

IN THE HIGH COURT OF JUDICATURE AT MADRAS

DATED: 21.02.2019

CORAM

THE HONOURABLE DR. JUSTICE ANITA SUMANTH

W.P.Nos.30094, 30098, 30104 & 30110 of 2018
and
WMP.Nos. 35104, 35110, 35114,
35120, 35121, 35126 and 35128 of 2018

Jayanthi Seeman ...Petitioner in above W.Ps.

Vs

1. The Principal Commissioner of Income Tax-1
Chennai

2. The Income Tax Officer
Non Corp, Ward 1(2)
Chennai 600034

.... Respondents in above W.Ps.

Prayer in W.P.No.30094 of 2018: Writ Petition filed under Article 226 of the Constitution of India, to issue a Writ of Certiorarified Mandamus or any other writ or order or direction in the nature of a writ calling for the records relating to the order in C.No.233 Pr.CIT-1/2018-19 dated 11.10.2018 and subsequent order in PAN:AAUPB0222F/NCW-1(2)/2017-18 dated 15.10.2018 on the file of the respondents and to quash the same with consequential direction to the respondents to consider the stay petition filed by the petitioner under section 220(3) and 220(6) of the Income Tax Act, 1961 for the AY- 2010-11 in conformity with the instructions of the Central Board of Direct Taxes by providing an opportunity of being heard to the petitioner.

Prayer in W.P.No. 30098 of 2018: Writ Petition filed under Article 226 of the Constitution of India, to issue a Writ of Certiorarified Mandamus or any other writ or order or direction in the nature of a writ calling for the records relating to the order in C.No.233 Pr.CIT-1/2018-19 dated 11.10.2018 and subsequent order in PAN:AAUPB0222F/NCW-1(2)/2017-18 dated 15.10.2018 on the file of the respondents and to quash the same with consequential direction to the respondents to consider the stay petition filed by the petitioner under section 220(3) and

220(6) of the Income Tax Act, 1961 for the AY- 2011-12 in conformity with the instructions of the Central Board of Direct Taxes by providing an opportunity of being heard to the petitioner.

Prayer in W.P.No. 30104 of 2018: Writ Petition filed under Article 226 of the Constitution of India, to issue a Writ of Certiorarified Mandamus or any other writ or order or direction in the nature of a writ calling for the records relating to the order in C.No.233 Pr.CIT-1/2018-19 dated 11.10.2018 and subsequent order in PAN:AAUPB0222F/NCW-1(2)/2017-18 dated 15.10.2018 on the file of the respondents and to quash the same with consequential direction to the respondents to consider the stay petition filed by the petitioner under section 220(3) and 220(6) of the Income Tax Act, 1961 for the AY- 2013-14 in conformity with the instructions of the Central Board of Direct Taxes by providing an opportunity of being heard to the petitioner.

Prayer in W.P.No. 30110 of 2018: Writ Petition filed under Article 226 of the Constitution of India, to issue a Writ of Certiorarified Mandamus or any other writ or order or direction in the nature of a writ calling for the records relating to the order in C.No.233 Pr.CIT-1/2018-19 dated 11.10.2018 and subsequent order in PAN:AAUPB0222F/NCW-1(2)/2017-18 dated 15.10.2018 on the file of the respondents and to quash the same with consequential direction to the respondents to consider the stay petition filed by the petitioner under section 220(3) and 220(6) of the Income Tax Act, 1961 for the AY- 2012-13 in conformity with the instructions of the Central Board of Direct Taxes by providing an opportunity of being heard to the petitioner.

For Petitioner : Mr. Y. Prakash

For Respondents : Ms. Hema Muralikrishnan,
Senior Standing counsel

C O M M O N O R D E R

The petitioner in these Writ Petitions an assessee, on the file of the Income Tax Officer, Non Corporate Ward I(2), Chennai, has preferred appeals challenging orders of assessment dated 29.12.2017 in respect of assessment years 2010-11, 2011-12, 2012-13 and 2013-14 before the Commissioner of Income Tax (Appeals) (in short 'CIT(A)') on 30.01.2018.

