the errors and omissions being so obvious and glaring.

The last, and most likely reason, is that these mistakes or delays have consciously been done to delay the refunds, and meet tax collection targets. Since the common thread running through all these cases is the delay of refunds, this seems to be the most likely reason. The tax department needs to realise that trust is a two-way process—as taxpayers are required to pay their taxes honestly and in time, the tax department too needs to promptly and correctly process the tax returns.

With a computerised process of filing and processing returns, there can be no excuses for such errors and delays. The unfortunate part is that while the taxpayer is visited with interest, penalty and possible prosecution for failing to fulfil her obligations correctly and in time, the tax department only pays half the interest rate on delayed refunds and has no further accountability to taxpayers.

This also results in harassment and waste of valuable time of taxpayers, who keep on following up for their refunds, but meet a blank wall, or have to try and file applications for rectification, to ensure that the fictitious demands are not sought to be recovered through coercive measures.

Even when there was manual processing of returns, delayed refunds was the norm. One hoped that with computerised processing, this was a thing of the past. The tax department needs to ensure that the system of processing of tax returns is fast and transparent for all taxpayers, and not done in a selective manner whereby only non-refund cases are processed speedily, and refund cases are delayed.

One hopes that the CPC will, of its own accord, without any application from taxpayers, correct its mistakes and issue the legitimate tax refunds due to taxpayers. Also, it needs to create taxpayer trust in the system, by ensuring that the software used for processing is accurate, and does not generate such erroneous intimations. A system of checks and balances should also be incorporated into the system, where such blatantly incorrect intimations are rectified before they are sent out. Timely and accurate processing of tax returns will alone restore the faith of taxpayers in the system.

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