CHAPTER VI

FINDINGS AND CONCLUSION
## Chapter 6-Findings & Conclusion

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6.1 Introduction

The present study of scrutiny assessment of individual assessesee having Income from business is undertaken as a significant study. The researcher has taken the review of thesis on Income tax and collected the primary data from commissioner of Income tax CIT-V and secondary data of five years. The important conclusions drawn from the study are the practical implications for policy implementation regarding scrutiny assessment of Individual assessesee having business income is definitely useful to the government machinery, income tax professionals, advocates, tax practitioners, financial planners and advisors, research scholars and assessesee also.

The problems faced by the assessing officers while the scrutiny proceeding analyzed in this study. For this study the attempt has been made by researchers to interact with assessing officers of jurisdiction commissioner of Income tax CIT-V through questionnaire and interviews. The researcher has understood and analyzed the questionnaire and found out the various problems faced by the assessing officers during while scrutiny assessment of Individual Assessee.

6.2 Summary of Findings and Interpretation

The critical analytical study done by the researcher with the help of primary data collected from CIT –V office and the secondary data collected of five years from the competent authorities. The overall analysis of study represent that there is inadequate staff available in Income Tax office, its lead to the burden of work to the assessing officers for completion of scrutiny assessment within the time frame in the Act. Along with this problem the assessing officers are overburden and there are working under stressed environment in the Income Tax Office.

The following are the summary of findings and interpretations of the data available while the research done by the researcher.

1) Assessee cannot claim the expenses of exempt income against the non exempt income, to reduce the tax liability of a particular year.

2) Any expenditure claim or any exemptions claim from income for the income tax of any financial year, the burden of proof is on assessee himself.
3) The income tax is charged and assessed on an annual basis of a particular assessment year, even the assessment of two separate years finalized in the same year.

4) Income earned by assessee of previous years is taxed in the subsequent year, as rate specified and applicable for the assessment year.

5) The allowances not taxable in the hands of assessee first added in the total income and thereafter as per the limit specified in the act the deductions are made available while calculating the net taxable income. In other words the allowances not taxable will not be treated as exempt income.

6) The exempt income from tax it will not be added at all in the computation of total income of assessee except agriculture income.

7) The Income tax on agriculture income is charged indirectly in the hands of assessee, subject to condition that if the income of assessee other than agriculture income is more than the threshold limit given in the particular financial year.

8) There is no any deduction available to assessee if the assessing officer found deemed income under section 68 & 69 while scrutiny assessment.

9) The special rate of tax presently charged @ 30% on deemed income.

10) Assessee filed only one Income Tax return stating that all the sources of income of a financial year in an ITR form. Assessee cannot fill different types of ITR forms even though he has different type of incomes in a financial year.

11) Selection of scrutiny assessment are based on parameters and guidelines issued by the CBDT from time to time. Presently the selection of scrutiny assessment cases are based on CASS.

12) Scrutiny assessment notice issued to assessee normally on time basis as per the Income tax Act.

13) Presently intimation of summary assessment under section 143 (1) is done on computerized system basis at Bangalore.

14) Allocation of assessee for scrutiny assessment to the assessing officers are made as per the assessee’s names alphabetical order and on the basis of income filed by assessee is properly set up in the different ranges in CIT – V office.

15) Assessment of company, co operative society and public trust are completed under Range 8 in CIT – V office.
16) Assessment of Individual assessee having income from Business and Profession, Educational Institutions are completed in Range 9 in CIT –V office.

17) Assessment of individual assessee having income from Salary, Company and AOP completed in Range 10 in CIT –V office.

18) The overall analysis of disallowances of expenses and exemptions is 87.88% in the scrutiny assessment.

19) Income of assessee more than Rs.10 lakhs is assessed in Circle 8, Circle 9 and in Circle 10 level in CIT –V office.

20) Income of assessee less than 10 lakhs is assessed in Income Tax ward level as per the name alphabets.

21) Normally depreciation on Fixed Assets claimed by the assessee at specified rates only in the Income tax return in exceptional cases excess depreciation charged by the assessee to the profit and loss accounts.

22) Maximum range of Age of Income tax officers is in between 35 to 45 years, even though they are suffering from Diabetic and Hypertension dieses.

23) The assessee charged the personal expenses to the profit and loss account to reduce their profits.

24) The basic threshold limit in the assessment year 2006-2007 was Rs.100000/- it is increased by 150% up to the completion of year of research work.

25) The deduction available under section 80C was increased by 100% in the period of research work.

26) In India the overall cases in the financial year 2005-2006 of assessment to be finalized was 33934874. However due to the present manpower available with the income tax department 70.90% cases disposed in the particular year. In other wards 29.10% cases was pending for the assessment.