2. Mr.Y.Prakash, learned counsel appearing for the petitioner states that the appeals have been heard in part and are pending disposal. The petitioner is stated to be appearing before the Authority and co-operating in the disposal of the appeals.

3. It appears that petitions for stay of recovery of the disputed demands in respect of the four (4) assessment years as aforesaid were filed before the Commissioner of Income Tax I, arrayed as first respondent in these Writ Petitions, on 04.10.2018.

4. Inter alia, the petitioner has sought a stay on the sole ground that the addition made is sixty (60) times of the returned income and the assessment order passed is 'high pitched and biased to the interest of the revenue'.

5. Reliance has been placed on the decisions of the Madurai Bench of this Court in the case of N. Jegatheesan vs DCIT (W.P. (MD).No.10171 of 2015 and M.P.Nos. 1 & 2 of 2015 dated 18.11.2015) and Karnataka High Court in the case of Flipkart India Private Limited Vs ACIT (WP. No. 1339-1342/2017 (T-IT). Reliance is also placed on various circulars in support of the request for stay.

6. The Assessing Authority, arrayed as second respondent in these Writ Petitions, has, vide impugned order dated 11.10.2018 conveyed the order of the Principal Commissioner of Income Tax-1, Chennai rejecting the request for stay as follows:

'Petition is rejected. AO to collect 20 % as per Board's Circular ASAP'

7. The petitioner lays stress on the position that CBDT Instruction No.95 of 1969 dated 21.08.1969, specifically deals with a situation where the income determined on assessment was substantially higher than the returned income, say, twice the amount or more, in which case, the collection of the tax in dispute should be held in abeyance till a decision was arrived at on the appeals.

8. According to him, this circular makes it clear that where an assessment is made on a 'high pitched basis', there could be a stay of collection till the disposal of the appeals.

9. Mrs.Hema Muralikrishnan, learned Senior Standing Counsel appearing for the respondents has filed a counter affidavit denying the averments made in the Writ Petitions. She points out that the petitioner did not co-operate with the Department in the completion of the assessments. Ample opportunities had

been granted to the petitioner to prove the source of the substantial cash deposits in the bank account and it was only after providing sufficient opportunity that the additions were made under section 68 of the Act for want of proof of genuineness and source of the deposits made. She would state that, though notices calling for the records were issued much earlier in time, the assessee took a plea before the Assessing Officer that all records to substantiate the bank deposits has been washed away in the floods that hit the city of Chennai in 2015.

10. She points out the contradiction in the submission made by the petitioner now before this Court to the effect that all supporting evidences have been provided before the CIT(A) now to prove the cash deposits.

11. Heard learned counsel on both sides. The circulars issued by the CBDT only set out a series of guidelines to the Assessing Officers in the matter of grant of stay. I have had occasion to consider the impact of the Circulars on the powers of the Assessing Officer/Authorities under the Act to grant a stay, in the case of Mrs.Kannammal V. Income Tax Officer (W.P.No.3849 of 2019 dated 13.02.2019) and have held as follows:

'7. The parameters to be taken into account in considering the grant of stay of disputed demand are well settled - the existence of a prima facie case, financial stringency and the balance of convenience. 'Financial stringency' would include within its ambit the question of 'irreparable injury' and 'undue hardship' as well. It is only upon an application of the three factors as aforesaid that the assessing officer can exercise discretion for the grant or rejection, wholly or in part, of a request for stay of disputed demand.

8. In addition, periodic Instructions/Circulars in regard to the manner of adjudication of stay petitions are issued by the Central Board of Direct Taxes (CBDT) for the guidance of the Departmental authorities. The one oft-quoted by the assessee is Office Memorandum F.No.1/6/69/-ITCC, dated 21.08.1969 that states as follows:

'1. One of the points that came up for consideration in the 8th Meeting of the Informal Consultative Committee was that income-tax assessments were often arbitrarily pitched at higher figures and that the collection of disputed demand as a result thereof was also not stayed in

spite of the specific provision in the matter in s. 220(6) of the IT Act, 1961.

