

OVERVIEW

The Comptroller and Auditor General of India conducts the audit of revenues from direct taxes of the Union Government under section 16 of the Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act, 1971.

CHAPTER I: TAX ADMINISTRATION

Direct taxes levied by the Parliament mainly comprise Corporation Tax on companies, Personal Income Tax and other direct taxes including Fringe Benefit Tax, Securities Transactions Tax and Wealth Tax etc. Corporation Tax constituted 66.8 *per cent* of net direct tax collection in 2010-11.

In the Budget 2010-11, the Government amended the provisions relating to direct taxes in order to: (i) lower the tax burden on individual taxpayers by widening the tax slabs; (ii) facilitate small businesses; (iii) promote investment in Research and Development (R&D) to enhance the competitive ability of the economy and (iv) encourage savings for funding infrastructure by providing a tax deduction on investment in long-term infrastructure bonds.

We noticed that the direct tax collection exceeded the budget estimates in all the years over the period 2006-07 to 2010-11 except 2008-09. The extent of actual collection exceeding the budget estimates ranged from 2.2 *per cent* in 2009-10 to 16.7 *per cent* in 2007-08.

Direct tax collection increased from ₹ 2,30,181 crore in 2006-07 to ₹ 4,46,934 crore in 2010-11 at an average annual rate of growth of 23.6 *per cent* whereas total Gross Domestic Product (GDP) has increased from ₹ 41,45,810 crore in 2006-07 to ₹ 78,75,627 crore in 2010-11 at an average annual rate of growth of 22.5 *per cent*.

Tax-GDP ratio increased marginally from 5.6 *per cent* in 2006-07 to 5.7 *per cent* in 2010-11 through 6.6 *per cent* in 2007-08 and 6.1 *per cent* in 2009-10.

We found that the revenue foregone on account of tax exemptions has increased by 111.8 *per cent* from ₹ 65,587 crore in 2006-07 to ₹ 1,38,921 crore in 2010-11. Corporate sector accounted for 63.5 *per cent* of revenue foregone in 2010-11. The revenue foregone on account of tax exemptions in respect of corporate taxpayers increased by 76.3 *per cent* as compared to 226.6 *per cent* in respect of non-corporate taxpayers during 2006-07 to 2010-11.

In the case of the corporate assesseees, net collection increased from ₹ 1,44,318 crore in 2006-07 to ₹ 2,98,687 crore in 2010-11 at an average annual rate of growth of 26.7 *per cent* and in the case of non-

corporate assesseees, net collection increased from ₹ 75,079 crore in 2006-07 to ₹ 1,40,042 crore in 2010-11 at an average annual rate of growth of 21.6 per cent.

Voluntary compliance by assesseees (pre-assessment stage) accounted for 81.4 per cent of the gross collections in 2010-11.

We observed that the assessee base grew over the last five years from 313.0 lakh taxpayers in 2006-07 to 335.8 lakh taxpayers in 2010-11 registering an increase of 7.3 per cent. The total direct tax collection has increased by 94.2 per cent during the same period. The increase in tax collection was around thirteen times as compared to increase in the taxpayers' base. This indicates a very limited widening of tax base over the years.

Out of total 8.5 lakh scrutiny assessment cases, the Department had disposed off 4.6 lakh (53.7 per cent) cases in 2010-11. The pendency of scrutiny assessments increased from 2.8 lakh in 2006-07 to 3.9 lakh in 2010-11.

The certified demand remaining uncollected was ₹ 1,06,990.8 crore (96.3 per cent) in 2010-11 as compared to ₹ 95,122.4 crore in 2009-10 registering an increase of 12.5 per cent.

In 2010-11, only 64.1 per cent of the total demands cumulatively raised in assessments upto that year had been collected.

We noticed that the Government refunded ₹ 75,169 crore including interest of ₹ 10,499.4 crore (13.9 per cent) in 2010-11. Interestingly number of pending direct refund cases has gone up from 4.4 lakh in 2006-07 to 19.5 lakh in 2010-11.

Only 70,474 appeals (27.4 per cent) were disposed off by the CIT(A) during 2010-11. The amount locked up in appeal cases with CIT(A) was ₹ 2.9 lakh crore in 2010-11. The amount locked up in appeals at ITAT/High Court/Supreme Court's level was ₹ 2.1 lakh crore in 72,196 cases as on 31 March 2011.

