

Press Release

CAG's Compliance Audit Report on Union Government – Direct taxes tabled in Parliament.

Report contains 457 audit observations having tax effect of ₹ 4,186.8 crore

Compliance Audit Report of the Comptroller and Auditor General of India No. 40 of 2017 Union Government – Direct Taxes was tabled in Parliament today.

This Report contains 457 audit observations having tax effect of ₹ 4,186.8 crore, besides two long paragraphs on 'Fictitious demand during scrutiny assessments' and 'Bogus transactions by assessees', and findings of a subject specific compliance audit on 'The Appeal process in Income Tax Department'.

Important observations presented in the report are as follows:

- Direct taxes increased by 14.5*per cent* in FY 2016-17 (₹ 1.08 lakh crore) as compared to FY 2015-16. However, share of direct taxes in gross tax revenue decreased to 49.5 *per cent* in FY 2016-17 from 51.0 *per cent* in FY 2015-16
(paragraph 1.5.1).
- The collections from corporation tax increased by 7.0 *per cent*, from ₹4.53 lakh crore in FY 2015-16 to ₹ 4.85 lakh crore in FY 2016-17 and Income Tax increased by 21.5 *per cent* from ₹ 2.80 lakh crore in FY 2015-16 to ₹ 3.41 lakh crore in FY 2016-17
(paragraphs 1.5.3 and 1.5.4).
- Voluntary compliance of corporation tax and income tax during FY 2016-17 was 82.8*per cent* as compared to 81.2*per cent* in FY 2015-16
(paragraph 1.5.6).
- The Department had disposed off 4.04 lakh cases in FY 2016-17 out of total 9.20 lakh assessment cases due for scrutiny
(paragraph 1.8.1).
- There has been significant reduction in the pendency of direct refund cases over the years from 28.9 *per cent* in FY 2012-13 to only 10.7 *per cent* in FY 2016-17
(paragraph 1.9).
- The arrears of demand increased from ₹ 8.2 lakh crore in FY 2015-16 to ₹10.4 lakh crore in FY 2016-17. The Department indicated that more than 98.6 *per cent* of uncollected demand would be difficult to recover in FY 2016-17

(paragraphs 1.10.1 and 1.10.2).

- The appeals pending with Commissioner of Income Tax (Appeal) increased from 2.6 lakh in FY 2015-16 to 2.9 lakh in FY 2016-17 and the amount locked up in these cases was ₹ 6.1 lakh crore

(paragraph 1.11.1).

- There has been persistent and pervasive irregularities in respect of corporation tax and income tax assessments cases over the years. Recurrence of such irregularities, despite being pointed out repeatedly in the earlier Audit Reports points to structural weaknesses on the part of Department as well as the absence of appropriate institutional mechanisms to address this. Such irregularities were particularly noticeable in the assessment charges in Maharashtra and Delhi.

(paragraph 2.3).

- Income Tax department recovered ₹367 crore during 2016-17 on the basis of observations pointed out by audit

(paragraph 2.5.1).

- In FY 2015-16, 2,243 cases with tax effect of ₹ 1,638 crore became time-barred for remedial action

(paragraph 2.6.2).

Findings based on test check of 167 commissionerates, those find place in this Report

- 320 high value cases pertaining to corporation tax with tax effect of ₹3,851 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, mistakes in levy of interest, irregularities in allowing depreciation/business losses/capital losses, incorrect allowance of business expenditure, unexplained investment/cash credit, etc.
- 131 high value cases pertaining to income tax and six cases of wealth tax involving tax effect of ₹ 336 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, mistakes in levy of interest, irregular exemptions/deductions/relief given to trusts/firms/societies/association of persons, incorrect allowance of business expenditure, incorrect computation of income, etc.
- The ITD had raised exaggerated demands on certain corporate assesseees like SBI, Bank of Baroda, Bank of India, IDBI Bank, HDFC, Kotak Mahindra Bank, Air India, Deposit Insurance & Credit Guarantee Ltd., etc., to achieve its revenue collection targets, by resorting to methods that were irregular and unwarranted. The demands so collected were refunded in the next financial year along with interest under section 244A, which eventually put a heavy burden on the exchequer in the form of avoidable interest paid on refunds (paragraph 5.5).

- Assessing Officers were allowing or disallowing amounts pertaining to bogus transactions arbitrarily, applying discretion that was not available to them. Reports of the Investigation Wing regarding bogus donations were not taken cognizance of in some of the cases, while in other cases, no appropriate follow up action was taken by disallowing the amounts of these fictitious donations or bogus purchases. In some cases, where complete disallowance of such amount was called for, the disallowances made by the assessing officers were only partial which resulted in loss of revenue.

(paragraphs 6.4).
- Audit found irregularities in 2,203 cases involving tax effect of ₹ 549.56 crore related to non-compliance of the provisions of the Act/Rules/CBDT circulars etc. Such irregularities accounted for more than 12 *per cent* of total cases audited.

(paragraph 7.8.1).
- The CIT (Appeals) admitted the Appeals ignoring the precondition of payment of tax by the assessee, besides pointing out other violations of rules noticed.

(paragraph 7.9).
- In implementation of appellate orders, Audit noticed mistakes in giving effect to the appellate orders on account of non-consideration of the refund already issued to the assessee, short/non levy of the interest etc. There were delays in implementation of appellate orders which resulted in avoidable payment of interest under section 244A to the assessee. Audit also came across cases where the appellate authorities gave decisions in favour of revenue, but no action was taken by the ITD to implement the Appellate orders resulting in unrealised revenues

(paragraph 7.10).