Chapter I

Direct Tax Administration

1.1 Resources of the Union Government

1.1.1 The Government of India's resources include all revenues received by the Union Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans. Tax revenue resources of the Union Government consist of revenue receipts from direct and indirect taxes. Table 1.1 presents a summary of receipts of the Union Government, which amounted to ₹ 53,67,988.99 crore[1] for FY 2012-13. Out of this, its own receipts were ₹ 13,99,951.05 crore including gross tax receipts of ₹ 10,36,460.45 crore.

Table 1.1: Resources of the Union Government	(₹ in crore)
A. Total Revenue Receipts	13,47,437.62
i. Direct Tax Receipts[1]	*5,58,989.47*
ii. Indirect Tax Receipts including other taxes[1]	*4,77,470.98*
iii. Non-Tax Receipts including Grants-in-aid & contributions	*3,10,977.17*
B. Miscellaneous Capital Receipts	25,889.80
C. Recovery of Loan & Advances	26,623.63
D. Public Debt Receipts	39,68,037.94
Receipts of Government of India (A+B+C+D)	**53,67,988.99**
Note: Total Revenue Receipts include ₹ 2,91,546.61 crore, share of net proceeds of direct and indirect taxes directly assigned to states.	

1.2 Nature of Direct Taxes

1.2.1 Direct taxes levied by the Parliament mainly comprise:

- **Corporation Tax** levied on income of the companies and business organizations.

- **Income Tax** levied on income of persons, other than companies, namely individuals or Hindu Undivided Families (HUFs), firms, co-operative societies, trusts, bodies of individuals, association of persons and every artificial juridical person based on one's residential status.

1.2.2 **Other direct taxes** including **Wealth Tax**[2], **Securities Transactions Tax**[3] etc. It also includes **Fringe Benefit Tax, Banking Cash Transaction Tax, Expenditure Tax, Interest Tax, Hotel Receipts Tax and Estate Duties**; all of which have now been abolished.

1.2.3 Table 1.2 provides a snapshot of direct tax administration.

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[1] Source: Union Finance Accounts of FY 2012-13. Direct Tax Receipts and Indirect Tax Receipts including other taxes have been worked out from the Union Finance Accounts of FY 2012-13.

[2] Tax chargeable on the net wealth comprises certain assets specified under section 2(ea) of the Wealth Tax Act, 1957.

[3] Tax on the value of taxable securities purchased and sold through a recognized stock exchange in India. However, no rebate under section 88E is allowable with effect from assessment year 2009-10.

Table 1.2: Direct Tax Administration (₹ in crore)

	2008-09	2009-10	2010-11	2011-12	2012-13
1. Direct tax collection	3,33,857	3,77,594	4,45,995	4,93,987	5,58,989
2. Effective assessees (in lakh)	326.5	340.9	335.8	363.5	373.8
3. Pre-assessment collection	3,02,341	3,51,660	4,18,094	4,77,853	5,25,918
4. Post-assessment collection	56,188	73,053	95,804	1,01,646	1,11,014
5. Scrutiny assessments completed (in number)	5,38,505	4,29,585	4,55,212	3,69,320	3,08,398
6. Scrutiny assessment pending (in number)	4,15,262	4,41,035	3,91,983	4,05,487	2,85,363
7. Direct refund claims pending (in lakh)	15.5	19.4	19.5	12.5	11.2
8. Refunds	39,097	57,101	75,169	93,814	83,766
9. Interest on refunds	5,778	6,876	10,499	6,486	6,666
10. Demand pending	2,01,276	2,29,032	2,91,629	4,08,418	4,86,180
11. Appeals pending with CIT(A) (in number)	1,58,031	1,80,991	1,87,182	2,30,616	1,99,390
12. Certified demand pending	27,461	95,122	1,06,991	1,13,532	1,53,818

Source: Sl. no. 1 - Union Finance Accounts, Sl. no. 2, 5, 6, 7, 9, 11 and 12 - Directorate General of Income Tax (Logistics), Sl. no. 3, 4 and 8 - Pr. CCA, CBDT and Sl. no. 10 - Directorate of Income Tax (O & MS)

The details of tax administration are given in *Appendix-1*.

1.3 Functions and responsibilities of the Board

The Central Board of Direct Taxes (CBDT) under Department of Revenue (DOR) in the Ministry of Finance provides essential inputs for policy and planning of direct taxes in India. At the same time, it is also responsible for administration of direct tax laws through Income Tax Department (ITD). ITD deals with matters relating to levy and collection of direct taxes and *inter alia* the issues of tax evasion, revenue intelligence, widening of tax-base, providing tax payers services, grievance redressal mechanism. *Appendix-2* gives brief background of the key processes involved, role and responsibilities of DOR/CBDT.

