PRESS RELEASE

COMPTROLLER AND AUDITOR GENERAL OF INDIA

New Delhi

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Compliance Audit Report on Direct Taxes Presented in Parliament

The Report of the Comptroller and Auditor General of India on Direct Taxes of the Union Government for the year ended March 2020 (Audit Report No. 8 of 2021) was laid in the Parliament today. This Report contains 578 audit observations having tax effect of Rs. 12,893.13 crore.

Important observations presented in the report are as follows:

- Direct Tax receipts decreased by 7.6 *per cent* in FY 2019-20 (Rs.10.51 lakh crore) as compared to FY 2018-19. However, share of Direct Taxes in gross tax revenue decreased to 52.3 *per cent* in FY 2019-20 from 54.7 *per cent* in FY 2018-19 (paragraphs 1.4.1 and 1.4.2).
- The collections from Corporation Tax decreased by 16.1 *per cent,* from Rs. 6.63 lakh crore in FY 2018-19 to Rs. 5.57 lakh crore in FY 2019-20 and Income Tax increased to 4.0 *per cent* from Rs. 4.62 lakh crore in FY 2018-19 to Rs. 4.80 lakh crore in FY 2019-20 (paragraphs 1.4.3 and 1.4.4).
- The number of non-corporate assessees increased from 6.20 crore in FY 2018-19 to 6.39 crore in FY 2019-20, registering an increase of 3.16 *per cent*. The number of corporate assessees decreased from 8.46 lakh in FY 2018-19 to 8.38 lakh in FY 2019-20, registering a decrease of 0.9 *per cent* (paragraphs 1.4.8 and 1.4.9).
- The arrears of demand increased from Rs. 12.3 lakh crore in FY 2018-19 to Rs. 16.2 lakh crore in FY 2019-20. Of which more than 97.6 *per cent* of uncollected demand would be difficult to recover in FY 2019-20 (paragraphs 1.9.1 and 1.9.2).
- Income Tax Department recovered Rs. 235.12 crore during 2019-20 on the basis of observations pointed out by Audit (paragraph 2.5).
- 356 high value cases pertaining to Corporation Tax with tax effect of Rs. 12,476.53 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, Irregular exemptions/ deductions/ rebates/ relief/MAT credit, incorrect allowance of business expenditure, Income not assessed/under assessed under normal provisions, etc.

- Out of 356 high value cases, we have illustrated 38 instances of significant errors/irregularities in Corporation Tax assessments involving tax effect of Rs. 3,976.56 crore. The irregularities illustrated in this chapter include: incorrect allowance of deduction under section 10AA of the Act to an assessee at inadmissible rate of 100 *per cent* instead of 50 *per cent* in the sixth year of operations involving tax effect of Rs. 1,262.76 crore; income not assessed in case of a banking company, on account of balance under Foreign Currency Translation Reserve (FCTR), involving tax effect of Rs. 774.72 crore; omission to levy tax on unexplained cash credit in lieu of share premium of Rs. 467.70 crore involving tax effect of Rs. 155.36 crore (excluding interest); and incorrect allowance of pre-paid taxes of Rs. 65.66 crore instead of available credit of Rs. 1.01 crore on account of TDS paid by the assessee and errors in levy of interest involving tax effect of Rs. 95.04 crore.

- 222 high value cases pertaining to Income Tax with tax effect of Rs. 416.60 crore have been pointed out in this Report (paragraph 4.1.1). These cases mainly pertained to Incorrect application of rates of tax, surcharge etc., errors in levy of interest, irregularities in allowing depreciation/business losses/capital losses, Incorrect computation of income, etc.

- Out of 222 high value cases cited, we have illustrated 39 instances of significant errors/ irregularities in income tax assessments involving tax effect of Rs. 251.85 crore. The irregularities illustrated in this chapter include: incorrect allowance of unpaid taxes of Rs. 45.60 crore and non-levy of interest involving tax effect of Rs. 68.12 crore; incorrect levy of interest of Rs. 21.60 crore on account of non-filing of return within the due date, short payment of tax and default in payment of advance tax; incorrect allowance of brought forward loss of Rs. 26.44 crore involving tax effect of Rs. 12.32 crore; and incorrect computation of demand payable of Rs. 103.22 crore instead of correct payable demand of Rs. 115.53 crore involving short levy of tax of Rs. 12.31 crore.

In additions, the following three recommendations were also 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 Ministry 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 ITD should ensure necessary action as per law.

BSC/SS/TT