

## OVERVIEW

### CHAPTER I: TAX ADMINISTRATION

Direct tax collections increased from ₹ 1,65,216 crore in 2005-06 to ₹ 3,78,063 crore in 2009-10 at an average annual rate of growth of 32.2 *per cent*. The rate of growth of tax collection has decelerated in 2008-09 and has since marginally improved in 2009-10.

Tax-Gross Domestic Product (GDP) ratio increased from 4.6 *per cent* in 2005-06 to 6.1 *per cent* in 2009-10. However, there was a slight decline as compared to 6.6 *per cent* in 2007-08. For every unit growth in GDP, direct taxes grew from 1.7 *per cent* in 2005-06 to 2.6 *per cent* in 2007-08. The buoyancy slowed down to 0.8 *per cent* in 2009-10 through 0.5 *per cent* in 2008-09. The decline in buoyancy is a matter of concern.

The assessee base grew over the last five years from 297.9 lakh taxpayers in 2005-06 to 340.9 lakh taxpayers in 2009-10 at the rate of 14.4 *per cent*.

Voluntary compliance by assesseees (pre-assessment stage) accounted for 82.8 *per cent* of the gross collections in 2009-10. Only 65 *per cent* of the total demand raised in 2009-10 was collected registering a decline as compared to 74 *per cent* collected in 2007-08.

Out of the total 8.7 lakh scrutiny assessment cases, the Department had disposed off 4.3 lakh (49.3 *per cent*) cases in 2009-10. The pendency of scrutiny assessments increased from 45.7 *per cent* in 2005-06 to 50.7 *per cent* in 2009-10.

The certified demand remaining uncollected was ₹ 95,122.4 crore (96.6 *per cent*) in 2009-10 as compared to ₹ 27,461 crore in 2008-09 registering an increase of 246.4 *per cent*.

Total cost of direct tax collection increased to 0.73 *per cent* in 2009-10 mainly due to increase in establishment cost.

The Government refunded ₹ 57,101 crore including interest of ₹ 12,951 crore (22.7 *per cent*) in 2009-10. Interestingly number of pending direct refund cases has gone up from 5.7 lakh in 2005-06 to 19.4 lakh in 2009-10.

Internal Audit Wing of the Income Tax Department completed 69.8 *per cent* of the targeted audits. Mistakes detected by us in the assessments previously checked in Internal Audit indicate a need for improvement in the quality of Internal Audit. Only 12.6 *per cent* of major findings raised by Internal Audit were acted upon by the assessing officers in 2009-10. Departmental response to Internal Audit was clearly inadequate.

## **CHAPTER II: AUDIT IMPACT**

In the last five years, the Government introduced five legislative amendments to correct the anomalies pointed out by us. This included one amendment made in the Finance Act 2009 inserting section 200A with effect from 1.4.2010.

The Department recovered ₹ 449.3 crore on the basis of our findings.

This Report includes 453 cases involving tax effect of ₹ 5,910.8 crore issued to the Ministry for comments. Delayed departmental response to our findings in the interest of protecting revenue, is an area of concern.

Our analysis shows that incidence of errors in scrutiny assessments completed in 2008-09 was 4.5 *per cent*. Tax effect of the erroneous demands was ₹ 12,369.8 crore which would impact the total tax demand raised by the Department by 22 *per cent*.

The Department failed to produce 13.5 *per cent* of the records requisitioned by us during 2009-10.

## **CHAPTER III: CORPORATION TAX**

This Report includes 288 cases involving tax effect of ₹ 2,104.1 crore issued to the Ministry for comments.

The Ministry has accepted our findings in 95 cases involving aggregate revenue impact of ₹ 248.4 crore. Of these, the Department has completed remedial action in 75 cases involving tax effect of ₹ 216.7 crore and initiated remedial action in 14 other cases involving tax effect of ₹ 20.7 crore. The errors in most of the assessments were committed despite clear provisions in the Act. Ineligible concessions accounted for 91 *per cent* of the errors; remaining 9 *per cent* were on account of arithmetical and other errors.

## **CHAPTER IV:**

### **PART A – INCOME TAX**

This Report includes 121 high value cases involving tax effect of ₹ 3,800.5 crore issued to the Ministry for comments.

The Ministry has accepted our findings in 46 cases involving tax effect of ₹ 93 crore. Out of these 46 cases, the Department effected recovery of ₹ 69.5 lakh in five cases, completed remedial action in 36 cases involving tax effect of ₹ 90 crore and initiated remedial action in five other cases involving tax effect of ₹ 2.4 crore. Errors and omissions in computation accounted for 52 *per cent* of mistakes while 26 *per cent* of mistakes were due to ineligible concessions given to assesseees and 19 *per cent* due to failure to assess income.

### **PART B – FRINGE BENEFIT TAX**

This Report includes 15 high value cases involving tax effect of ₹ 4.6 crore issued to the Ministry for comments.

The Ministry has accepted our findings in 12 cases involving tax effect of ₹ 4 crore. The Department completed remedial action in all 12 cases. Mistakes in computation of fringe benefit in three cases resulted in short levy of Fringe Benefit Tax of ₹ 59.6 lakh.

### **PART C – WEALTH TAX**

This Report includes 29 high value cases involving tax effect of ₹ 1.6 crore issued to the Ministry for comments.

The Ministry has accepted our findings in 19 cases involving tax effect of ₹ 30.7 lakh. Of these, the Department effected recovery of ₹ 6.5 lakh in five cases and completed remedial action in 14 other cases involving tax effect of ₹ 24.2 lakh. Non-correlation of assessment records in ten cases resulted in non levy of Wealth Tax of ₹ 1.3 crore.