2. The then Deputy Prime Minister had observed as under :

".....Where the income determined on assessment was substantially higher than the returned income, say twice the latter amount or more, the collection of the tax in dispute should be held in abeyance till the decision on the appeal provided there were no lapses on the part of the assesseees."

3. The Board desire that the above observations may be brought to the notice of all the Income-tax Officers working under you and the powers of stay of recovery in such cases up to the stage of first appeal may be exercised by the Inspecting Assistant Commissioner/Commissioner of Income-tax.'

9. Thereafter, Instruction No.1914 was issued by the CBDT on 21.03.1996 and states as follows:

1. Recovery of outstanding tax demands
[Instruction No. 1914 F. No. 404/72/93 ITCC dated 2-12-1993 from CBDT]

The Board has felt the need for a comprehensive instruction on the subject of recovery of tax demand in order to streamline recovery procedures. This instruction is accordingly being issued in supersession of all earlier instructions on the subject and reiterates the existing Circulars on the subject.

2. The Board is of the view that, as a matter of principle, every demand should be recovered as soon as it becomes due. Demand may be kept in abeyance for valid reasons only in accordance with the guidelines given below :

A. Responsibility:

i. It shall be the responsibility of the Assessing Officer and the TRO to collect every demand that has been raised, except the following: (a) Demand which has not fallen due; (b) Demand which has been stayed by a Court or ITAT or Settlement Commission; (c) Demand for which a proper proposal for write-off has been submitted; (d) Demand stayed in accordance with paras B & C below.

ii. Where demand in respect of which a recovery certificate has been issued or a statement has been drawn, the primary responsibility for the collection of tax shall rest with the TRO.

iii. It would be the responsibility of the supervisory authorities to ensure that the Assessing Officers and the TROs take all such

measures as are necessary to collect the demand. It must be understood that mere issue of a show cause notice with no follow-up is not to be regarded as adequate effort to recover taxes.

B. Stay Petitions:

i. Stay petitions filed with the Assessing Officers must be disposed of within two weeks of the filing of petition by the tax- payer. The assessee must be intimated of the decision without delay.

ii. Where stay petitions are made to the authorities higher than the Assessing Officer (DC/CIT/CC), it is the responsibility of the higher authorities to dispose of the petitions without any delay, and in any event within two weeks of the receipt of the petition. Such a decision should be communicated to the assessee and the Assessing Officer immediately.

iii. The decision in the matter of stay of demand should normally be taken by Assessing Officer/TRO and his immediate superior. A higher superior authority should interfere with the decision of the AO/TRO only in exceptional circumstances; e.g., where the assessment order appears to be unreasonably high-pitched or where genuine hardship is likely to be caused to the assessee. The higher authorities should discourage the assessee from filing review petitions before them as a matter of routine or in a frivolous manner to gain time for withholding payment of taxes.

C. Guidelines for staying demand:

i. A demand will be stayed only if there are valid reasons for doing so. Mere filing an appeal against the assessment order will not be a sufficient reason to stay the recovery of demand. A few illustrative situations where stay could be granted are:

It is clarified that in these situations also, stay may be granted only in respect of the amount attributable to such disputed points. Further where it is subsequently found that the assessee has not co-operated in the early disposal of appeal or where a subsequent pronouncement by a higher appellate authority or court alters the above situation, the stay order may be reviewed and modified. The above illustrations are, of course, not exhaustive.

ii. In granting stay, the Assessing Officer may impose such conditions as he may think fit. Thus he may – a. require the assessee to offer suitable security to safeguard the interest of revenue; b.