The overall staff strength of the ITD is 57,793[4]. The sanctioned and working strength of the officers[5] as on 31 March 2013 is 8,646 and 7,493 respectively. The organizational structure of CBDT, its attached offices and field formations is shown in *Appendix-3*.

[4] This has been revised to 78,544 after cadre restructuring of the Department approved by the Government on 23.5.2013.

[5] CCIT/DGIT, CIT/DIT, Addl. CIT/DIT, JCIT/JDIT, DCIT/DDIT, ACIT/ADIT and ITOs

1.4 Growth of Direct Taxes - Trends and composition

1.4.1 Table 1.3 below gives the relative growth of direct taxes (DT) during FY 2008-09 to FY 2012-13. We find that share of direct taxes to Gross Tax Receipts[6] (GTR) decreased from 55.16 *per cent* to 53.93 *per cent* during the period. However, DT grew by 67.43 *per cent* during the same period. Direct taxes have still retained a pre-dominant position, which is a healthy sign and indicative of progressive tax system in the country.

Table 1.3: Growth of Direct Taxes (₹ in crore)

Financial Year	DT	GTR	DT as *per cent* of GTR	GDP	DT as *per cent* of GDP
2008-09	3,33,857	6,05,298	55.16	56,30,063	5.93
2009-10	3,77,594	6,24,527	60.46	64,77,827	5.83
2010-11	4,45,995	7,93,307	56.22	77,95,314	5.72
2011-12	4,93,987	8,89,118	55.56	90,09,722	5.48
2012-13	5,58,989	10,36,460	53.93	1,01,13,281	5.53

Source: DT and GTR - Union Finance Accounts, GDP – Press note of Press information Bureau, Central Statistical Organization (CSO), Ministry of Statistics. Press note dated 7 February 2014 indicates that the figures for GDP at current prices/market prices for the year 2011-12 are 2nd revised estimates and for the year 2012-13 are 1st revised estimates. The data is based on current market prices with base year 2004-05. Figures are continually being revised by CSO and this data is meant for an indicative comparison of fiscal performance with macro-economic performance.

1.4.2 Table 1.4 below gives the growth of direct taxes and its major components i.e. Corporation Tax (CT) and Income Tax (IT) in absolute terms during FY 2008-09 to FY 2012-13. During the period, the average rate of growth of CT and IT was 16.74 *per cent* and 21.39 *per cent* respectively. *Appendix-4* shows rates of taxation for corporate and non-corporate assessees for the AY 2008-09 to AY 2012-13.

Table 1.4: Growth of Direct Tax receipts and its major components (₹ in crore)

Financial Year	Direct Taxes	*per cent* growth over previous year	CT	*per cent* growth over previous year	IT	*per cent* growth over previous year
2008-09	3,33,857	6.93	2,13,395	10.62	1,06,075	3.33
2009-10	3,77,594	13.10	2,44,725	14.68	1,22,417	15.41
2010-11	4,45,995	18.12	2,98,688	22.05	1,39,102	13.63
2011-12	4,93,987	10.76	3,22,816	8.08	1,64,525	18.28
2012-13	5,58,989	13.16	3,56,326	10.38	1,96,843	19.64

1.4.3 Table 1.5 and 1.6 below shows growth of direct tax collection through different modes {Tax deducted at source (TDS), advance tax, self assessment tax, regular assessment tax} in respect of both corporation and income tax. Collection through advance tax, self assessment tax and TDS is largely indicative of degree of voluntary compliance in the system. Collection of tax through regular assessment mode occurs on assessment.

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6 It includes all direct and indirect taxes.

1.4.4 Table 1.5 shows that advance tax increased from 52.47 *per cent* of the total corporate collection in FY 2011-12 to 55.33 *per cent* in FY 2012-13. TDS fell from 23.10 *per cent* of the total corporate collection in FY 2011-12 to 17.73 *per cent* in FY 2012-13. However, regular assessment tax increased from 10.05 *per cent* of the total corporate collection in FY 2011-12 to 12.82 *per cent* in FY 2012-13.

Table 1.5: Corporate assessees' collections (₹ in crore)

Financial Year	TDS	Advance Tax	Self Assessment Tax	Regular Assessment Tax	Collections
2008-09	60,088	1,22,697	18,451	12,633	2,42,304
2009-10	60,850	1,48,791	20,159	24,995	2,88,162
2010-11	68,313	1,84,263	23,056	41,916	3,55,266
2011-12	91,974	2,08,886	13,632	40,030	3,98,116
2012-13	74,481	2,32,467	18,731	53,874	4,20,147

Note: The above figures were received from the Pr. CCA, CBDT during the respective years. The figures of collection also include other receipts including surcharge & cess.

