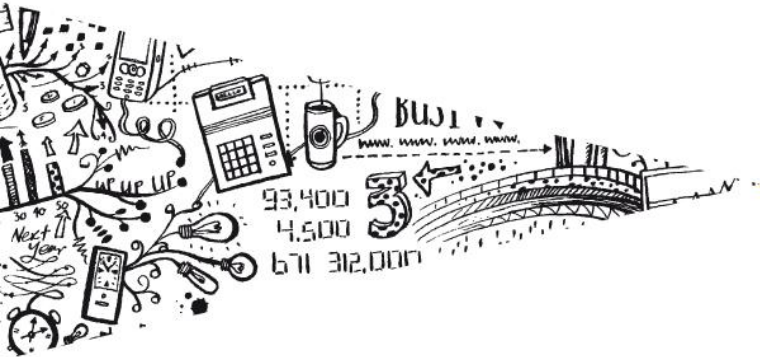


11 January 2012

# EY Tax Alert

CBDT notifies Centralised Processing of Returns Scheme, 2011



## Executive summary

This Tax Alert summarizes a recent Notification No. 2/2012 [F. No. 142/27/2011-SO(TPL) SO 16(E)] dated 4 January 2012 notifying 'Centralised Processing of Returns Scheme, 2011' (CPC Scheme) by the Central Board of Direct Taxes (CBDT). The Central Government (CG) has also modified the application of provisions of the Income Tax Act (ITA) by a separate Notification No. 3/2012 of the same date for the purpose of giving effect to the said CPC Scheme.

The CPC Scheme makes provisions for centralized computerized processing of returns of income (ROI) filed by taxpayers by providing for mode and manner of receipt and acknowledgement of ROIs, filing of revised ROIs, procedure to be adopted for invalid or defective ROIs, processing of ROIs, rectification of mistakes, service of notice or communication and other allied matters.

## Background

The Finance Act 2008 inserted certain provisions in the ITA with effect from 1 April 2008 for enabling computerized processing of ROIs which involves correction of arithmetical mistakes, making tax calculations and verification of tax payments on automated basis. The provisions envisaged CBDT to make a scheme for centralized processing of ROIs for expeditious determination of tax payable by or refundable to taxpayer. The provisions also envisaged that the CG will notify modification of the application of provisions of the ITA to give effect to such scheme.

The last date for such notification was initially specified as 31 March 2009 but was extended from time to time to the currently specified terminal date of 31 March 2012.

The CBDT set up the first Centralized Processing Centre (CPC) at Bengaluru on pilot basis which was successful and won a Gold Award for e-Governance in 2011. Buoyed by the success of the pilot CPC, the CBDT has notified the CPC Scheme and the CG has notified the modification of application of the ITA provisions relating to filing and processing of ROIs, rectification, set-off of refunds, appellate proceedings, mode and manner of service of notice or any other communication etc.

The salient features of the CPC Scheme are explained below and the functioning of the CPC Scheme is facilitated by modification of application of the ITA provisions.

## Effective date of the CPC Scheme

- ▶ The CPC Scheme has come into force from 4 January 2012, being the date of its publication in the Official Gazette.

## Applicability of the CPC Scheme

- ▶ The CPC Scheme applies to all ROIs which are filed in electronic form with or without digital signature (e-filing).
- ▶ The CPC Scheme also applies to ROIs filed in paper form by such class or classes of taxpayers as may be notified by the CBDT in this behalf.