Cost of collection showed a uniform trend of about 0.6 per cent during 2006-07 to 2010-11 except 2008-09 and 2009-10, where it was 0.7 per cent.

Internal Audit Wing of the Income Tax Department completed 66 per cent of the targeted audits. We detected mistakes in the assessments previously checked in Internal Audit. This indicates a need for improvement in the quality of Internal Audit.

CHAPTER II: AUDIT IMPACT

We reported 464 cases involving tax effect of ₹ 3,641.7 crore to the Ministry for comments. Ministry/ Department has accepted our observations in 46 *per cent* cases. Delayed departmental response to our findings in the interest of protecting revenue, is an area of concern. It may be mentioned that 7,942 cases were rendered time barred due to delay in taking timely action on erroneous cases as on 31 March 2011 leading to loss of revenue of ₹ 5,334.5 crore.

Our analysis shows that incidence of errors in scrutiny assessments completed in 2009-10 was 5.6 *per cent*. Tax effect of the erroneous demands was ₹ 12,815.7 crore which would impact the total tax demand raised by the Department by 17.5 *per cent*.

The Department recovered ₹ 2,605.1 crore in the last five years from demands raised to rectify the errors in assessments pointed out by us. This includes ₹ 311.7 crore recovered in 2010-11.

The Department failed to produce 11.5 *per cent* of the records requisitioned by us during 2010-11.

CHAPTER III: CORPORATION TAX

We referred 302 cases involving tax effect of ₹ 3,548.4 crore to the Ministry of Finance between June and October 2011 for their comments. The Ministry/Department have accepted the observations in 148 cases involving tax effect of ₹ 2,083.3 crore. Out of these accepted cases, the Department effected recovery of ₹ 2.1 crore in four cases, completed remedial action in 91 cases involving tax effect of ₹ 419 crore and initiated remedial action in 30 other cases involving tax effect of ₹ 817.5 crore.

This Chapter discusses 177 cases of which 173 cases involve undercharge of ₹ 2,297.1 crore and four cases involve overcharge of ₹ 12.7 crore. Irregularities/mistakes/omissions were classified in four broad categories namely 'errors and omissions in computation' involving tax effect of ₹ 1,408.7 crore, 'ineligible concessions given to assesses' (tax effect of ₹ 578.8 crore), 'income not/under assessed' (tax effect of ₹ 197 crore) and 'others' involving tax effect of ₹ 125.3 crore.

CHAPTER IV:

PART A – INCOME TAX

We reported 122 cases involving tax effect of ₹ 82,9 crore to the Ministry for their comments. The Ministry/Department has accepted our findings in 46 cases involving tax effect of ₹ 48 crore. Out of these, the Department effected recovery of ₹ 83,6 lakh in three cases, completed remedial action in 35 cases involving tax effect of ₹ 33,6 crore and initiated remedial action in eight other cases involving tax effect of ₹ 13,6 crore.

This chapter discusses 76 cases involving tax effect of ₹ 34,9 crore. The mistakes have been classified in four broad categories namely 'Errors and omissions in computation, Ineligible concessions given to assesses, Income not assessed/under assessed and others'. In terms of tax effect, 65 *per cent* of the mistakes pertained to 'Ineligible concessions given to assesseees'.

PART B – FRINGE BENEFIT TAX

We reported 23 cases involving tax effect of ₹ 9,7 crore issued to the Ministry for their comments. The Ministry/ Department has accepted our findings in 11 cases involving tax effect of ₹ 68 lakh. Out of these, the Department effected recovery of ₹ 4 lakh in two cases and completed remedial action in nine cases involving revenue impact of ₹ 64 lakh.

PART C – WEALTH TAX

We reported 17 cases involving tax effect of ₹ 71,6 lakh to the Ministry for their comments. The Ministry/Department has accepted 10 cases involving aggregate revenue impact of ₹ 45,9 lakh. Out of these, the Department effected recovery of ₹ 13,2 lakh in four cases and completed remedial action in five cases involving tax effect of ₹ 31,6 lakh. The Department has initiated remedial action in one case involving tax effect of ₹ 1,1 lakh.