1.4.5 Table 1.6 shows that TDS collections increased from 58.83 *per cent* of total non-corporate collection in FY 2011-12 to 62.81 *per cent* in FY 2012-13. Advance tax fell from 23.51 *per cent* of total non-corporate collection in FY 2011-12 to 19.99 *per cent* in FY 2012-13. However, regular assessment tax decreased from 6.33 *per cent* of the total non-corporate collection in FY 2011-12 to 3.94 *per cent* in FY 2012-13.

Table 1.6: Non-corporate assessees' collections (₹ in crore)

Financial Year	TDS	Advance Tax	Self Assessment Tax	Regular Assessment Tax	Collections
2008-09	68,142	20,635	12,328	8,704	1,16,225
2009-10	84,885	24,626	12,349	8,279	1,36,551
2010-11	1,00,356	28,275	13,831	9,922	1,58,632
2011-12	1,06,705	42,640	14,016	11,482	1,81,383
2012-13	1,36,173	43,327	20,739	8,544	2,16,785

Note: The above figures were received from the Pr. CCA, CBDT during the respective years. The figures of collection also include other receipts including surcharge & cess.

1.4.6 Chart 1.1 and 1.2 below shows the pre-assessment and post assessment collection in respect of corporate and non-corporate assessees during FY 2008-09 to 2012-13.

Chart 1.1 : Pre and Post assessment collection for Corporate assessees (in *per cent*)

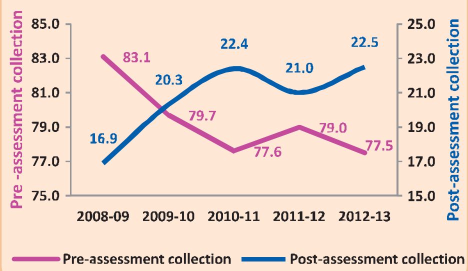
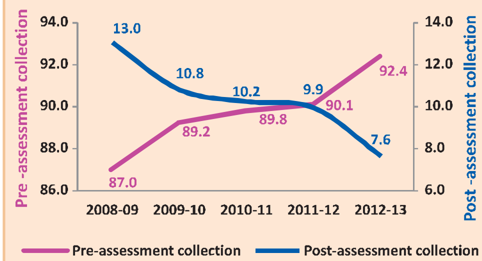


Chart 1.2 : Pre and Post assessment collection for Non-corporate assessees (in *per cent*)

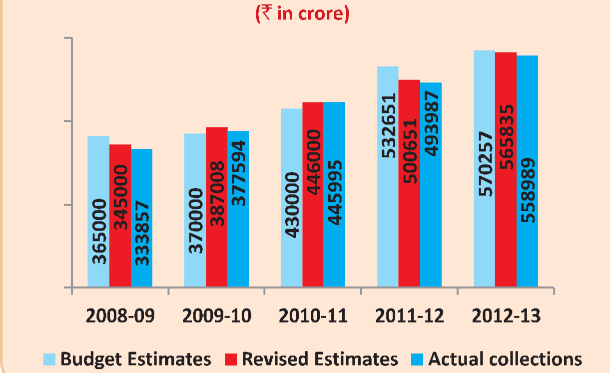


1.4.7 Voluntary compliance in respect of corporate assessees declined from 83.1 *per cent* to 77.5 *per cent* of total collection during FY 2008-09 to FY 2012-13. However, it increased for non-corporate assessees from 87.0 *per cent* to 92.4 *per cent* of total collection during the same period.

1.5 Budgeting of Direct Taxation

1.5.1 The Budget reflects the Government's vision and intent. The revenue budget consists of the revenue receipts of the Government (tax revenues and other revenues) and the expenditure met from these revenues. Comparison of budget estimates with the corresponding actual is an indicator of quality of fiscal prudence. Chart 1.3 indicates Budget Estimates (BE), Revised Estimates (RE) and actual collections of direct taxes.

Chart 1.3 : Budget Estimates, Revised Estimates and Actual Collection of Direct Taxes (₹ in crore)



1.5.2 The actual collection of direct tax exceeded the budget estimates in FY 2009-10 and FY 2010-11. The extent of actual collection exceeding the budget estimates ranged from 2.05 *per cent* in FY 2009-10 to 3.72 *per cent* in FY 2010-11. The revised estimates were found realistic in all years as variation in actual collection ranged from (-) 3.23 *per cent* to zero *per cent* of revised estimates. Table 1.7 below shows the details.