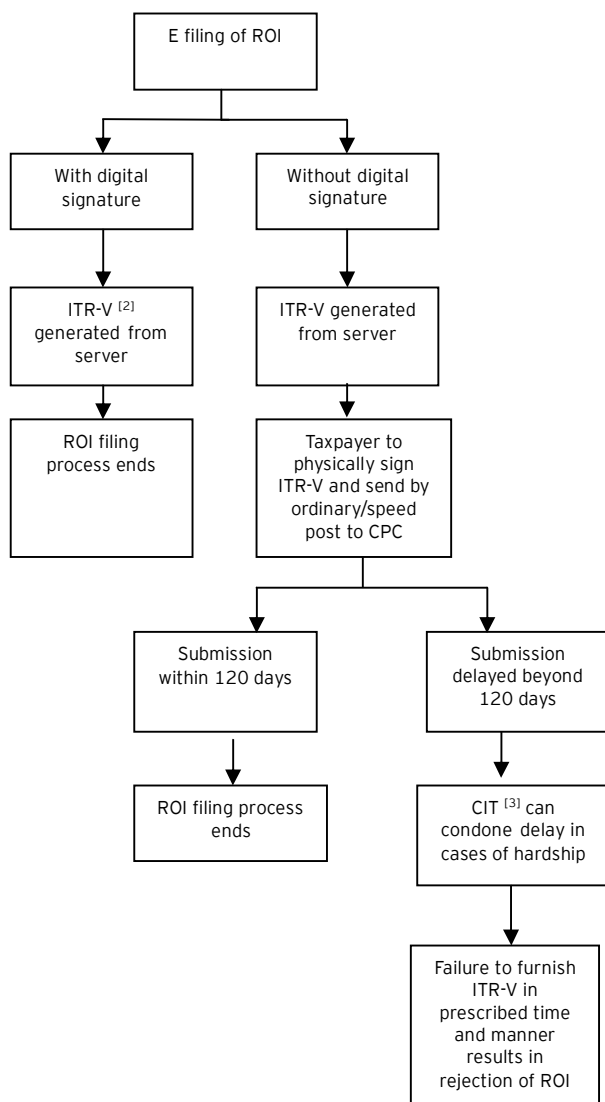
## Setting up of CPCs

- ▶ The CBDT will set up as many CPCs<sup>[1]</sup> as it may deem necessary and specify their respective jurisdictions. The CPCs will take up centralized processing of ROIs.

## Process of e-filing of ROIs

The process of e-filing of ROIs is explained in the chart below:

<sup>[1]</sup> The Finance Minister in his Budget Speech for F.Y. 2011-12 informed that three more CPCs will be set up at Manesar, Pune and Kolkata.



[2] ITR-V is the form of acknowledgement of receipt of ROI, containing number and date of e-filing, generated on e-filing of ROI.

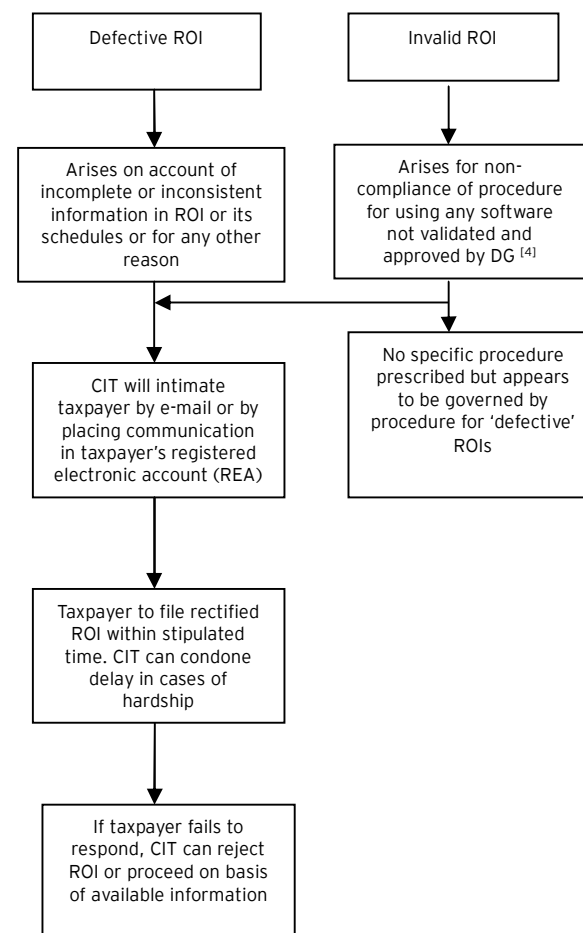
[3] Commissioner of Income Tax, Centralized Processing Centre

## Revised ROI

- ▶ If original ROI is filed electronically, the revised ROI will need to be filed in electronic mode only. The CPC will process only the revised ROI and will not take any further action on the original ROI, if not already processed.

## Invalid or defective ROI

- ▶ The CIT has power to declare ROI as 'defective' in terms of provision dealing with defective ROI under the ITA or as 'invalid'. The procedure to deal with defective/invalid ROIs is explained in the chart below:



[4] Director General of Income Tax (Systems)

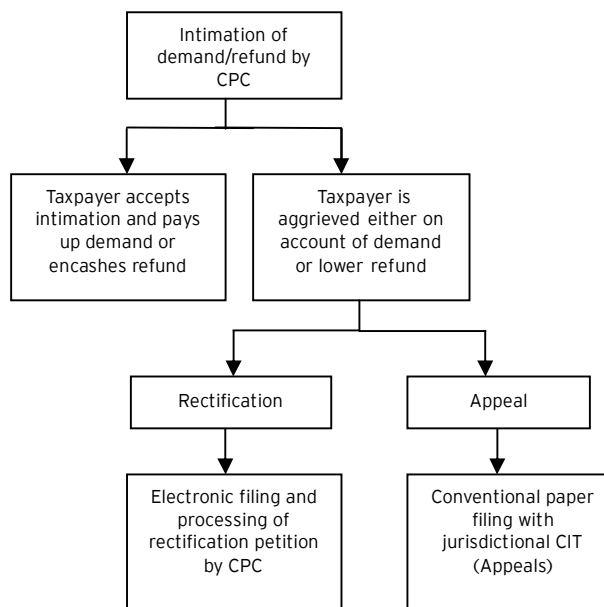
## Centralized processing of ROIs

- ▶ The processing of ROI by the CPC involves the following steps:

