

Circular No. RBI/2004/90

DGBA.GAD.No. H-767 /42.01.034/2003-04

March 9, 2004

The Chief Executive Officers
All banks (as per list)

Dear Sir,

Introduction of ECS (Credit) for Refunds of Income Tax

As you are aware, presently paper-based Income Tax Refund Orders (ITROs) are being issued by Income Tax Department for refund of income-tax to assesseees. ITRO is also accompanied by an 'Advice'. The banks are required to handle ITROs as well as the 'Advices' for collection and crediting refunds to their constituents' accounts. The above procedure involves elaborate manual handling of these instruments at various stages at banks' branches. You will appreciate that such manual handling of ITROs is prone to various operational risks such as loss, frauds, tampering etc.

2. In view of the difficulties faced by the banks as well as the public at large in regard to ITROs, we have been pursuing with the Central Government for alternative system for tax refunds. We are pleased to inform you that Government has since taken a decision to implement ECS credit for direct tax refunds. A notification in this regard is expected to be issued by the Government shortly.

3. The issue of waiver of ECS charges in this regard has been engaging our attention for sometime pursuant to a request for such waiver made by the Government. In the present system of paper-based ITROs, banks collect and credit the proceeds of ITROs free of charge in the normal course of business. Besides, even in the existing manual procedure, destination banks do not charge commission/service charges towards proceeds of ITROs being credited into customer's accounts. Keeping the aforesaid factors in view and also considering the fact that introduction of ECS credit would finally result in reduction in operational cost and improve speed and efficiency at the level of bank branches, it has been decided that banks should waive ECS charges in respect of ITROs as and when the ECS mode is adopted by Government for refund of taxes.

4. Please acknowledge receipt.

Yours faithfully,

(Prabal Sen)
Chief General Manager