Table 1.7: Budget Estimates, Revised Estimates vis-à-vis Actual							(₹ in crore)
Financial Year	**BE**	**RE**	**Actual**	**Actual minus BE**	**Actual minus RE**	**Difference as *per cent* of BE**	**Difference as *per cent* of RE**
2008-09	3,65,000	3,45,000	3,33,857	(-) 31,143	(-) 11,143	(-) 8.53	(-) 3.23
2009-10	3,70,000	3,87,008	3,77,594	7,594	(-) 9,414	2.05	(-) 2.43
2010-11	4,30,000	4,46,000	4,45,995	15,995	(-) 5	3.72	*Zero*
2011-12	5,32,651	5,00,651	4,93,987	(-) 38,664	(-) 6,664	(-) 7.26	(-) 1.33
2012-13	5,70,257	5,65,835	5,58,989	(-) 11,268	(-) 6,846	(-) 1.98	(-) 1.21

Note: BE and RE figures are as per respective Receipts Budget and Actual are as per respective Finance Accounts

1.6 Incorrect accounting of interest on refunds

1.6.1 Interest payment[7] is a charge on the Consolidated Fund of India and is, therefore, payable through a proper budgetary mechanism. Accordingly, Minor Head "Interest on Refunds" is to be operated under the Major Head "2020-Collection of Taxes on Income and Expenditure". However, no budget provision for 'Interest on Refund' was made in the Budget Estimates for FY 2012-13 and the expenditure on interest on refunds amounting to ₹ 6,666 crore was treated as reduction in revenue. Accounting of interest on refund as reduction in revenue is incorrect as this interest was never collected.

PAC while examining the paragraph[8] also agreed with the view of CAG that interest is an item of expenditure and should not be reduced from the Gross tax collection. The PAC, in its 96th report (February 2014), exhorted the Ministry of Finance, Department of Revenue to scrupulously abide by the constitutional provisions. The Committee has also desired that "DOR seek ex ante or ex post facto parliamentary approval for interest payment on tax refunds under article 114, 115(1)(a) and 115(1)(b) respectively".

1.7 Tax expenditure

1.7.1 The main objective of any tax system is to raise revenues necessary to fund government expenditures. The amount of revenue raised is determined to a large extent by tax base and tax rates. It is also a function of a range of measures - special tax rates, exemptions, deductions, rebates, deferrals and credits that affect the level and distribution of tax. These measures are called "tax preferences".

1.7.2 The Income-tax Act, *inter alia*, provides for tax preferences to promote savings by individuals; exports; balanced regional development; creation of infrastructure facilities; scientific research and development; cooperative sector, and accelerated depreciation for capital investment. Most of these tax benefits can be availed of by both corporate and non-corporate taxpayers.

[7] We had earlier commented that the Government was following an incorrect procedure of accounting for interest paid on refunds in Audit Reports of 2004, 2005, 2006, 2007, 2008, 2009. 2009-10, 2010-11, 2011-12 and 2013.

[8] Paragraph no. 4.1.1 of Report no. 1 of 2011-12 – Union Government – Accounts of the Union Government (Civil)

1.7.3 The Fiscal Responsibility and Budget Management Act 2003, requires the Central Government to take suitable measures to ensure greater transparency in its fiscal operations in public interest and minimize, as far as practicable, secrecy in the preparation of annual financial statement and demand for grants. The 13th Finance Commission also recommended adoption of more transparent methodology in calculating tax expenditure and its disclosure.

1.7.4 Union Receipt Budget depicts statement of tax expenditure since FY 2005-06 which estimates some major taxes only. These estimates are based on returns filed electronically by corporate and non-corporate assessees in recent years. The revenue forgone on account of tax exemptions is increasing in absolute terms over the years (except FY 2010-11) but tax expenditure as a percentage of GDP, Direct Taxes and GTR are declining as shown in Table 1.8.

Table 1.8: Tax Expenditure (₹ in crore)

Financial Year	Total Tax expenditure	Tax expenditure as *per cent* of GDP	DT	GTR
2008-09	1,04,471	1.86	31.29	17.26
2009-10	1,18,023	1.82	31.26	18.90
2010-11	94,738	1.22	21.24	11.94
2011-12	1,01,140	1.12	20.47	11.38
2012-13	1,13,466	1.12	20.30	10.95

Note: The tax expenditure figures are as per Receipts Budget. For financial year 2012-13, figures of revenue forgone are projected.

1.7.5 There is no mechanism in DOR to monitor the results of impact of such revenue forgone. DOR carried out annual exercise of estimating the revenue forgone on account of tax incentives which was reflected in the Budget. According to DOR, the results of impact of such revenue forgone on a particular sector/area are to be monitored by the respective Ministries and they are not giving regular feedback on achievements of objectives. There is a need to periodically examine/assess the efficiency and effectiveness of tax expenditures as it involved risks.

1.7.6 However, during the course of audit of field formations of ITD during FY 2012-13 or earlier years, we observed that the assessing officers have irregularly extended benefits of tax exemptions to beneficiaries that are not entitled to the same. Details are enumerated in paragraphs 3.3.1 and 4.3.1 of Chapters III and IV respectively. In these cases, we noticed 146 cases pertaining to corporate assessees who enjoyed ineligible concessions/ exemptions/deductions amounting to ₹ 1,005.48 crore and 35 cases pertaining to non-corporate assessees who derived benefits totalling ₹ 80.06 crore.