Step	Description of step	Remarks
1	Prima facie adjustments for arithmetical errors or apparent incorrect claims	Will be done through computer software
2	Tax and interest calculations	
3	Verification of tax payments	Automatic validation with reference to data of tax deducted/collected at source furnished independently by deductors/collectors and tax payment data uploaded by authorized banks
4	Intimation of demand/refund to taxpayer	<ul style="list-style-type: none"> <li>• Will be sent by e-mail</li> <li>• Intimation is deemed to be notice of demand as per ITA</li> </ul>

## Taxpayer's response to intimation

- ▶ The possible scenarios for taxpayer on receipt of intimation and applicable procedure is explained in the chart below:



- ▶ The CPC can also rectify the intimation for apparent mistakes on its own. However, the CPC first needs to electronically send a notice to taxpayer if the rectification has the effect of enhancing taxpayer's income or reducing his refund or otherwise increasing his tax liability. Taxpayer has to reply to such notice by electronic mode only.

## Adjustment against outstanding tax demand

- ▶ The CPC can set-off the refund, if any, arising from processing of ROI based on details of

outstanding tax demands lying against a taxpayer, as uploaded by the jurisdictional Tax Authority.

## No personal appearance in CPC

- ▶ The CPC Scheme expressly provides that a taxpayer shall not be required to appear in person either himself or through his authorized representative before the CPC authorities.
- ▶ Written or electronic communication in the prescribed format to the queries and clarifications required by the CPC shall be treated as sufficient compliance by a taxpayer.
- ▶ The CPC may call for clarification, evidence or document for facilitating the processing of ROI which also needs to be furnished electronically.

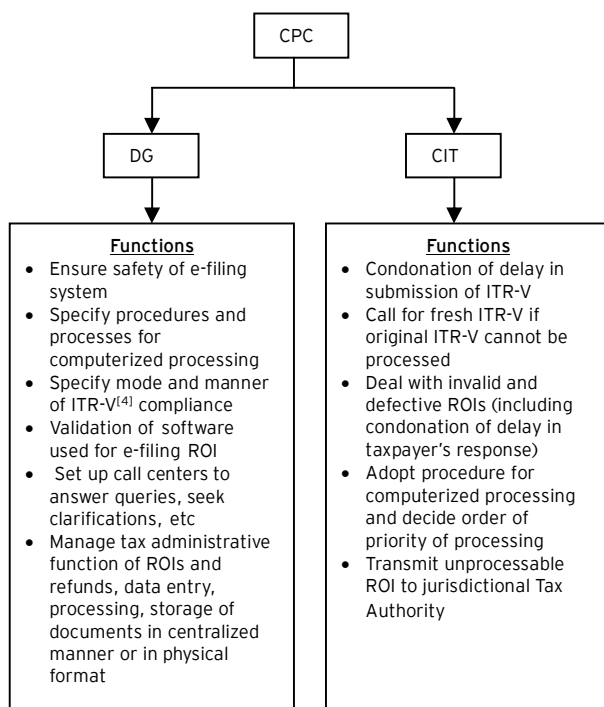
## Service of notice or communication

- ▶ The CPC may serve notice or order or any other communication in computer generated format without carrying physical signature either (a) through post or (b) by electronic transmission by e-mail or (c) by placing a copy on taxpayer's REA or (d) by any other mode permitted by the ITA.

- ▶ In case of electronic transmission by e-mail or placement on REA, the date of posting such communication shall be deemed to be the date of service.

## Administration of CPCs

- ▶ The CPCs will be administered by the DG and the CIT whose functions are as follows:



## Comments

The CPC Scheme represents a statutory framework for e-Governance initiative by the CG to enable the taxpayers to meet their tax obligations without visiting an income-tax office in addition to the existing e-Governance initiatives like e-payment of taxes and e-filing of returns (including TDS/TCS statements). Any new initiative is bound to have its own share of teething problems but a pragmatic approach to redress the transitional grievances of the taxpayers ensures a smooth transition for both the taxpayers and the Tax Authority.

The provision of deemed service of communication upon placing it on taxpayer's REA may require reconsideration; particularly in the context of defective or invalid ROIs. Meanwhile, taxpayer may be required to monitor his REA continuously.

A similar scheme may be notified for centralized processing of statements of tax deducted at source, in due course.

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