PRESS RELEASE

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

NEW DELHI
21st DECEMBER, 2022

CAG's COMPLIANCE AUDIT REPORT ON DIRECT TAXES TABLED IN PARLIAMENT

The Report of the Comptroller and Auditor General of India on Direct Taxes of the Union Government for the year ended March 2021 (Audit Report No. 29 of 2022) was laid in Parliament here today. This Report contains 467 audit observations having tax effect of ₹ 8,413.10 crore.

Important observations presented in the report are as follows:

- The number of non-corporate assessees increased from 6.39 crore in FY 2019-20 to 6.63 crore in FY 2020-21 whereas number of corporate assessees increased from 8.38 lakh in FY 2019-20 to 9.21 lakh in FY 2020-21 (paragraphs 1.4.10 and 1.4.11). Despite this, the Direct taxes decreased by 9.9 *per cent* (₹ 1.04 lakh crore) in FY 2020-21 as compared to FY 2019-20. However, share of direct taxes in gross tax revenue only decreased to 46.7 *per cent* in FY 2020-21 from 52.3 *per cent* in FY 2019-20 (paragraph 1.4.1).

- The collections from corporation tax decreased by 17.8 *per cent*, from ₹ 5.57 lakh crore in FY 2019-20 to ₹ 4.58 lakh crore in FY 2020-21 and Income Tax decreased by 2.0 *per cent* from ₹ 4.80 lakh crore in FY 2019-20 to ₹ 4.71 lakh crore in FY 2020-21 (paragraphs 1.4.3 and 1.4.4).

- The arrears of demand decreased from ₹ 16.2 lakh crore in FY 2019-20 to ₹ 15.1 lakh crore in FY 2020-21. Though total arrears of demand in FY 2020-21 decreased by 6.63 *per cent* as compared to FY 2019-20, demands classified as 'difficult to recover' increased marginally to 98.26 *per cent* of the total arrears of demands in FY 2020-21 as compared to 97.61 *per cent* in FY 2019-20 (paragraphs 1.9.1 and 1.9.2).

- Income Tax Department recovered ₹ 72.69 crore during FY 2020-21 on the basis of observations pointed out by audit (paragraph 2.6).

- 319 high value cases pertaining to corporation tax with tax effect of ₹ 7,788.98 crore have been pointed out in this Report (paragraph 3.1.1). These cases mainly pertained to arithmetical errors in computation of income and tax, errors in levy of interest, irregularities in allowing depreciation/business losses/capital losses, incorrect allowance of business expenditure, unexplained investment/cash credit, etc. The Ministry/the ITD accepted 165 cases involving tax effect of ₹ 5,845.39 crore and did not accept eight cases involving tax effect of ₹ 114.73 crore. However, out of 319 cases, the ITD has completed remedial action in 183 cases involving tax effect of

₹ 6,506.10 crore and initiated remedial action in 27 cases involving tax effect of ₹ 345.34 crore. In the remaining 109 cases, the ITD had not taken/initiated any action as on July 2022.

- Out of 319 high value cases cited, we draw attention to 57 instances of significant errors/ irregularities in corporation tax assessments involving tax effect of ₹ 6,304.56 crore. The irregularities illustrated in this chapter include: incorrect adoption of figure of taxable income as ₹ 110.40 crore in the tax computation form instead of the correct figure of ₹ 7,995.06 crore involving tax effect of ₹ 4,430.13 crore including interest; incorrect allowance of carry forward of long-term capital loss of ₹ 1,285.03 crore on account of redemption and acquisition of Cumulative Redeemable Preference Shares involving a potential tax effect of ₹ 79.58 crore; incorrect allowance of deduction under Section 32AC involving tax effect of ₹ 180.22 crore; incorrect allowance of MAT credit even though the ITBA system exhibited MAT credit as 'zero', involving tax effect of ₹ 34.90 crore including interest; incorrect allowance of business expenditure towards provisions for doubtful debts and advances and corporate debt restructuring recompense, being an unascertained liability, involving tax effect of ₹ 118.57 crore; not taking cognizance of the difference between the value for which stamp duty was paid and actual value for land or building sold involving tax effect of ₹ 34.69 crore; and adding back only 15 *per cent* of unsecured loan on account of failure to furnish confirmation of unsecured loan instead of the entire aforesaid unsecured loan involving tax effect of ₹ 22.67 crore.

- 148 high value cases pertaining to income tax with tax effect of ₹ 624.12 crore have been pointed out in this Report (paragraph 4.1.1). These cases mainly pertained to arithmetical errors in computation of income and tax, errors in levy of interest, irregularities in allowing depreciation/business losses/capital losses, incorrect allowance of business expenditure, unexplained investment/cash credit, etc. The Ministry/the ITD accepted 140 cases involving tax effect (TE) of ₹ 595.51 crore, and did not accept two cases involving TE of ₹ 1.53 crore. Further, out of 148 cases, the ITD has completed remedial action in 124 cases involving tax effect of ₹ 575.37 crore and initiated remedial action in 13 cases involving tax effect of ₹ 14.74 crore. In the remaining 11 cases, the ITD had not taken/ initiated any action as on July 2022.

- 148 high value cases cited, include 47 instances of significant errors/irregularities in income tax assessments involving tax effect of ₹ 505.68 crore. The irregularities illustrated in this chapter include: incorrect computation of demand due to incorrect adoption of assessed income at ₹ 79.29 crore instead of correct income of ₹ 122.05 crore involving consequent short levy of tax of ₹ 32.45 crore; and incorrect levy of interest for delay in furnishing of return charged under section 234A for one month only at ₹ 0.47 crore instead of 79 months at ₹ 37.09 crore involving tax effect of ₹ 36.62 crore.

In addition, the following three recommendations have also been included in the Report:

I. *Application of incorrect rates of tax and surcharge, errors in levy of interest, excess or irregular refunds etc. point to weaknesses in the internal controls in the ITD, which need to be addressed.*

II. *While the Department has taken action to initiate correction in the cases pointed out by the Audit, it may be mentioned that these are only a few illustrative cases, test checked in audit. In the entire universe of all assessments, including non-scrutiny assessments, such errors of omission or commission cannot be ruled out. The CBDT not only needs to revisit its assessments, but also put in place a fool proof IT system and internal control mechanism to avoid recurrence of such errors in the future.*

III. *The CBDT may examine whether the instances of "errors" noticed are errors of omission or commission and if these are errors of commission, then the ITD should ensure necessary action including fixing responsibility where glaring mistakes have been pointed out by Audit, as per law.*

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