CBDT lays down the procedure and criteria for the manual selection of returns/cases for compulsory scrutiny during the financial year 2016-17

Recently, the Central Board of Direct Taxes (CBDT) has issued an Instruction1 dealing with the procedure and criteria for the manual selection of returns/cases for compulsory scrutiny during the financial year 2016-17. The Instruction is summarised as follows:

- Cases involving an addition on a substantial and recurring question of law or fact in the earlier Assessment Year(s) (AY), in excess of INR 2.5 million in metros2, while at other locations, the quantum of such an addition should exceed INR 1 million (for transfer pricing cases, the quantum of such an addition should exceed INR 100 million) and where:
  - Such an addition in the assessment has become final and no further appeal has been filed; or
  - Such an addition has been confirmed at any stage of appellate process in favour of tax department and the taxpayers has not filed further appeal; or
  - Such an addition has been confirmed at the first appeal stage in favour of the tax department or subsequently and the further appeal of the taxpayer is pending before any authority in the appellate process.
- Cases of entities, such as 'scientific research associations' or 'university, colleges or other institutions', having approval under Section(s) 35(1)(ii)/35(1)(iii) of the Income-tax Act, 1961 (the Act).
- Cases wherein specific and verifiable information pointing out tax evasion is given by any government department/authority. However, before selecting a case for scrutiny under this criterion, the tax officer shall take prior approval from the specified tax officer.
- Income-tax returns filed in response to notices where the income has escaped assessment.
- Cases where the registration of a trust/institution3 has not been granted or has been cancelled by the tax officer concerned, yet the taxpayer has been found to be claiming tax-exemption under Section 11 of the Act. However, where such orders of the tax officer have been reversed/set-aside in appellate proceedings, those cases will not be selected under this clause.
- All assessments pertaining to the survey under Section 133A of the excluding those cases where books of accounts, documents, etc., were not impounded and returned income (excluding any disclosure made during the survey) is not less than the returned income of the preceding AY. However, where taxpayer retracts the disclosure made during the survey, such cases will not be covered by this exclusion.
- Assessments in search and seizure cases4 and also for the returns filed for the AY relevant to the previous year in which authorisation for search and seizure was executed under Section 132 or 132A of the Act.

---

1 CBDT Instruction No. 4/2016, dated 13 July 2016 supersedes the earlier Instruction on this subject
2 Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata, Mumbai and Pune
3 Under Section 12AA of the Act
4 Under Section 158B, 158BC, 158BD, 153A & 153C read with section 143(3) of the Act
• Cases are also being selected under the Computer Aided Scrutiny Selection (CASS) - 2016 on the basis of broad-based selection filters.  

• As a taxpayer-friendly measure, to reduce the departmental interface with the taxpayer and reduce the compliance burden of taxpayers in scrutiny assessment proceedings, the scheme of assessment through e-mail is being extended to all scrutiny cases including the cases selected under the above parameters in seven cities. However, taxpayers in these seven cities can exercise the option of not being scrutinised under the e-mail-based paperless assessment proceedings after informing the Assessing Officer concerned in writing in the beginning or subsequently during the course of assessment proceedings. Further, in cases which require the submission of voluminous documents and where it is not practicable to submit the scanned copies thereof through e-mail, in such instances; the AO may decide to receive such documents in the physical form after recording the reasons for the same.

• The targets for the completion of scrutiny assessments and strategy of framing quality assessments as contained in Central Action Plan document for the financial year 2016-17 have to be complied with. Further, it must be ensured that all scrutiny assessment orders including the cases selected under the manual criterion are completed through the Assessment Information System (AST) system software only.

• The AO and his/her supervisory authorities to ensure that scrutiny assessment cases are disposed of in a well-planned manner without dragging the assessment proceedings till the last date of the limitation. Further, Pr.CCIT(IT)/CCIT (Central)/Pr.CCIT(International tax)/CCIT (Exemption)/DsGIT should monitor their respective charges in order to ensure the quality of assessments being framed during the financial year.

• In order to ensure the quality assessment, the tax authorities, by 31 January 2017, shall send a report to the respective zonal member with a copy to members (IT) containing details of at least 25 quality assessment orders from their respective charges.

Our comments

The CBDT Instruction issued for the financial year 2016-17 supersedes its earlier Instruction on this subject. As compared to the scrutiny guidelines issued for the financial year 2015-16, the present instruction lays down certain modifications in the procedure and criteria for the selection of returns/cases for compulsory scrutiny during the financial year 2016-17. Unlike in earlier procedures, the CBDT has segregated the manual scrutiny based on metro cities (in excess of INR 2.5 million) and other cities (in excess INR 1 million). However, for transfer pricing cases, the quantum for selection cases remains the same as per the last financial year i.e. INR 100 million. The present Instruction also deals with the cases when the taxpayer does not file any further appeal against the assessment order or the appeal of the taxpayer is pending before the appellate authorities.

Under the earlier Instruction, the manual selection of criteria was on the basis of the approval already granted to the institutions had been withdrawn by the competent authority, yet the taxpayer has been found in claiming tax-exemption/benefit. However, the present Instruction deals with all the cases with respect to entities, being 'scientific research association' or 'university, college or other institution', having approval under Section(s) 35(1)(ii)/35(1)(iii) of the Act.

As a taxpayer-friendly measure, to reduce the departmental interface with the taxpayer and reduce the compliance burden of the taxpayers in scrutiny assessment proceedings, the CBDT has introduced a scheme of assessment through e-mail to all scrutiny cases. However, the taxpayers in seven metro cities have the option of not being scrutinised under the e-mail-based paperless assessment proceedings after informing the AO in writing in the beginning or subsequently during the course of assessment proceedings. The procedure also states that in the cases which require the submission of voluminous documents and it is not practicable to submit the scanned copies thereof through e-mail, in such instances, the AO may decide to receive such documents in the physical form after recording reasons for the same.

---

5 A list of such cases has been/is being separately intimated by the Pr.DGIT(Systems) to the jurisdictional authorities concerned.
6 Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Mumbai.

© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.
The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

© 2016 KPMG, an Indian Registered Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.