

## Report of the Comptroller and Auditor General of India for the year ended March 2011



Union Government
Department of Revenue - Direct Taxes
No. 27 of 2011-12

## Report of the Comptroller and Auditor General of India

for the year ended March 2011

Union Government Department of Revenue - Direct Taxes No. 27 of 2011-12

Laid on the table of Lok Sabha/Rajya Sabha on \_\_\_\_\_

## **CONTENTS**

Page

Preface		
Overview		
CHAPTER I		
TAX ADMINISTRATION		
<u></u>		
♦ Chapter summary	1-2	
<b>♦</b> Introduction	3-3	
<ul> <li>Major policy initiatives by the Government</li> </ul>	4-4	
♦ Budget vis-à-vis revised estimates of direct tax collectio	n 4-5	
♦ Tax-GDP Ratio and Tax buoyancy	5-5	
♦ Effective rate of taxation	5-5	
<b>♦</b> Revenue foregone	6-6	
<b>♦</b> Collection of taxes	7-7	
♦ Contribution of States in direct tax collection	7-7	
<b>♦</b> Tax collection for corporate and non-corporate	8-8	
assessees at pre-assessment and post-assessment stages	S	
◆ Identification of the tax payers	8-8	
♦ Growth of tax payers	8-9	
<b>♦</b> Corporate assessees based on ROC figures	9-9	
<ul><li>Processing of returns and scrutiny assessments</li></ul>	9-10	
◆ Uncollected demand	10-11	
♦ Status of prosecution	11-11	
<ul><li>Refund cases and interest paid on refunds</li></ul>	12-12	
♦ Incorrect accounting of interest on refunds	12-13	
♦ Appeal cases	13-13	
◆ Appeals pending at CIT(A)	13-13	
♦ IT initiatives taken by the Income Tax Department	13-14	

i

•	Resource gap	14-14		
•	Sanctioned and working strength of officers	15-15		
•	Deployment of officers on assessment and			
	non-assessment charge	<b>15-15</b>		
•	Expenditure budget	15-15		
•	Cost of collection of taxes			
•	Internal audit	16-16		
	CHAPTER II			
	AUDIT IMPACT			
•	Chapter summary	17-17		
•	Statutory Audit	19-19		
•	Recovery at the instance of Audit	19-19		
•	Incidence of errors			
•	Response to Audit			
•	Response: Initial Audit			
•	Remedial action time barred			
•	Response: High value cases			
•	Response: Audit Report			
•	Non-production of records	26-26		
	CHAPTER III			
	CORPORATION TAX			
•	Chapter summary	27-28		
•	Results of Audit	29-30		
•	Errors/Omissions in computation	30-30		
•	Arithmetical errors in computation of income and tax	30-32		
•	Mistakes in levy of interest	32-32		

•	Application of incorrect rate of tax and surcharge					
•	Excess or irregular refunds/interest on refunds					
•	Ineligible concessions given to assessees					
•	<ul><li>Irregularities in allowing depreciation/business</li></ul>					
	losses/capital loss	es	33-35			
•	Incorrect allowand	ce of business expenditure	35-37			
•	Irregular exemptions/deductions/rebate					
•	Income not/under	assessed	38-38			
•	Income not/under assessed under normal provisions					
•	Income not/under assessed under special provisions					
•	Incorrect classifica	ntion and computation of capital gains	40-41			
•	Unexplained investment					
•	Others		42-42			
•	<ul> <li>Mistakes in assessment while giving effect to</li> </ul>					
	appellate orders		42-43			
•	♦ Omission in implementing provisions for deduction of					
	TDS/TCS		43-43			
•	Waiver/remission of loan not assessed to tax					
•	Over-charge of tax		44-44			
		CHAPTER IV				
		INCOME TAX, FRINGE				
		BENEFIT TAX, WEALTH TAX				
	L					
•	Chapter summary		45-45			
	-					
		PART-A: INCOME TAX				
	L					
•	Results of Audit		47-47			
•	<b>Errors/Omissions</b>	in computation	48-48			
•	Arithmetical error	s in computation of income and tax	48-48			
•	<ul> <li>Application of incorrect rate of tax and surcharge</li> </ul>					
•	Mistakes in levy of interest					

<b>♦</b>	Ineligible concessions given to assessees	50-50	
•	Incorrect allowance of business expenditure		
•	Irregular allowance of exemptions and deductions		
	to trusts/firms/societies	51-52	
•	Irregular allowance of depreciation and business losses/		
	capital losses	52-52	
•	Income not/under assessed	53-53	
•	Income not assessed		
•	Incorrect treatment of capital gain		
•	Others	54-54	
•	Omissions in implementing provisions of TDS	54-55	
	PART-B: FRINGE BENEFIT TAX		
•	Results of Audit	55-55	
•	Mistakes in computation of fringe benefit	55-56	
	PART-C: WEALTH TAX		
•	Results of Audit	56-56	
•	Non-correlation of assessment records	56-57	
	Appendices	59-91	