

## Income Tax Authorities and Their Powers

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### Abstract

*For effective financial management it is imperative to understand the functioning, the powers and the limitation on the powers of tax authorities. This proves to be of even more relevance in the light of the current scenario in India..This paper explains in a simple manner the various tax authorities established under the Income Tax Act, the Central Board of Direct Taxes and it's powers, the powers of other Income Tax authorities, the jurisdiction of the Income-Tax Authorities, and a conclusive analysis of the same with the objective to enable a comprehensive understanding of the functioning of tax authorities for the purpose of financial management.*

*Key Words: Tax Authorities in India, Central Board of Direct Taxes, Powers of Income Tax Authorities*

### Introduction

**I**ncome tax is one of the effective instruments of reducing unequal distribution of wealth between the rich and the poor. The importance of income tax has increased considerably in the present days because it has become a major source of revenue to the Government to be utilized for the social and economic development of the country.

Every person with an income in excess of a prescribed limit has to pay a tax. Such tax charged on excess income is called income tax. Income tax is an important source of revenue to the Government. Income tax is a direct tax as the incidence of this tax falls directly on tax payer. Hence continuous efforts are being made for rationalizing the tax structures with a view to minimize the hardship to tax payers. Income tax is an important and significant source of revenue of a tax government. In the present age its importance has increased much on account of the policy of the Government to bring about economic equality in the community. It is an important tool to achieve balanced socio-economic growth by providing incentives and concessions in income tax for various developmental purposes.

### Objectives of the Study

The specific objectives of the present study are-

1. To Study the income tax act history
2. To know and understand income tax act
3. To study the structure of income tax authorities

### Brief History of Income Tax in India

The British rules incurred some expenditure to suppress the freedom movement started in India in 1857. In India this tax was introduced for the first time in 1860 by Sir James Wilson in order to meet the losses sustained by the Government on account of Military Mutiny of 1857. There after servants amendments were made in it in 1863, 1867, 1871, 1873 and 1878. At last in 1886 a new bill was introduced in the legislative Assembly as a result of which income tax become a permanent feature of the Indian tax system. This Act remained in force up to 1917 with various amendments from time to time. In 1918 a new Income tax Act was passed but as a result of the passage of Government of India Act 1919 income tax become a central subject and consequently a new Income tax was passed in 1922. Under this Act the central board of revenue was established in 1924. This Act remained in force up to the assessment year 1961-62 with numerous amendments that were

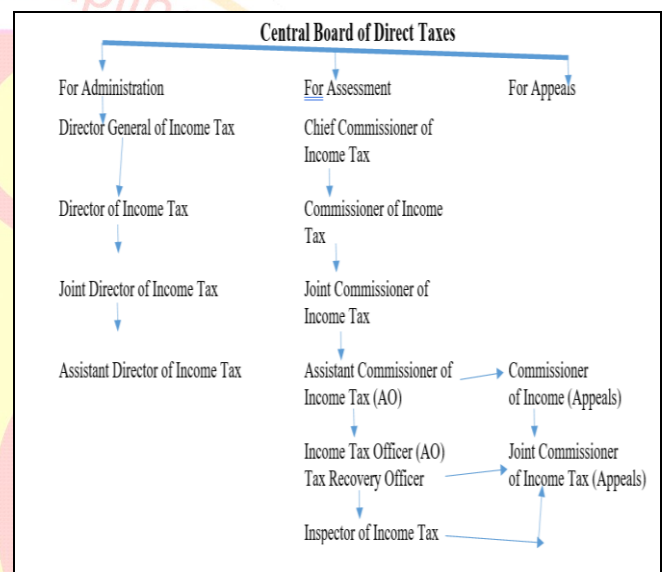
made in it from time to time. In 1939 this Act was improved by considerable and significant amendments, which were passed in the form of Indian tax (Amendment) Act of 1939. This income tax act of 1992 had become very complicated on account of innumerable amendments. The government of India therefore referred it to the law commission in 1956 with a view to simplify and prevent the evasion of tax. The law commission submitted its report in September 1958 but in the meantime the Government of India had appointed the Direct Taxes Administration Enquiry Committee to suggest measures to minimize inconvenience to assesses and to prevent evasion of tax. This committee submitted its report in 1959.

The Central Board of Revenue appointed a committee of its senior officers to consider the reports of the law committee and direct taxes administration enquiry committee. It examined the reports in consultation with the ministry of law and finally the Income tax bill 1962 was introduced in the parliament on 24<sup>th</sup> April 1961. On 1st May 1961 this bill was referred to a select committee headed by Sri M.C. Dubey whose report was placed before the parliament on 10<sup>th</sup> August 1961 and the Income tax act 1961 was passed by the parliament in September 1961. The Income Tax Act 1961 has been brought into force with effect from 1st April 1962. It applies to the whole of India. (Including Jammu & Kashmir). Since then several amendments of far reaching nature have been made in the Income Tax Act by the finance Act of every year. Besides this amendments have also been made by various Amendments Act. As a matter of fact the Income Tax Act 1961 which come into force on 1st April, 1962 have been amended and the amended more often and more drastically during the twenty two years of its existence than the 1922 Act was amended during the forty years of its existence.