1.7.7 The effective tax rate (ETR) is the rate of tax incident on corporate assessees after availing all tax expenditure. ETR for companies was 22.85 *per cent* in FY 2011-12 (down from 24.10 *per cent* in FY 2010-11) against statutory tax rate of 32.44 *per cent* as indicated in Receipt Budget 2013-14.

1.8 Widening and deepening of tax base

1.8.1 The Department has different mechanisms available to enhance the assessee base which includes survey, information sharing with other tax departments and third party information available in annual information returns. Automation also facilitates greater cross linking[9]. Most of these mechanisms are available at the level of the assessing officers. ITD also undertook major IT initiatives during last one decade which they could leverage for widening and deepening of tax base.

1.8.2 Table 1.9 and 1.10 below gives the details of non-corporate and corporate assessees in different categories.

Table 1.9: Non-Corporate Assessees **(Figures in lakh)**

Financial Year	A[10]	B[11]	B[12]	C[13]	D[14]	Total
2008-09	278.36	31.15	10.93	2.67	0.12	323.23
2009-10	283.72	35.64	14.58	3.11	0.12	337.17
2010-11	271.29	38.36	17.78	4.49	0.12	332.04
2011-12	267.68	60.26	21.23	6.57	1.87	357.61
2012-13	276.13	58.21	23.94	6.59	3.00	367.87

Source: Directorate General of Income Tax (Logistics), Research & Statistics Wing, New Delhi

Table 1.10: Corporate Assessees **(Figures in lakh)**

Financial Year	A[15]	B[16]	B[17]	C[13]	D[14]	Total	Assessees having income above ₹ 25 lakh	Working companies as per RoC as on 31 March
2008-09	1.67	0.59	0.48	0.51	0.03	3.28	0.07	7.50
2009-10	1.84	0.65	0.61	0.56	0.02	3.68	0.09	8.40
2010-11	1.69	0.76	0.67	0.62	0.02	3.76	0.22	7.20
2011-12	2.95	0.91	0.96	1.00	0.03	5.85	0.14	8.01
2012-13	3.05	0.97	0.83	1.02	0.03	5.90	0.14	8.84

Source: Directorate General of Income Tax (Logistics), Research & Statistics Wing, New Delhi

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9 Information about non-filers of TDS returns from e-TDS, Annual comparative figures of TDS deposited by big corporate & non-corporate deductors, linking TAN data in order to ensure better compliance from them, linking tax returns with the PAN data base and linking return submitted by deductors on TDS deductions with the returns of the deductee.

10 Category 'A' assessees – Assessments with income/loss below ₹ two lakh;

11 Category 'B' assessees (lower income group) - Assessments with income/loss above ₹ two lakh and above; but below ₹ five lakh;

12 Category 'B' assessees - Assessments with income/loss above ₹ five lakh and above; but below ₹ 10 lakh;

13 Category 'C' assessees - Assessments with income/loss of ₹ 10 lakh and above;

14 Category 'D' assessees – Search and seizure assessments.

15 Category 'A' asseessees – Assessments with income/loss below ₹ 50,000;

16 Category 'B' assessees (lower income group) – Assessments with income/loss of ₹ 50,000 and above; but below ₹ five lakh;

17 Category 'B' assessees (higher income group) – Assessments with income/loss of ₹ five lakh and above but below ₹ 10.00 lakh;

1.8.3 The average annual growth of non-corporate assessees' base[18] was 3.45 *per cent* during FY 2008-09 to FY 2012-13 against 19.97 *per cent* in respect of corporate assessees' base during the same period. The 'C' category non-corporate assessees increased from 2.67 lakh in FY 2008-09 to 6.59 lakh in FY 2012-13. However, Corporate assessees increased from 0.51 lakh to 1.02 lakh during the same period. The number of corporate assessees having income above ₹ 25 lakh came down from 0.22 lakh in FY 2010-11 to 0.14 lakh in FY 2012-13. The number of corporate assessees (5.90 lakh) is different from the number of companies (8.84 lakh) registered with Registrar of Companies (ROCs)[19]. The department has failed to reconcile the differences.

1.9 Income escaping assessment

1.9.1 Any sound tax administration system aims to take positive steps to prevent evasion of taxes by assessees, assess the tax receivables in the best interest of revenue and strive to widen and deepen the tax base to bring under its ambit untaxed or under taxed assessees. In our Compliance Audit for FY 2012-13, we noticed several cases where such efforts on the part of the department were found wanting.

