

## Highlights

The Comptroller and Auditor General of India conducts the audit of Receipts from Direct Taxes of the Union Government under section 16 of the Comptroller and Auditor General of India's (Duties, Powers and Conditions of Service) Act, 1971. This Report discusses direct taxes administration, audit mandate and findings of compliance audit.

### Chapter I: Direct Taxes Administration

Direct taxes receipts of Union Government in FY 2013-14 was ₹ 6,38,596 crore which represented 5.6 *per cent* of the GDP. Share of direct taxes in Gross Tax Revenue increased from 53.9 *per cent* in FY 2012-13 to 56.1 *per cent* in FY 2013-14.

Two major components of Direct taxes viz. Corporation Tax increased from ₹ 3.56 lakh crore in FY 2012-13 to ₹ 3.95 lakh crore in FY 2013-14 and Income Tax increased from ₹ 1.97 lakh crore in FY 2012-13 to ₹ 2.38 lakh crore in FY 2013-14.

The revenue foregone on account of tax exemptions increased from ₹ 1.02 lakh crore in FY 2012-13 to ₹ 1.16 lakh crore in FY 2013-14. It is increasing in absolute terms since FY 2010-11.

The number of non-corporate assesseees decreased from 367.87 lakh in FY 2012-13 to 304.03 lakh in FY 2013-14 registering a decrease of 17.4 *per cent*.

The number of corporate assesseees increased from 5.90 lakh in FY 2012-13 to 6.36 lakh in FY 2013-14 registering an increase of 7.8 *per cent*. The number of corporate assesseees (6.36 lakh) is different from the number of working companies (8.84 lakh) registered with Registrar of Companies (ROCs) in FY 2012-13.

Out of total 7.0 lakh scrutiny assessment cases, the Department had disposed of 2.8 lakh cases in FY 2013-14 resulting in increase of pending cases.

We noticed that the number of pending direct refund cases has come down from 11.2 lakh in FY 2012-13 to 8.8 lakh in FY 2013-14.

The uncollected demand increased from ₹ 4.86 lakh crore in FY 2012-13 to ₹ 5.75 lakh crore in FY 2013-14. The Department indicated that more than 94 *per cent* of uncollected demand was difficult to recover in FY 2013-14.

Appeals pending with CIT(A) increased from 1.99 lakh in FY 2012-13 to 2.15 lakh in FY 2013-14. The amount locked up in these cases with CIT(A) was ₹ 2.87 lakh crore in FY 2013-14. The amount locked up at higher levels (ITATs/High Courts/Supreme Court) in 76,922 cases increased to ₹ 1.8 lakh crore as on 31 March 2014 in comparison to ₹ 1.5 lakh crore (69,714 cases) as on 31 March 2013.

## **Chapter II: Audit Mandate, Products and Impact**

ITD recovered ₹ 3659.7 crore in FY 2013-14 from demands raised to rectify the errors in assessments that we pointed out.

ITD completed 2.13 lakh scrutiny assessments in FY 2012-13, of which we checked 1.77 lakh cases in FY 2013-14. The incidence of errors in assessment checked in audit was 0.17 lakh which averaged to 9.5 *per cent*.

This Report discusses 469 high value and important cases issued to the Ministry. Of these, the ITD accepted 144 cases (31 *per cent*). In 11 cases, ITD did not accept the audit observation.

The accretion in pendency in replies to audit findings each year has resulted in pile-up of 40,638 cases involving revenue effect of ₹ 54,297.4 crore as of 31 March 2014.

During FY 2013-14, 2,427 cases with tax effect of ₹ 1,121.2 crore became time-barred for remedial action.

## **Chapter III: Corporation Tax**

We pointed out 326 high value cases pertaining to corporation tax with tax effect of ₹ 2,254.72 crore. We classified these cases in four broad categories namely quality of assessments involving tax effect of ₹ 655.9 crore (106 cases), administration of tax concessions/exemptions/deductions involving tax effect of ₹ 716.9 crore (121 cases), income escaping assessments due to omissions involving tax effect of ₹ 387.6 crore (67 cases) and over-charge of tax/interest involving ₹ 494.3 crore (32 cases).

#### **Chapter IV: Income Tax and Wealth Tax**

We pointed out 124 high value cases pertaining to Income tax with tax effect of ₹ 397.0 crore. We classified these cases in four broad categories namely quality of assessments involving tax effect of ₹ 262.7 crore (38 cases), administration of tax concessions/exemptions/deductions involving tax effect of ₹ 29.79 crore (37 cases), income escaping assessments due to omissions involving tax effect of ₹ 20.3 crore (22 cases) and over-charge of tax/interest involving ₹ 84.1 crore (27 cases). Besides, we also pointed out 19 cases of Wealth Tax involving tax effect of ₹ 2.0 crore.

#### **Chapter V: Functioning of Income Tax Settlement Commission and Implementation of its orders by ITD**

The Income Tax Act has prescribed time frame for various stages from filing of applications till their settlement by the Commission and implementation of the orders thereof by the ITD. We have noticed considerable delay at various stages on the part of the Commission and the ITD as numbers of applications filed prior to 1 June 2007 are still pending with the Commission for disposal. Besides, ITD took considerable time in submission of required reports to the Commission and giving effect to the orders of the Commission.