

Chapter I: Introduction

1.1 Expansion of tax base is necessary to bring more persons under the tax net so that more revenue may be generated. Therefore, the Income Tax Department (ITD) collects, disseminates and utilizes useful information from various sources to curb evasion of tax. Annual Central Action Plans of ITD have aimed at 15 *per cent* annual increase of new assesses.

Central Information Branch (CIB)

1.2 CIB, formed in 1975¹, is the nodal agency of ITD for strengthening tax data base. Its key function areas are: (i) collection, collation of information from internal as well as external sources and its dissemination to Assessing Officers (AOs) and other users in ITD; (ii) widening of tax base through identification of stop filers and non-filers; (iii) deepening of tax base by providing information for proper selection of cases for scrutiny assessments. CIB collects information relating to financial transactions like investment, expenses, payment of taxes, etc. and details of persons who are involved in some specified activities. This information relates to 40 internal and external source codes (**Annex**). Section 139A(5)(c) of the Income Tax Act, 1961 (Act) read with Rule 114B of Income Tax Rules, 1962 (Rules) made quoting of PAN in respect of 16 source codes compulsory. There are 17 CIB offices in ITD. With effect from August 2011², CIB has been placed under newly created Directorate of Income Tax (Intelligence & Criminal Investigation) headed by DGIT-I&CI.

1.3 ITD Systems has CIB module for sorting, collating, managing, organizing and analyzing information coming from various sources. CIB uploads information in CIB module under control of Director General Income Tax (System).

Organization set up

1.4 Member (Investigation) of the Central Board of Direct Taxes (CBDT) has the overall responsibility of investigation management in ITD. There is an attached office of the Director General of Income Tax–(Intelligence and Criminal Investigation (DGIT-I&CI) under him, set up in August 2011, at New Delhi for this purpose. There are 17 field formations - 08 DsIT (I&CI) at Ahmadabad, Chandigarh, Chennai, Delhi, Jaipur, Kolkata, Lucknow and Mumbai; and 09 DsIT (Intelligence) at Bangalore, Bhubaneswar, Bhopal, Guwahati, Hyderabad, Kochi, Kanpur, Pune and Patna. Prior to formation of

1 CBDT in August 1975 streamlined Information set-up and named it as Central Information Branch

2 CBDT's notification no. 42/2011 dated 19.8.2011

DGIT-I&CI in August 2011, the CIB offices functioned under Director General of Income Tax (Investigation) in each state.

1.5 The Directorate of Income Tax (System), created in the year 1981 and headed by Director General-IT System (DGIT-S), coordinates at the apex level all activities relating to introduction of computerization in ITD. DGIT-S is assisted by 05 Directors of Income Tax (DsIT) and 03 Officers on Special Duty (OSD). DIT-II is in-charge of National Securities Depository Limited (NSDL), Online Tax Accounting System (OLTAS) and CIB module.

1.6 The organogram of ITD dealing 'Strengthening of Tax Base through use of Information' and person in position against sanctioned strength (given in brackets) as on 31 March 2012, is as follows:

Central Board of Direct Taxes			
Member Legislation & Computerization	Member Investigation		
DG-IT Systems	DG-IT Intelligence & Criminal Investigation		
DIT-II NSDL & OLTAS	DIT (Admn) 1 (1)	DsIT (I) (9 field offices) 7 (8)	DsIT (I & CI) (8 field offices) 8 (8)
	Addl/JT DsIT 1 (3)	Addl/JT DsIT 6 (9)	Addl/Jt DsIT 6 (12)
	DD/Asstt DsIT 3 (5)	DD/Asstt DsIT 6 (16)	DD/Asstt DsIT 9 (25)
	ITOs 3 (5)	ITOs 44 (57)	ITOs 58 (81)
	AOs DDOs 1 (1)	AOs DDOs 4 (7)	AOs DDOs 6 (7)

1.7 There is overall³ shortage of 599 (53.63 %) persons against sanctioned strength of 1117 in DGIT-I & CI.

³ This includes shortage of 515 persons against sanctioned strength of 868 in other cadres.