require the assessee to pay towards the disputed taxes a reasonable amount in lump sum or in instalments; c. require an undertaking from the assessee that he will co-operate in the early disposal of appeal failing which the stay order will be cancelled. d. reserve the right to review the order passed after expiry of a reasonable period, say up to 6 months, or if the assessee has not co-operated in the early disposal of appeal, or where a subsequent pronouncement by a higher appellate authority or court alters the above situations; e. reserve a right to adjust refunds arising, if any, against the demand.

iii. Payment by instalments may be liberally allowed so as to collect the entire demand within a reasonable period not exceeding 18 months.

iv. Since the phrase "stay of demand" does not occur in section 220(6) of the Income-tax Act, the Assessing Officer should always use in any order passed under section 220(6) [or under section 220(3) or section 220(7)], the expression that occurs in the section viz., that he agrees to treat the assessee as not being default in respect of the amount specified, subject to such conditions as he deems fit to impose.

v. While considering an application under section 220(6), the Assessing Officer should consider all relevant factors having a bearing on the demand raised and communicate his decision in the form of a speaking order.

D. Miscellaneous:

i. Even where recovery of demand has been stayed, the Assessing Officer will continue to review the situation to ensure that the conditions imposed are fulfilled by the assessee failing which the stay order would need to be withdrawn.

ii. Where the assessee seeks stay of demand from the Tribunal, it should be strongly opposed. If the assessee presses his application, the CIT should direct the departmental representative to request that the appeal be posted within a month so that Tribunal's order on the appeal can be known within two months.

iii. Appeal effects will have to be given within 2 weeks from the receipt of the appellate order. Similarly, rectification application should be decided within 2 weeks of the receipt thereof. Instances where there is undue delay in giving effect to appellate orders, or in deciding rectification applications, should be dealt with

very strictly by the CCITs/CITs.

3. The Board desires that appropriate action is taken in the matter of recovery in accordance with the above procedure. The Assessing Officer or the TRO, as the case may be, and his immediate superior officer shall be held responsible for ensuring compliance with these instructions.

4. This procedure would apply mutatis mutandis to demands created under other Direct Taxes enactments also.'

10. Instruction 1914 was partially modified by Office Memorandum dated 29.02.2016 taking into account the fact that Assessing Officers insisted on payment of significant portions of the disputed demand prior to grant of stay resulting in extreme hardship for tax payers. Thus, in order to streamline the grant of stay and standardize the procedure, modified guidelines were issued which are as follows:

'.....

(A) In a case where the outstanding demand is disputed before CIT (A), the assessing officer shall grant stay of demand till disposal of first appeal on payment of 15% of the disputed demand, unless the case falls in the category discussed in pars (B) hereunder.

(B) In a situation where,

(a) the assessing officer is of the view that the nature of addition resulting in the disputed demand is such that payment of a lump sum amount higher than 15% is warranted (e.g. in a case where addition on the same issue has been confirmed by appellate authorities in earlier years or the decision of the Supreme Court /or jurisdictional High Court is in favour of Revenue or addition is based on credible evidence collected in a search or survey operation, etc.) or,

(b) the assessing officer is of the view that the nature of addition resulting in the disputed demand is such that payment of a lump sum amount lower than 15% is warranted (e.g. in a case where addition on the same issue has been deleted by appellate authorities in earlier years or the decision of the Supreme Court or jurisdictional High Court is in favour of the assessee, etc.), the assessing officer shall refer the matter to the administra-

tive Pr. CIT/ CIT, who after considering all relevant facts shall decide the quantum/ proportion of demand to be paid by the assessee as lump sum payment for granting a stay of the balance demand.'

11. Instruction 1914 was further modified by Office Memorandum bearing number F.No.404/72/93 - ITCC dated 31.07 2017 as follows:

'OFFICE MEMORANDUM F. No. 404/72/93-ITCC dated
31.07.2017

Subject: Partial modification of Instruction No. 1914 dated 21.3.1996 to provide for guidelines for stay of demand at the first appeal stage.