27) In India there is tremendous growth in the number of assessments to be done in the year 2009-2010. The number of cases increased by 53.70% in the year 2009-2010 as compare to the financial year 2005-2006. The available assessing officers are limited but the number of assessments to be done is drastically increased.

28) In India, overall scrutiny assessment cases in the financial year 2009-2010 the assessing officers could complete only 54.19. The number of pending cases
are increasing trend from the year 2005-2006 to 2009-2010. The assessing officers could not complete 45.81% assessment cases in the year 2009-2010.

29) In figure no. 5.3 it was found that the average 42.30% cases, the assessing officers disallowed the expenses under the head personal expenses of assessee.

30) In figure no. 5.4 It was found that the average 30.93% scrutiny assessment cases, the assessing officers found that there was undisclosed income or income not offered in the income tax return by the assessee therefore the same was added back in the income of assessee, and such type of income straight way charged at highest rate of taxes of particular assessment year.

31) In figure no. 5.5 it was found that the average 17.05% of the total cases, the assessee could not explained or proved the authenticity of the liability appearing in the financial statement. Thus the assessing officers disallowed such dummy liability created in the books and added back in the total income of assessee.

32) In figure no. 5.6 It was found that the average 10.71% cases, the assessee had invested the major portion of his income in the fixed deposit, purchase of properties and shares and securities etc which were not incorporated in the books thus the assessing officer added such unexplained investments in the total income of assessee and charged at highest flat rate @ 30% without allowing any deductions from such income.

33) In figure no.5.7 It was found that the average 6.78% cases, the assessee claimed in the financial statement that the statutory dues paid in time or on or before the due date of filing of income tax return but while scrutiny they could not produced the proof for statutory dues paid in time, thus the assessing officers disallowed the statutory dues liabilities and added back in the total income of assessee.

34) In figure no.5.8 It was found that the average 19.13% cases, the assessee claimed the exemptions from income in the computation of total income statement of that particular year, but assessing officers noticed that such claimed exemptions are not properly supported or not as per the provisions of Income Tax Act, hence such types of exemption claimed by the assessee disallowed in the scrutiny assessment.

35) In figure no.5.9 it was found that the average 9.07% cases, the assessing officers finalized the scrutiny assessment on the basis of GP/NP ratios. In this
case expenses claimed by assessee to profit and loss account not considered separately and scrutiny assessment finalized with comparing the GP/NP ratio of last 2-3 years.

36) In figure no. 5.10 it was found that the average 12.12% cases, were accepted by the assessing officer as it is as per the income tax return filed by the assessee. There is no any additions made by the assessing officers while scrutiny assessment, in other words 12.12% assessee proved that the expenses claimed, liability created, and the investment incorporated in the financial year are properly supported with the documents.

37) In figure no. 5.11 shows that 86.94% of assessee respond to the notices issue by the Assessing officers within the prescribed time limit given in the notices.

38) In figure no. 5.12 shows that 82.22% of assessee co-operate to the assessing officers for proper completion of assessment in time during the scrutiny assessment proceeding.

39) In figure no. 5.13 shows that 81.39% of assessee submit all the documents and records for scrutiny assessment in time to the assessing officers.

40) In figure no. 5.14 shows that 7.72% of assessee are reluctant and they are not submitting the records and documents during the scrutiny assessment proceeding.

41) In figure no. 5.15 shows that all assessee or their representatives are enter into arguments during the assessment proceeding for disallowances of expenses by the assessing officers.

42) In figure no. 5.16 shows that 100% impact of inadequate knowledge of income tax to the assessee and motive of tax evasion of assessee leads the delay in assessment proceeding.

43) In figure no. 5.17 shows that due to argument of assessee or their representatives 83.33% affect working environment during the proceeding.

44) In figure no. 5.18 shows that 100% impact of argument of assessee or representative of assessee affect for time frame to complete the assessment by the assessing officers.

45) In figure no. 5.19 shows that 66.67% impact of argument of assessee or representative of assessee affect on health of assessing officers.
46) In figure no. 5.20 shows that there is no any effect for reduction of completion of scrutiny assessment period due to E Filing of returns and sending of notices to the assessee by E mails.

47) In figure no. 5.21 shows that all assessing officers are working in the income tax department with inadequate staff.

48) In figure no. 5.22 shows that 5.67% of cases the assessee not attended the office of assessing officers for scrutiny assessment therefore assessing officers done the assessment of such cases under section 144 of the Act.

49) In figure no. 5.23 shows that 100% scrutiny assessment proceeding the directions not given by the senior authorities to the assessing officers while completing the scrutiny assessment.

50) In figure no. 5.24 shows that all assessing officers worked under the works pressure condition for completion of assessment, when the case of internal scrutiny assessment transfer from one officer to another officer.

51) In figure no. 5.25 shows that due to transfer of assessing officer from one place to another affect the family settlement of all assessing officers.