1.9.2 We have reported 36 cases of corporate assessees whose income was not assessed/under assessed with tax effect of ₹ 251.80 crore and 47 cases of non-corporate assessees whose income was not assessed/ under assessed with tax effect of ₹ 29.10 crore. Details are enumerated in paragraphs 3.4.1 and 4.4.1 of Chapters III and IV respectively. Besides, we noticed 1103 cases of omission in implementing provisions of TDS/TCS in compliance audit during FY 2012-13 with tax effect of ₹ 1,118.14 crore (refer paragraph 2.5.4, *Appendix-8*), thereby indicating failure to check escapement of income.

1.10 Tax debt - Uncollected demand

1.10.1 The uncollected demand[20] is rising despite clear provisions in the Act to enforce collection and recovery of outstanding demand viz. attachment and sale of assessees' movable and immovable property, appointment of a receiver for the management of assessees' properties and imprisonment. Tax demands remain irrecoverable for a long period in spite of exercise of the powers of recovery conferred under the Act. Table 1.11 below gives the trend of uncollected demand pending during the period FY 2008-09 to FY 2012-13.

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[18] Source: Directorate of Income Tax (Legal & Research), Research & Statistics Wing
[19] Source: Ministry of Corporate Affairs (R & A Division)
[20] Source: CAP-I

Table 1.11: Position of Uncollected Demand				(₹ in crore)
Financial Year	**Demand of earlier year's pending collection**	**Current year's demand pending collection**	**Total demand pending**	**Demand difficult to recover (in *per cent*)**
2008-09	93,344	1,07,932	2,01,276	1,87,575 (93.19)
2009-10	1,81,612	47,420	2,29,032	2,12,758 (92.89)
2010-11	2,02,859	88,770	2,91,629	2,71,143 (92.98)
2011-12	2,65,040	1,43,378	4,08,418	3,87,614 (94.91)
2012-13	4,09,456	76,724	4,86,180	4,66,854 (96.02)

Source: CAP I Demand & Collection Statement alongwith Analysis for the month of March 2013

CBDT attributed (March 2014) various reasons viz. inadequate assets for recovery, cases under liquidation/BIFR, assessee not traceable, demand stayed by various authorities etc. leading to demand difficult to recover. The position of unrealized revenue is monitored regularly to identify the causes in each case and the possibility of collections is constantly evaluated to ensure recovery.

1.10.2 Out of total pending demand, the Department indicated that more than 96 *per cent* is difficult to recover in FY 2012-13. Pending demands at the end of the year increased more than twice during FY 2008-09 to FY 2012-13.

CBDT stated (March 2014) that the increase has to be seen in the context of increase in the net tax collection, number of assessees, assessments made during the same period and prolonged litigations at various levels.

1.10.3 Defaults in payment of tax are referred to Tax Recovery Officers (TROs) who draw up a certificate specifying the amount of arrears due from the assessees and proceed to recover the amount. The recovery mechanism is deficient as certified demand remaining uncollected increased to ₹ 1.54 lakh crore in FY 2012-13 from ₹ 0.27 lakh crore in FY 2008-09.

CBDT stated (March 2014) that due to time consuming processes coupled with shortage of manpower, the efforts by the TRO for recovery of demand do not yield immediate results.

1.11 Status of prosecution

Table 1.12 below shows the status of prosecutions launched, cases decided viz. convicted, compounded and acquitted during the period from FY 2008-09 to FY 2012-13.

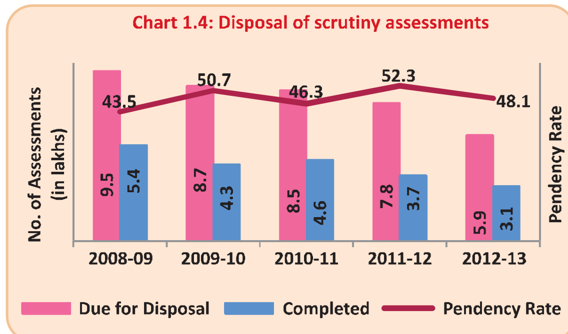
Table 1.12: Status of Prosecution cases					(Number)
Financial Year	**Prosecution launched**	**Cases decided**	**Convictions**	**Compounded**	**Acquitted (in *per cent*)**
2008-09	162	146	14	13	119 (81.51)
2009-10	312	599	32	291	276 (46.08)
2010-11	244	356	51	83	222 (62.36)
2011-12	209	593	14	397	182 (30.69)
2012-13	267	164	15	96	53 (32.32)

Source: Central Board of Direct Taxes

The above table shows that acquittals in prosecution cases decreased sharply from 81.51 *per cent* in FY 2008-09 to 32.32 *per cent* in FY 2012-13. However, the cases of conviction increased upto 51 in FY 2010-11 from 14 in FY 2008-09 and decreased sharply to 15 in FY 2012-13. Further, as on 31 March 2013, the total number of outstanding prosecution cases was 3182.