Reference: Board's O.M. of even number dated 29.2.2016

Instruction No. 1914 dated 21.3.1996 contains guidelines issued by the Board regarding procedure to be followed for recovery of outstanding demand, including procedure for grant of stay of demand.

Vide O.M. NO.404/72/93-ITCC dated 29.2.2016 revised guidelines were issued in partial modification of instruction No 1914, wherein, inter alia, vide para 4(A) it had been laid down that in a case where the outstanding demand is disputed before CIT(A), the Assessing Officer shall grant stay of demand till disposal of first appeal on payment of 15% of the disputed demand unless the case falls in the category discussed in para (B) thereunder. Similar references to the standard rate of 15% have also been made in succeeding paragraphs therein.

2. The matter has been reviewed by the Board in the light of feedback received from field authorities. In view of the Board's efforts to contain over pitched assessments through several measures resulting in fairer and more reasonable assessment orders, the standard rate of 15% of the disputed demand is found to be on the lower side. Accordingly, it has been decided that the standard rate prescribed in O.M. dated 29.2.2016 be revised to 20% of the disputed demand, where the demand is contested before CIT(A). Thus all references to 15% of the disputed demand in the aforesaid O.M dated 29.2.2016 hereby stand modified to 20% of the disputed demand. Other guidelines contained in the O.M. dated 29.2.2016 shall remain unchanged.

These modifications may be immediately brought to the notice of all officers working in your jurisdiction for proper compliance.'

12. The Circulars and Instructions as extracted above are in the nature of guidelines issued to assist the assessing authorities in the matter of grant of stay and cannot substitute or override the basic tenets to be followed in the consideration and disposal of stay petitions. The existence of a prima facie case for which some illustrations have been provided in the Circulars themselves, the financial stringency faced by an assessee and the balance of convenience in the matter constitute the 'trinity', so to say, and are indispensable in consideration of a stay petition by the authority. The Board has, while stating generally that the assessee shall be called upon to remit 20% of the disputed demand, granted ample discretion to the authority to either increase or decrease the quantum demanded based on the three vital factors to be taken into consideration.

13. In the present case, the assessing officer has merely rejected the petition by way of a non-speaking order reading as follows:

'Kindly refer to the above. This is to inform you that mere filing of appeal against the said order is not a ground for stay of the demand. Hence your request for stay of demand is rejected and you are requested to pay the demand immediately. Notice u/s.221(1) of the Income Tax Act, 1961 is enclosed herewith.'

14. The disposal of the request for stay by the petitioner leaves much to be desired. I am of the categorical view that the Assessing Officer ought to have taken note of the conditions precedent for the grant of stay as well as the Circulars issued by the CBDT and passed a speaking order. Of course the petition seeking stay filed by the petitioner is itself cryptic. However, as noted by the Supreme Court in the case of Commissioner of Income tax vs Mahindra Mills, ((2008) 296 ITR 85 (Mad)) in the context of grant of depreciation, the Circular of the Central Board of Revenue (No. 14 (SL- 35) of 1955 dated April 11, 1955) requires the officers of the department 'to assist a taxpayer in every reasonable way, particularly in the matter of claiming and securing reliefs. Although, therefore, the responsibility for claiming refunds and reliefs rests with the assessee on whom it is imposed by law, officers should draw their attention to any refunds or reliefs to which they appear to be clearly entitled but which they have omitted to claim for some reason or other.....'. Thus, notwithstanding that the

assessee may not have specifically invoked the three parameters for the grant of stay, it is incumbent upon the assessing officer to examine the existence of a prima facie case as well as call upon the assessee to demonstrate financial stringency, if any and arrive at the balance of convenience in the matter. '

12. My observations and conclusions in the above order would apply equally to the facts and circumstances of the present case and may be read as part and parcel of this order.

13. In the light the above, I am inclined to set aside the impugned order dated 11.10.2018, as being mechanical and passed without application of mind. Equally mechanical is the stay petition filed by the assessee, which simply relies upon the circulars issued without reference to the existence of a prima facie case, financial stringency and balance of convenience.

