

OFFICE OF THE COMMISSIONER OF COMMERCIAL TAXES, ODISHA,
CUTTACK

No. 13260

Date: 06-06-13

V-46/2013/CT

To,

Joint Commissioners of Commercial Taxes of All ranges/ Deputy
Commissioners of Commercial Taxes of All circles/ Assistant Commissioners
of Commercial Taxes of All circles/ Commercial Tax Officers of all
Assessment Units

Sub: System based scrutiny of return

Sir,

In inviting a reference to the subject cited above, I am to say that VAT is self policing in nature and in VAT regime the tax payers are self assessed. Thus, the success of any audit and enforcement programme largely depends on timely scrutiny and proper analysis of returns and selection of appropriate cases for audit and visits u/s 41 and 73 of the OVAT Act respectively. Scrutiny is also critical for accurate determination of tax liability of a taxpayer by analysing the data in advance, significantly reducing the requirement for field visits to the taxpayer's business premises. To enhance the quality of scrutiny of returns, along with analysis of data, a module for online scrutiny has been developed and will be available to the field officers from 1st of July 2013.

1. Legal Framework of Scurtinty

The legal framework of the scrutiny of return is already provided in the OVAT Act.

- Section 38 of the Odisha Value Added Tax Act mandates compulsory scrutiny of each and every return filed u/s 33.
- The scrutiny of returns may be system based or manual (Rule 40 OVAT rules 2004). There is also provision for issuing notice in Form VAT-209 asking the dealer to make payment of the balance amount of the tax along

with the interest in cases where tax paid is found to be less than the tax payable amount for the tax period for which the return was scrutinized.

2. Steps for return scrutiny

The process for scrutiny of VAT returns and analysis in the ONLINE SCRUTINY MODULE has three levels which include:

- Verification of arithmetical inconsistencies covering all the returns
- Preliminary scrutiny covering all the returns and
- Detailed scrutiny covering selective returns chose on the basis of risk parameters drawn from the information furnished by taxpayers in the return forms

The **first step of scrutiny** of returns begins with the filing of returns by dealer himself/herself. This scrutiny of returns for verification of any arithmetical or calculation error has been built into the system.

The **second level of scrutiny** is Preliminary Scrutiny. The purpose of preliminary scrutiny is to ensure:

- 1) Timely submission of the return (Whether the return has been filed within the prescribed time period)
- 2) Timely payment of tax (Whether the tax payment is as has been admitted)
- 3) Correct payment of Tax (Whether payable amount of tax has been paid by the dealer)
- 4) Timely payment of interest (whether the interest is paid alongwith the tax, where the tax is paid beyond stipulated period.)

The system will check these aspects of the return filed and then automatically send by way of email and SMS to the dealer about the discrepancies, if any, found in the return.

The **third step of Scrutiny** is detail scrutiny. For detail scrutiny selection of dealer will be made based on certain parameters. The information furnished in returns filed by a dealer under different Acts (OVAT, CST & OET) for specific tax periods have been interlinked for automatic cross matching across twenty fields. Further five fields have also been added to the algorithm. The algorithm will run on

all the returns on the basis of the chosen parameters. For each parameter the dealer will be assessed as “Yes” or “No”. “Yes” denotes score of “1” and “No” denotes score of “0”. Based on the total score, dealers will be arranged in descending order with those dealers on top who show discrepancies on maximum number of parameters. Out of the monthly dealers 2% and in case of quarterly dealers 0.5% of the dealers from top of the list will be selected for detail scrutiny.

3. Administrative arrangements for detail scrutiny

The CTOs in charge of audit will carry out detail scrutiny of returns with the assistance of the ACTOs assigned the work. The CTOs / ACTOs will be able to generate a list of dealers on the basis of the risk parameters for their circle for detail scrutiny. For purpose of carrying out detail scrutiny the following steps should be adhered to:

- a) Analysis of the discrepancies noticed in different fields/ parameters and the logic involved therein.
- b) Analysis of the history and antecedents of the dealer, his/her nature of business and his/ her tax liability and compliance over the periods and correlation with the discrepancies shown.
- c) Cross verification of data available on issue and utilization of statutory forms like C forms, F forms, H Forms and Waybills in the system in VATIS and TINXSYS.
- d) Analysis of dealer watch register showing total turnover and tax compliance of the dealer over the period in respect of output tax, ITC claimed, application of correct rate of tax and full payment of tax and interest payable by a dealer for a particular period.
- e) Going through the ITC ledger for the dealer available in the system and analyse the discrepancies if any shown or noticed.

Such scrutiny can lead to any of the following recourses/ measures:

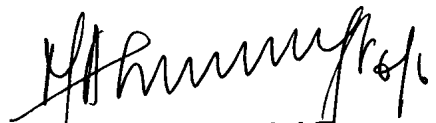
- a) In case where the discrepancy pointed out can be explained to a reasonable degree of satisfaction, it may be recommended by the ACTO to the assessing officer “that no further action is required”.
- b) In case where the discrepancy is not satisfactorily explained, then a report highlighting the specific issues pertaining to law and facts involved will be

entered in the online scrutiny platform and forwarded to assessing authority for appropriate action.

c) On receipt of the report and on basis of further analysis, the assessing officer may come to a conclusion that no further action is required and indicate the same in the scrutiny module or, the assessing authority may forward the issues involving questions of fact and law to the dealer by email, along with a SMS notification asking for a response within 30 days. Thereafter, the dealer may file a revised return or give a reply stating therein the correct position along with reasons of occurrence of such mistake to the assessing authority, and if such authority is satisfied with the action taken/response then he may conclude that "no further action is required". In cases where it appears that the discrepancies are not satisfactorily explained or reconciled and further enquiry is required, then a detailed report to that effect may be prepared and the case be referred to the CCT (O) for inclusion of the same in the audit programme u/s 41 of OVAT Act for the next financial year or the ensuing year. The report will be examined by the EIU (Economic Intelligence Unit) at the CCT (O) for obtaining approval of the CCT(O) to that effect.

The above procedures for return scrutiny should be started from 1st July on priority basis in all the circles. A detailed scrutiny manual will be made available on the website for guidance. A review will be held at regular intervals for analyzing the output from return scrutiny and assessing the additional revenue generated.

Yours faithfully,



**Commissioner of Commercial Taxes,
Odisha, Cuttack.**