1.12 Disposal of Scrutiny assessments

1.12.1 Chart 1.4 gives the trend of disposal and pendency of scrutiny assessments during FY 2008-09 to FY 2012-13. Assessments pending for disposal decreased from 4.1 lakh in FY 2011-12 to 2.8 lakh in FY 2012-13.



1.13 Disposal of Appeal cases

1.13.1 Table 1.13 below gives the trend of disposal and pendency of appeal cases before CIT(Appeals) during FY 2008-09 to FY 2012-13. Appeals pending with CIT(A) decreased from 75.3 *per cent* in FY 2011-12 to 70.1 *per cent* in FY 2012-13. The amount locked up in appeal cases also increased to ₹ 2.6 lakh crore (equivalent to 66.3 *per cent* of the revised revenue deficit of Government of India) in FY 2012-13 from ₹ 1.99 lakh crore in FY 2008-09.

Table 1.13: Disposal of Appeal Cases by CIT(A) (₹ in crore)

Financial Year	Appeals due for disposal	Appeals disposed of	Appeals pending	Pendency in percentage	Amount locked up in Appeals
	(Number in lakh)				
2008-09	2.24	0.66	1.58	70.4	1,99,101
2009-10	2.61	0.80	1.81	69.4	2,20,148
2010-11	2.58	0.70	1.88	72.6	1,98,088[21]
2011-12	3.06	0.76	2.30	75.3	2,42,182
2012-13	2.84	0.85	1.99	70.1	2,59,556

Source: Directorate General of Income Tax (Logistics), Research & Statistics Wing, New Delhi

1.13.2 The amount locked up in appeals at higher levels (ITAT/High Court/ Supreme Court) was ₹ 1.52 lakh crore in 69,714 cases as on 31 March 2013 in comparison to ₹ 1.63 lakh crore in 65,803 cases as on 31 March 2012.

[21] The Department initially intimated the figure as ₹ 2,93,548 crore. Subsequently, after the Audit Report no. 27 of 2011-12 was placed in the Parliament, the CBDT intimated (March 2014), this figure as ₹ 198,088 crore.

1.14 Disposal of Direct Refund claims

1.14.1 Table 1.14 below gives the trend of disposal and pendency of direct refund claims during FY 2008-09 to FY 2012-13. The number of direct refunds pending for disposal decreased to 11.2 lakh in FY 2012-13 from 12.5 lakh in FY 2011-12.

Table 1.14: Disposal of Direct Refund Claims (Number in lakh)

Financial Year	Direct Refunds due for disposal	Direct Refunds disposed of	Direct Refunds pending	Pendency in percentage
2008-09	42.2	26.7	15.5	36.7
2009-10	48.0	28.6	19.4	40.4
2010-11	59.9	40.4	19.5	32.6
2011-12	52.8	40.3	12.5	23.7
2012-13	38.8	27.6	11.2	28.8

Source: Directorate General of Income Tax (Logistics), Research & Statistics Wing, New Delhi

1.14.2 The Government has refunded ₹ 83,766 crore which includes interest of ₹ 6,666 crore (8.0 *per cent*) in 2012-13. The interest paid on refunds in 2011-12 was ₹ 6,486 crore (6.9 *per cent* of ₹ 93,814 crore, the amount refunded).

1.15 Strategic Plan of ITD (2011-15)

1.15.1 The Department has prepared a strategic plan called Vision 2020 with measurable goals and activities during 2011-15. The actionable points *inter alia* include estimating tax base and developing a revenue forecasting model, instituting study on tax leakages, setting up research unit, developing data warehouse and business intelligence model, taking initiatives in international taxation and surveillance.

1.15.2 The Prime Minister in September 2009 approved a new mechanism for 'Performance Monitoring and Evaluation System' (PMES) for all Government Ministries/Departments in India. Under this system, each Central Government/Department is required to prepare a Results Framework Documents (RFD). The High powered Committee chaired by Cabinet Secretary decided (March 2011) to include the responsibility Centres under DOR in phase III of the RFD System. Accordingly, ITD prepared its RFD for FY 2012-13. In the RFD, CBDT has intended to focus on better communication with taxpayers, better management and development of human resources in the ITD to enhance taxpayers' service and strengthening IT enabled services for taxpayers' services. In order to achieve these objectives, CBDT proposes to fill the existing vacancies, provide proper training, create better infrastructure and educate taxpayers.