52) In figure no. 5.26 shows that 66.67% assessing officers are ready to accept the transfer from one place to another and adjust with the new working environment.

53) In figure no. 5.27 shows that 72.22% assessing officers gets tune up with the new staff at their new office after transfer from one place to another.

54) In figure no. 5.28 shows that all assessing officers are ready to complete the scrutiny assessment cases of previous officers at new place of transfers being it is a duty and responsibility given by the Income Tax Department.

55) In figure no. 5.29 shows that 77.78% of assessing officers affected their regular routine work due to transfer from one place to another.

56) In figure no. 5.30 shows that all assessing officers are working on holidays to complete the allotted work within the time frame given in the Act.

57) In figure no. 5.31 shows that all officers are satisfied with physical environment prevailing in the Income Tax office.

58) In figure no. 5.32, 5.33, 5.34 shows that due to high work pressure, inadequate staff and time bounding for scrutiny assessment work leads stressed to the assessing officers hence all assessing officers wants to arrange the stress
management activities such as Yoga, Meditation and recreational programme on regular interval basis

59) In figure no. 5.35, 5.36 shows that all officers are accepted the over burden and working under stressed situations in the office leads the diabetes and hypertension as health related problems.

60) In figure no.5.37 shows that there is no any other health problem other than diabetes and hypertension due to the work pressure and over burden of work.
6.3 Testing of Hypothesis

**Testing of Hypothesis:**-The testing of hypothesis and interpretation of the factors based on the data. A test of hypothesis is a two action decision problem i.e. acceptance or rejection of the hypothesis after the experimental values have been obtained.

**Null Hypothesis:**-The statistical hypothesis tested under the assumption that is true is called null hypothesis. It is tested on the basis of sample observations and is liable to be rejected depending upon the outcome of statistical test applied. The null hypothesis is formulated for the sole purpose of rejecting it. Thus null hypothesis is a statement of zero or no change. The null hypothesis is denoted by $H_0$.

**Alternative Hypothesis:**-The statement which is true if the null hypothesis is false i.e. a possible or the acceptable alternative to the null hypothesis is known as alternative hypothesis. The alternative Hypothesis is denoted by $H_1$.

**Level of significance:**-The probability of rejecting $H_0$ is the level of significance of the test. In general, 0.05 (on the queries in 5 chances out of 100 which are likely to reject) and 0.01 are the commonly accepted values of the levels of the significance.

**Chi-square ($\chi^2$) Test:**-Chi-square test is one of the simplest and general known test of hypothesis. It is applicable to a very large number as well as small number of problems in general practice under the following headings:

- As test of goodness of fit and independence of attributes.
- As a test of homogeneity of independence estimates of the population variance.
- As a test of hypothetical value of the population variance $\sigma^2$.
- To test the homogeneity of independent estimates of the population correlation coefficient.
Hypothesis-1: The charging of personal expenses against business income, creating of dummy liabilities in the books, non payment of statutory dues in time are the most likely reasons for disallowances of expenses in the assessment proceedings of individual assesses.

Testing of Hypothesis-1: (Chi square test of goodness of fit)

Null Hypothesis $H_0$: There is no significant difference for disallowances of expenses because of charging of personal expenses against business income, creating of dummy liabilities in the books, non payment of statutory dues in time.

Alternative Hypothesis $H_1$: The disallowances of expenses in the assessment proceedings of individual assesses are because of charging Personal expenses creating of dummy liabilities in the books, non payment of statutory dues in time against business income.

Under the Null Hypothesis $H_0$:

As we consider the values as percentage so the expected frequency is calculated as

Expected Frequency $E = \Sigma x/x = 100/2 = 50$

Calculation of Chi-square ($\chi^2$):

<table>
<thead>
<tr>
<th>Disallowances</th>
<th>Observed Frequency (O)</th>
<th>Expected frequency (E)</th>
<th>(O-E)</th>
<th>(O-E)^2</th>
<th>(O-E)^2 / E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>87.87</td>
<td>50</td>
<td>37.87</td>
<td>1434.14</td>
<td>28.68</td>
</tr>
<tr>
<td>No</td>
<td>12.13</td>
<td>50</td>
<td>-37.87</td>
<td>1434.14</td>
<td>28.68</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td></td>
<td></td>
<td>57.36</td>
</tr>
</tbody>
</table>

The calculated value of $\chi^2 = \Sigma [(O - E)^2 / E] \approx 57.36$

We have degree of freedom = $(n - 1) = 2 - 1 = 1$

Level of significance = 5%

The tabulated value of $\chi^2$ for 1 degree of freedom at 5 % level of significance is 3.841.