14. In the light of the above, the Writ Petitions are disposed in the following terms:

i) The petitioner will appear before the Principal Commissioner of Income Tax, the first respondent herein, on 05.03.2019 at 10:30 am along with a stay petition covering three (3) aspects as referred to aforesaid.

ii) After hearing the petitioner, the Principal Commissioner of Income Tax shall pass appropriate orders in accordance with law within a period of two (2) weeks from the date of conclusion of the personal hearing.

iii) Till the disposal of stay petitions, status quo, as of today, shall be maintained with regard to recovery.

Consequently, Miscellaneous Petitions are closed. No costs.

Sd/-
Assistant Registrar

//True Copy//

Sub Assistant Registrar

s1

To

1. The Principal Commissioner of Income Tax-1
Chennai

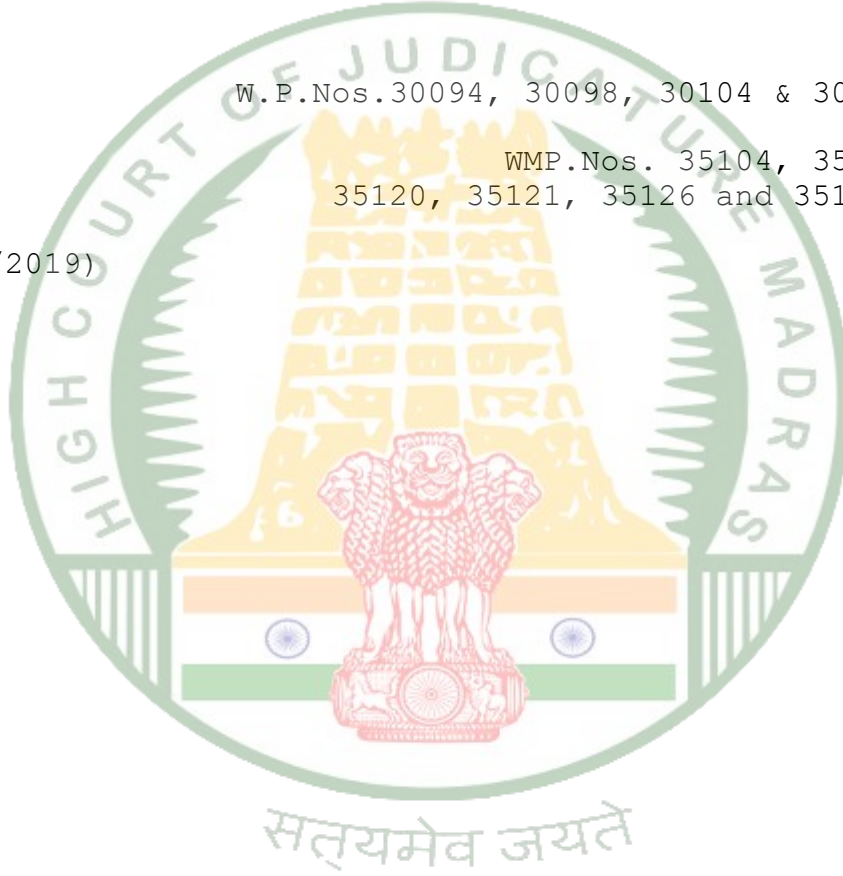
2. The Income Tax Officer
Non Corp, Ward 1(2)
Chennai 600034.

+4 ccs to M/s.Y.Prakash, Advocate, S.R.No.16170

+1 cc to M/s.Hema Muralikrishnan, Advocate, S.R.No.16351

W.P.Nos.30094, 30098, 30104 & 30110 of 2018
and
WMP.Nos. 35104, 35110, 35114,
35120, 35121, 35126 and 35128 of 2018

RGN (CO)
SSM(26/02/2019)



WEB COPY