1.16 ITD's IT Initiatives

1.16.1 With a view to improve the efficiency and effectiveness of the tax administration and provide management with reliable and timely information towards effective planning as also broaden the tax base, Income Tax Department (ITD) initiated computerization in early 1980s which targeted specific functionalities. By 1993, ITD had a much wide-ranging computerization road map under the umbrella of a comprehensive computerization programme (CCP). ITD has introduced many more ICT applications from time to time such as Assessee Information System (AIS), Assessment Information System (AST), On line Tax Accounting System (OLTAS), Electronic Tax Deducted System (e-TDS), Individual Running Ledger Accounting System (IRLA), Computer Aided Scrutiny System (CASS) and Enforcement Information System (EIS) for functional areas of ITD. Besides, several other internal management and housekeeping modules such as pay roll System (PAS), Manpower Management System (MMS), Judicial Reference System (JRS), Financial Resource System (FRS), Management Information System (MIS) are also working.

1.16.2 ITD established a Central Processing Centre (CPC) at Bengaluru to process e-filed returns of all India and paper returns of Karnataka and Goa. This CPC became operational in October 2009. ITD planned to commission two more CPCs for processing physical ITRs at Pune (Maharashtra), Manesar (Haryana) and one CPC for processing of TDS returns at Ghaziabad (Uttar Pradesh).

1.16.3 We had commented on four modules of ITD applications (AST, OLTAS, e-TDS and IRLA) in our Audit Report No. 23 of 2012-13 relating to IT Applications in Income Tax Department. PAC has also discussed this report during 2013-14. Final outcome is awaited.

1.16.4 The department has undertaken a separate project called Income Tax Business Application (ITBA) with which it plans to re-write the existing ITD applications in a new architecture and design. This project is at conceptual stage and is likely to be completed by April 2015. The Department initiatives towards uploading of scrutiny orders in the AST system were made mandatory with effect from FY 2011-12. Now, all AOs are required to pass scrutiny assessments orders through AST software only.

1.17 Effectiveness of Internal Audit

1.17.1 Internal audit is an important part of the Departmental control that provides assurance that demands/refunds are processed accurately by correct application of the provisions of the Act.

1.17.2 The Department introduced a new Internal Audit System w.e.f. June 2007 to have an effective and objective set up of Internal Audit wherein the assessment functions and audit functions are assigned to separate specialized wings. Under each CIT(Audit) there shall be one Addl. CIT who would be responsible for internal audit of high value cases and supervision of the audit work of special audit party (SAP) headed by Dy./Asstt. CsIT and the internal audit party (IAP) headed by ITOs. The minimum number of cases to be audited by each Addl. CIT, SAP and IAP in a year shall be 50; 300; and 1,300 (600 corporate cases & 700 non-corporate cases) respectively.

1.17.3 Based on the working strength of Internal audit wing, 2,65,200 cases were to be audited by the internal audit during FY 2012-13. Out of this, 1,79,872 cases were completed, thereby achieving 67.83 *per cent* of the target. Table 1.15 shows details of internal audit observations raised, settled and pending for each of the five years from FY 2008-09 to FY 2012-13:

Table 1.15: Details of Audit observations added, settled and pending (₹ in crore)

Financial Year	Addition during the year		Settled during the year		Pending during the year	
	Number	Amount	Number	Amount	Number	Amount
2008-09	9,068	1,951.64	2,866	334.47	21,299	3,404.15
2009-10	14,577	1,224.81	6,434	657.58	29,442	3,971.37
2010-11	13,494	5,466.88	7,996	921.85	34,940	8516.40
2011-12	13,771	1,879.85	14,148	1,118.49	34,563	9,277.76
2012-13	18,275	4,135.48	16,626	2,736.12	36,212	10,677.12

Source: Directorate of Income Tax (Income Tax & Audit), New Delhi

1.17.4 The pendency of internal audit observations has gone up more than 1.7 times during the last five years. Departmental response to internal audit needs improvement. Only 4,351 cases (26.24 *per cent*) having tax effect of ₹ 2,709.98 crore (20.42 *per cent*) out of 16,549 cases having tax effect of ₹ 13,268.29 crore of the major findings[22] raised by internal audit were acted upon by the assessing officers in FY 2012-13. The total pendency increased from 21,299 cases having tax effect of ₹ 3,404.2 crore in FY 2008-09 to 36,212 cases having tax effect of ₹ 10,677.1 crore in FY 2012-13.

1.17.5 Moreover, we detected numerous lacunae in the assessments previously audited by Internal Audit. In 3,872 assessments audited by the internal audit in FY 2012-13, we pointed out mistakes that were not detected by them. This indicated a need for improvement in the quality of Internal Audit.

1.17.6 Out of 459 paragraphs included in this Audit Report, Internal Audit conducted audit of 51 cases (11.1 *per cent*) but did not detect such mistakes, which indicates the need for improvement in quality of internal audit.

[22] Audit objection above ₹ one lakh in Income tax and above ₹ 30,000 in other taxes