Since the calculated value of $\chi^2$ i.e. $\chi^2$ cal = 57.36 is more than the tabulated value of $\chi^2$ Tab = 3.841. That is $\chi^2$ cal = 57.36 $>$ $\chi^2$ Tab = 3.841

Hence the null hypotheses $H_0$ is rejected at 5% level of significance and degree of freedom 1, and alternative hypothesis $H_1$ is accepted and concluded that

The charging of personal expenses against business income, creating of dummy liabilities in the books, non payment of statutory dues in time are the most likely
reasons for disallowances of expenses in the assessment proceedings of individual assesses.

**Hypothesis-2** : The income tax officers are overburdened with the assessment proceedings due to inadequate staff in their office, internal transfer of scrutiny assessment cases, prolong arguments of the assesses and their representatives etc.

**Testing of Hypothesis-2 : (Chi square test of goodness of fit)**

**Null Hypothesis H₀**: There is no change in the assessment proceedings for income tax officers due to inadequate staff in their office, internal transfer of scrutiny assessment cases, prolong arguments of the assesses and their representatives etc.

**Alternative Hypothesis H₁**: The income tax officers are overburdened with the assessment proceedings due to inadequate staff in their office, internal transfer of scrutiny assessment cases, prolong arguments of the assesses and their representatives etc.

Under the Null Hypothesis H₀:

As we consider the values as percentage so the expected frequency is calculated as

Expected Frequency E = Σx/x = 100/2 = 50

Calculation of Chi-square (χ²):

<table>
<thead>
<tr>
<th>Overburdened</th>
<th>Observed Frequency (O)</th>
<th>Expected frequency (E)</th>
<th>(O-E)</th>
<th>(O-E)^2</th>
<th>(O-E)^2 / E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>71.45</td>
<td>50</td>
<td>21.45</td>
<td>460.10</td>
<td>9.20</td>
</tr>
<tr>
<td>No</td>
<td>28.55</td>
<td>50</td>
<td>-21.45</td>
<td>460.10</td>
<td>9.20</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td></td>
<td>18.40</td>
<td></td>
</tr>
</tbody>
</table>

The calculated value of $\chi^2 = \Sigma [(O - E)^2 / E] \approx 18.40$

We have degree of freedom = (n - 1) = 2 - 1 = 1

Level of significance = 5%

The tabulated value of $\chi^2$ for 1 degree of freedom at 5% level of significance is 3.841. Since the calculated value of $\chi^2$ i.e. $\chi^2_{cal} = 18.40$ is more than the tabulated value of $\chi^2_{tab} = 3.841$. That is $\chi^2_{cal} = 18.40 > \chi^2_{tab} = 3.841$

Hence the null hypotheses H₀ is rejected at 5% level of significance and degree of freedom 1, and alternative hypothesis H₁ is accepted and concluded that
The income tax officers are overburdened with the assessment proceedings due to inadequate staff in their office, internal transfer of scrutiny assessment cases, prolong arguments of the assesses and their representatives etc.

**Hypothesis-3** : The income tax officers are stressed in their duties due to their inconvenient transfers from one place to another, working on holidays.

**Testing of Hypothesis-3** : (Chi square test of goodness of fit)

**Null Hypothesis** $H_0$: There is no change in the duties of income tax officers due to their inconvenient transfers from one place to another, working on holidays.

**Alternative Hypothesis** $H_1$: The income tax officers are stressed in their duties due to their inconvenient transfers from one place to another, working on holidays.

Under the Null Hypothesis $H_0$:

As we consider the values as percentage so the expected frequency is calculated as

Expected Frequency $E = \Sigma x / x = 100/2 = 50$

<table>
<thead>
<tr>
<th>Stressed</th>
<th>Observed Frequency (O)</th>
<th>Expected frequency (E)</th>
<th>(O-E)</th>
<th>(O-E)$^2$</th>
<th>(O-E)$^2$ / E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>62.6</td>
<td>50</td>
<td>12.6</td>
<td>158.76</td>
<td>3.18</td>
</tr>
<tr>
<td>No</td>
<td>37.4</td>
<td>50</td>
<td>-12.6</td>
<td>158.76</td>
<td>3.18</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td></td>
<td></td>
<td>6.36</td>
</tr>
</tbody>
</table>

The calculated value of $\chi^2 = \Sigma [(O - E)^2 / E] \approx 6.36$

We have degree of freedom $= (n - 1) = 2 - 1 = 1$

Level of significance = 5%

The tabulated value of $\chi^2$ for 1 degree of freedom at 5% level of significance is 3.841. Since the calculated value of $\chi^2$ i.e. $\chi^2$ cal = 6.36 is more than the tabulated value of $\chi^2$ Tab = 3.841. That is $\chi^2$ cal = 6.36 > $\chi^2$ Tab = 3.841

Hence the null hypotheses $H_0$ is rejected at 5% level of significance and degree of freedom 1, and alternative hypothesis $H_1$ is accepted and concluded that

The income tax officers are stressed in their duties due to their inconvenient transfers from one place to another, working on holidays.