PRESS RELEASE

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

New Delhi

18th August, 2025

CAG Compliance Audit Report on Direct Taxes Presented

The Report of the Comptroller and Auditor General of India on Direct Taxes of the Union Government for the year ended March 2023 (Audit Report No. 14 of 2025) was laid in Parliament here today. This Report contains 481 audit observations having a tax effect of ₹ 7,929.21 crore.

Important observations presented in the report are as follows:

- Direct tax receipts of the Union Government in the financial year (FY) 2022-23 amounting to ₹ 16,63,686 crore increased by 17.8 per cent over the FY 2021-22 (₹ 14,12,422 crore).There was a 38.0 *per cent* increase in refunds issued during FY 2022-23 (Paragraph 1.3.1). Direct taxes represented 6.2 per cent of the Gross Domestic Product (GDP) in FY 2022-23, and their share in gross tax revenue increased to 54.5 per cent in FY 2022-23 from 52.1 per cent in FY 2021-22 (Paragraph 1.4.1).

- The collections from corporation tax increased by 16.0 *per cent,* from ₹ 7.12 lakh crore in FY 2021-22 to ₹ 8.25 lakh crore in FY 2022-23 and Income Tax increased by 20.0 *per cent* from ₹ 6.73 lakh crore in FY 2021-22 to ₹ 8.08 lakh crore in FY 2022-23 (Paragraphs 1.4.3 and 1.4.4).

- The number of non-corporate assessees increased from 6.72 crore in FY 2021-22 to 7.29 crore in FY 2022-23, whereas the number of corporate assessees increased from 9.65 lakh in FY 2021-22 to 10.19 lakh in FY 2022-23 (Paragraphs 1.4.10 and 1.4.11).

- The arrears of demand increased from ₹ 19.35 lakh crore in FY 2021-22 to ₹ 22.74 lakh crore in FY 2022-23. Net collectible demand increased from ₹ 51,318 crore in FY 2021-22 to ₹ 69,396 crore in FY 2022-23. The Department indicated that 97.0 *per cent* of uncollected demand would be difficult to recover. (Paragraphs 1.9.1 and 1.9.2).

- In the last three years, the Income Tax Officer (ITD) recovered ₹ 3,588.79 crore from demands raised to rectify the errors in assessments that Audit had pointed out. There are 59,352 cases of earlier years pointed out in the audit up to 31 March 2023, which remained unsettled as of 28 February 2025 for want of replies from the ITD. (Paragraph 2.4.3 and 2.6).

- 287 high-value cases pertaining to corporation tax with a tax effect of ₹ 6,252.06 crore have been pointed out in this Report. These cases mainly pertained to errors in the levy of interest, irregularities in allowing depreciation/business losses/capital losses, incorrect allowance of business expenditure, unexplained investment/cash credit and arithmetical errors in the computation of income and tax, etc. The Ministry/ITD accepted 165 cases involving a tax effect of ₹ 3,120.98 crore and did not accept four cases involving a tax effect of ₹ 590.00 crore. Out of 287 cases, the ITD has completed remedial action in 197 cases, involving a tax effect of ₹4,071.99 crore, and initiated remedial action in 27 cases, involving a tax effect of ₹720.15 crore. In the remaining 63 cases, the ITD had not taken/initiated any action till March 2025 (Paragraph 3.1.1).

- Out of 287 high-value cases cited above, we draw attention to 46 instances of significant errors/ irregularities in corporation tax assessments involving a tax effect of ₹ 4,734.67 crore. The irregularities illustrated include: non-levy of Dividend Distribution Tax (DDT) of ₹ 1,034.66 crore in income tax computation sheet though decided to levy in assessment order {refer para 3.2.2 (case I)}; incorrect allowance of carry forward of ₹ 6,626.85 crore instead of ₹ 6,086.88 crore which resulted in an excess carry-forward loss of ₹ 539.97 crore with a potential tax effect of ₹ 186.87 crore {refer para 3.3.2 (case I)}; incorrect allowance of set off of brought forward business loss of ₹ 116.70 crore and unabsorbed depreciation of ₹ 80.26 crore which resulted in a short levy of tax of ₹ 100.16 crore {refer para 3.3.2 (case II)}; non-consideration of the earlier assessed income of ₹ 87.68 crore while arriving at assessed income at ₹ 338.61 crore under Section 143(3) read with Sections 263 and 144B in March 2022 and incorrect set off of brought forward losses of ₹ 68.89 crore in the income tax computation sheet which resulted in an under assessment of income of ₹ 135.78 crore, involving a short levy of tax of ₹ 132.29 crore, including interest and excess refund {refer para 3.4.3 (case I)}.

- 194 high-value cases pertaining to income tax with a tax effect of ₹ 1,677.15 crore have been pointed out in this Report. These cases primarily involved errors in the levy of interest, irregularities in allowing depreciation/business losses/capital losses, incorrect allowance of business expenditure, unexplained investment/cash credit, and arithmetical errors in the computation of income and tax, etc. The Ministry/ITD accepted 73 cases involving a tax effect of ₹1,150.96 crore and did not accept two cases involving a tax effect of ₹2.63 crore. Further, out of 194 cases, the ITD has completed remedial action in 175 cases, involving a tax effect of ₹1,589.65 crore, and initiated remedial action in 11 cases, involving a tax effect of ₹36.17 crore. In the remaining seven cases involving the tax effect of ₹ 49.86 crore, the ITD had not taken/ initiated any action as of March 2025 (paragraph 4.1.1).

- 194 high-value cases cited above include 31 instances of significant errors/ irregularities in income tax assessments involving a tax effect of ₹ 1,195.44 crore. The irregularities illustrated include: incorrect adoption of assessed income as Nil instead of correct assessed income of ₹ 38.98 crore involving short levy of tax of ₹ 18.55 crore {refer para 4.2.2 (Case I)}; incorrect computation of tax payable by the system at ₹ 919.12 crore instead of correct tax leviable of ₹ 1,373.67 crore due to incorrect application of tax rate and surcharge relevant to AOPs involving short levy of tax of ₹ 571.71 crore {refer para 4.2.3 (Case I)}; incorrect levy of interest under Section 234A for default in furnishing of return, involving tax effect of ₹ 98.32 crore {refer para 4.2.4 (Case I)}; incorrect allowance of set off of unabsorbed depreciation of ₹ 18.84 crore involving short levy of tax of ₹ 9.24 crore {refer para 4.3.5 (Case I)}; omission to charge unexplained investment of ₹ 25.91 crore involving short levy of tax of ₹ 16.21 crore {refer para 4.4.6 (Case I)}; excess levy of interest under Section 234B for default in payment of advance tax involving excess levy of tax of ₹ 104.69 crore {refer para 4.5.1 (Case I)}.

In addition, seven recommendations have also been included in the Report, and four recommendations are given below:

i. *The Department may assess/review cases for which remedial action became time barred and consider issuing instructions/guidelines and, streamlining and strengthening the existing system to ensure that remedial action is taken in a timely manner so that incidents of cases becoming time barred for remedial action, do not recur in the future.*

ii. *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 of the ITD, which need to be addressed through ITBA system prompts that will cause the Assessing officer to verify calculations before finalization of the case.*

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

iv. *The CBDT may examine whether the instances of "errors" noticed are errors of omission or commission, and if these are errors of commission, the ITD should ensure necessary action, including fixing responsibility as per law.*

BSC/SS/IK/53-25