PRESS RELEASE

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

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Audit Report No. 32 of 2026 on Direct Taxes on Taxation of Unexplained Transactions Presented

The Comptroller & Auditor General of India (C&AG) carried out a Compliance Audit on 'Taxation of Unexplained Transactions under the Income Tax Act, 1961'. Audit findings were discussed with the Central Board of Direct Taxes (CBDT) in May 2026. The Report was laid on the floor of the Parliament here today.

The Finance Act, 2012, inserted a new Section 115BBE, in the Income Tax Act, 1961 (the Act), with effect from 01/04/2013 (effective from AY 2013-14), which provides that in case total income of an assessee includes an income chargeable under Sections 68, 69, 69A, 69B, 69C or 69D of the Act, such income would be chargeable at the rate of 30 *per cent* without allowing deduction in respect of any expenditure or allowance to the assessee under any provision of the Act.

Further, following demonetization in 2016, to prevent misuse of existing provisions of the Act for concealing black money, the provisions of Section 115BBE were *inter alia* amended by raising the tax rate from 30 *per cent* to 60 *per cent* and a flat surcharge of 25 *per cent* of tax, to ensure taxation at a higher rate on the defaulting assessees.

The Compliance Audit Report covers 1,902 Audit observations involving tax effect of ₹ 25,085 crore, which were raised across 19 regions of the Income Tax Department during the compliance audit conducted from FY 2018-19 to 2022-23.

Out of 1,902 observations, in 1,643 observations involving tax effect of ₹ 13,258 crore, the Ministry/Department accepted/rectified/initiated remedial action. In 39 cases involving tax effect of ₹ 2,349 crore, the Ministry/Department did not accept the observations/did not take remedial action. Further, the Ministry/Department did not provide a reply in 220 cases involving a tax effect of ₹ 9,478 crore.

Summary of audit findings is given below:

- Audit noticed 926 Audit observations relating to incorrect application of rate of tax/surcharge involving tax effect of ₹ 4,707 crore in 23 States. Out of 926 Audit observations, 889 observations involving tax effect of ₹ 4,384 crore, were pertaining to short levy of tax/surcharge, whereas 37 observations involving tax effect of ₹ 323 crore, were pertaining to excess levy of tax/surcharge.

- Audit noticed that while computing the tax liability of the assessee after assessment, the assessed income was depicted twice/thrice or more times of the actual assessed income or less than the actual assessed income or zero, in ITNS, in 331 cases, involving a tax effect of ₹ 1,230 crore in 19 states.
- Audit noticed that while arriving at assessed income in assessment orders, the AOs incorrectly set off losses against additions made under Sections 68, 69, 69A, 69B, 69C or 69D, in 56 cases, involving a tax effect of ₹ 349 crore, in 12 States.
- Audit noticed in 589 cases, involving tax effect of ₹ 18,799 crore, in 20 States, where the AOs did not invoke the provisions of Sections 68, 69, 69A, 69B, 69C or 69D of the Act uniformly despite the fact that the aforesaid transactions were bogus in nature or the source remained unexplained, which resulted in under-assessment of income or income escaped assessment.
- Audit noted, in 51 cases out of 1,902 cases reported in this Report, that the irregularities/inconsistencies, which were noticed in cases prior to the introduction of Section 115BBE, i.e., up to AY 2012-13, persisted even in cases processed post-introduction of this Section.
- Audit noticed issues relating to the lack of monitoring of the selection of cases for internal audit. Audit noted that out of 1,902 cases incorporated in this report, 1,777 cases were not reviewed by Internal Audit. Further, the Audit noted 17 such instances out of 103 cases, where internal audit was conducted after the Receipt Audit (CAG Audit) had already been completed, which indicated that the prescribed procedure was not followed by the internal audit wing of the Department, and the concerned CIT/JCIT could not ensure the procedure as prescribed in the Audit Manual 2019 of the Income Tax Department.

Summary of Recommendations is given below:

- While the Department has taken corrective measures in cases pointed out by Audit, it may be mentioned that these are only a few illustrative cases, test-checked in the audit. Therefore, the CBDT, based on available manpower after doing the risk analysis and factoring in the monetary threshold, to be decided by the CBDT, may review potential assessment cases, where assessments include taxation of unexplained/ undisclosed transactions, pertaining to the audit period to avoid revenue loss.
- The CBDT may consider identifying reasons for errors highlighted by Audit and accordingly put in place a foolproof Information Technology (IT) system and internal control mechanism to avoid the recurrence of such errors in the future.

- The CBDT may examine whether the instances of "errors" noticed are errors of omission or commission, and in the case of errors of commission, the ITD may ensure necessary action, including fixing responsibility as per law.
- The CBDT may identify the reasons for computational errors and consider putting a mechanism in place to fix the issue on priority to avoid/minimise the scope of loss of revenue to the exchequer, litigation and inconvenience to the assessee.
- The CBDT may examine the reasons for variations in invoking the provisions of relevant Sections and additions made by the AOs and consider issuing SOPs/Guidelines, perhaps with illustrative examples, to ensure consistency in assessments, thereby reducing loss to the exchequer/scope of litigation.
- The CBDT may consider taking necessary actions for strengthening the internal control system and improving the functioning of the internal audit wing of the Department. The CBDT may also consider revisiting the criteria for selection of cases for internal audit so as to ensure the selection of potential cases.

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