The Direct Tax Laws committee headed by Shri C.C.Choksi submitted its final report in October 1978. Its main recommendation are to simplify and rationalize the Laws relating to Direct Taxes in a number of ways. It has also

recommended to simplify laws in regard to charitable trust depreciation amalgamation of industrial units under section 72A of the Income Tax Act, taxation of casual incomes additional income tax on undistributed profits, assessment, procedure registration of firms advance tax, settlement of cases, appeals and revisions and acquisition of immovable properties. Some of the recommendations have been implemented by the Gove of India.

**Income Tax Authorities**



**1. Central Board of Direct Tax (CBDT)**

Height executives authority of department of Income – Tax. It works under the ministry of finance of Central government.

**Powers of Board**

- a) The board may from time to time issue such orders, instructions and directions to other income – tax authorities as it may deem fit for the proper administration of Act
- b) The board may issue from time to time general or special orders in respect of any class of incomes or class of cases setting forth directions in respect of principles or procedures to be followed by Income tax authorities in the work relating to assessment or collection of revenue or imposition of penalties. This is done for efficient management of work of

assessment and collection of revenue.

- c) The board may authorize any income tax authority to not being a commissioner (appeals) to admit an application or claim for any exemption, deduction refund or any other relief under this Act after the expiry of specified period.

## 2. Direct General or Chief Commissioner

They are appointed by Central Government and are subordinates to the board.

### Powers

- i) To appoint income tax authorities below the rank of an Assistant Commissioner
- ii) To issue order conferring power of AO on a Deputy Commissioner
- iii) To transfer cases from one AO to another AO working under him.
- iv) To exercise power of a court for making any enquiry or investigation into concealment.
- v) To make a survey or an enquiry.

## 3. Commissioner of Income Tax (CIT) or Director of Income Tax (DIT)

They are appointed by Central Government to head the Income Tax administration of specified area.

### Powers

- i) Registration of charitable trust or institution
- ii) Appointment of (Class II) income tax officers and income tax inspectors.
- iii) Instruction to subordinate authorities.
- iv) Assigning jurisdiction and functions to inspecting assistant commissioners and income tax officers.
- v) Power of transfer of cases.
- vi) Power regarding discovery production of evidence
- vii) Power of search and seizure.
- viii) Power to requisite books of account.
- ix) Power to make any enquiry.
- x) Power to award or withdraw recognition to provident fund.
- xi) Power to reduce or waive off penalty in certain cases.

## 4. Commissioners (Appeals)

The commissioners of Income Tax (Appeals) is an appellate authority appointed by central government.

### Powers

- i) Power regarding discovery of evidence (sec. 131)
- ii) Power to call for information. ( Sec.133)
- iii) Power to inspect register of companies Sec.134)
- iv) Disposal of appeals
- v) Imposition of penalty.
- vi) Set off of refund against tax remaining payable.

## 5. Joint Commissioners

They are appointed by Central Government.

Their main duty is to detect tax evasion and supervise subordinate officers.

### Powers

- i) Instructions to income tax officers
- ii) Powers regarding discovery, production of evidence.
- iii) Search and Seizure
- iv) Power to call information
- v) Power to survey
- vi) Power to inspect register of companies
- vii) Power to make enquiry.
- viii) Imposition of penalty
- ix) Power to exercise power of Income tax officers.

## 6. Income Tax Officers (ITO)

The income tax officers of class I service are appointed by the Central Government where as Income Tax officers of Class II service are appointed by commissioner of Income tax.

### Powers

- i) Discovery and production of evidence.
- ii) Search of seizure.
- iii) Requisition of books of accounts.
- iv) Call for information
- v) Power to survey.
- vi) To inspect register of companies.
- vii) Allot permanent account numbers.
- viii) Make assessment.
- ix) Impose penalties
- x) To issue direction for getting the accounts audited
- xi) To re-assess escaped income
- xii) Rectification of mistakes.
- xiii) Approval for deduction of tax at source at lower rates.
- Xiv) Demand advance payment of Tax.
- xv) To grant refund.



**7. Inspectors of Income Tax (IIT)**

They are appointed by commissioner of Income Tax. They are subordinates to Income tax officers and other higher authorities.

**Conclusion**

The Central board of Direct Taxes which is the supreme authority in the income tax department has been empowered to frame rules subject to control of the central government. According the Board has framed the rules which called the income tax rules. It is believed that tax-authorities are independent judicial officers who are required to pass reasoned orders based on their own reasoning un-influenced by instructions or advice from their superior officers.

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