1.8 The expenditure incurred against the budget during the last four years ended on 31 March 2012 to I & CI wing is given in Table 1.1 below.

Table 1.1: Budget and Expenditure

Financial Year	Budget	Expenditure	Unspent budget		Lakh ₹
			Amount	(in per cent)	
FY 09	2,87,014	1,71,015	1,15,999		40.4
FY 10	2,67,570	2,25,452	42,118		15.7
FY 11	2,72,705	2,32,013	40,692		14.9
FY 12	3,06,197	3,00,585	5,612		1.8

Why we chose the topic?

1.9 It was over 20 years ago that audit had reviewed⁴ the functioning of CIB. The present performance audit on 'Strengthening the Tax Base through use of Information', seeks to study the developments in strengthening of tax database, especially with reference to the scheme of furnishing of Annual Information Return (AIR) through CIB/NSDL under section 285BA of the Act, implemented since 01 April 2005.

Audit Objectives

1.10 The following are the audit objectives:

- a. Evaluation of the process of collection, collation, transmission and utilization of information by ITD towards widening and deepening the tax base;
- b. Evaluation of the effectiveness of working of CIB, NSDL, DGIT-S, CsIT, Assessing Officers and DG (Investigation)/CsIT(TDS) with regards to the flow of information;
- c. Evaluation of the effectiveness of the scheme of furnishing of AIR through CIB/ NSDL under section 285BA as implemented since 01 April 2005.

Audit Scope

1.11 This study covers the period from FY 08 to FY 11. We carried out examination of records of CIB and DGIT-S and cross-checked the utilization of information provided by them to AOs in 16 states, viz. Assam, Andhra Pradesh, Bihar, Delhi, Haryana, Gujarat, Kolkata, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu and Uttar Pradesh. In these states, we examined information collected by 17 CIB offices.

⁴ In C&AG's Report no 5 of 1991, Union Government (Revenue Receipts – Direct Taxes)

Audit Methodology and Sampling for audit

1.12 We examined records of CIB offices and undertook review of procedures to receive and upload AIR information in TIN Facilitation Centres (TIN-FCs) of National Securities Depository Limited (NSDL). We selected five TIN-FCs in each selected state. To see the utilization of information during the assessment, top 30 *per cent* CsIT subject to maximum of five CsIT in each state with all assessment charges under the selected CsIT, (in all 60 CITs) were selected on the basis of risk analysis. Further, we took up a maximum of 100 assessment cases for cross verification on the basis of stratified random sampling per year per selected charge.

Legal Provisions

1.13 The Act contains statutory provisions for collecting the information on specified transactions from specified persons and quotation of PAN. In addition, CBDT has issued various instructions from time to time in this regard. These are as follows:

- a.** Section 285BA is specific to the functioning of CIB. CBDT circular no. 7/2005 dated 29 August 2005 prescribes that AIR is to be filed in terms of Rule 114E by the 'specified persons' in respect of those 'specified transactions' which are registered or recorded by them during financial year. The Board has authorized NSDL as the agency to receive AIRs on behalf of CIB. NSDL has started receiving AIRs from August 2005.
- b.** Section 139A read with Rules 114B and 114C specifies compulsory quoting of PAN in certain transactions.
- c.** Board's instruction no. 1943 dated 22 August 1997, revised instruction vide letter F. no. 414/47/2002 IT (Inv. I) dated 05 September 2002 and further rationalized instructions vide letter no. 414/ 66/2009 (Inv. I) dated 22 December 2009 laid down about importance of sources of information.
- d.** Instruction nos. 6/2006 of 01 August 2006 and 01/2009 of 12 February 2009 etc. deal with utilization of information in AIR during assessment.

Acknowledgement

1.14 We acknowledge the cooperation of ITD in providing the necessary records and information in connection with the conduct of this performance audit. An entry conference was held with CBDT in November 2011. The audit objectives, scope of audit and the main areas of audit examination were explained in the meeting.

1.15 The exit conference was held (January 2013) with CBDT. We have suitably incorporated CBDT's views in this report.