

Chapter I

Direct Taxes 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 below shows the summary of resources of the Union Government for the Financial Year (FY) 2013-14.

| Table 1.1: Resources of the Union Government | (₹ in crore) |
|--|---------------------|
| A. Total Revenue Receipts | 15,36,024 |
| <i>i. Direct Taxes Receipts¹</i> | <i>6,38,596</i> |
| <i>ii. Indirect Taxes Receipts including other taxes¹</i> | <i>5,00,400</i> |
| <i>iii. Non-Tax Receipts including Grants-in-aid & contributions</i> | <i>3,97,028</i> |
| B. Miscellaneous Capital Receipts | 27,553 |
| C. Recovery of Loan & Advances | 24,549 |
| D. Public Debt Receipts | 39,94,966 |
| Receipts of Government of India (A+B+C+D) | 55,83,092 |
| Note: Total Revenue Receipts include ₹ 3,18,230 crore, share of net proceeds of direct and indirect taxes directly assigned to states. | |

1.1.2 In FY 2013-14, total receipts of the Union Government amounted to ₹ 55,83,092 crore¹. Out of this, its own receipts were ₹ 15,36,024 crore including gross tax receipts of ₹ 11,38,996 crore.

1.2 Nature of Direct Taxes

1.2.1 Direct taxes levied by the Parliament mainly comprises,

- i. **Corporation Tax** levied on income of the companies;
- ii. **Income Tax** levied on income of persons (other than companies);
- iii. **Other direct taxes** including Wealth Tax², Securities Transactions Tax³ etc.

1 Source: Draft Union Finance Accounts of FY 2013-14. Direct Tax Receipts and Indirect Tax Receipts including other taxes have been worked out from the draft Union Finance Accounts of FY 2013-14.

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.

1.2.2 Table 1.2 provides a snapshot of direct taxes administration.

| Table 1.2: Direct Taxes Administration | | | | | |
|---|-----------------------|----------------|----------------|----------------|----------------|
| | 2009-10 | 2010-11 | 2011-12 | 2012-13 | 2013-14 |
| | ₹ in crore | | | | |
| 1. Direct taxes collection | 3,77,594 | 4,45,995 | 4,93,987 | 5,58,989 | 6,38,596 |
| 2. Refunds | 57,101 | 75,169 | 93,814 | 83,766 | 89,060 |
| 3. Interest on refunds | 6,876 | 10,499 | 6,486 | 6,666 | 6,598 |
| | Number in lakh | | | | |
| 4. Assesseees on record | 340.9 | 335.8 | 363.5 | 373.8 | 470.3 |
| 5. Scrutiny assessments completed | 4.3 | 4.6 | 3.7 | 3.1 | 2.9 |
| 6. Scrutiny assessment pending | 4.4 | 3.9 | 4.1 | 2.9 | 4.2 |

Source: Sl. no. 1 – Union Finance Accounts; Sl. no. 2 - Pr. CCA, CBDT, Sl. no. 3 to 6 – DGIT (Logistics), CBDT.

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

1.3 Functions and responsibilities of the CBDT

1.3.1 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 taxes 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.

1.3.2 As on 31 March 2014, the overall staff strength and working strength of the ITD is 75,098 and 42,069 respectively. The staff strength has been revised from 58,124 after cadre restructuring of the ITD in May 2013. The sanctioned and working strength of the officers⁴ is 10,869 and 7,543 respectively.

1.4 Budgeting of Direct Taxation

1.4.1 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 actuals is an indicator of quality of fiscal marksmanship. Actuals may differ from the estimates because of unanticipated and random external events or methodological inadequacies or at times it may be convenient to under project/over project some critical parameters.

1.4.2 Table 1.3 below shows the details of Budget Estimates, Revised Estimates and Actual collection of Direct Taxes during FY 2009-10 to FY 2013-14.

⁴ Pr. CCIT/DGIT, CCIT/DGIT, Pr. CIT/DIT, CIT/DIT, Addl. CIT/DIT, JCIT/JDIT, DCIT/DDIT, ACIT/ADIT and ITOs

| Table 1.3: 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 | |
| 2009-10 | 3,70,000 | 3,87,008 | 3,77,594 | 7,594 | (-) 9,414 | 2.0 | (-) 2.4 | |
| 2010-11 | 4,30,000 | 4,46,000 | 4,45,995 | 15,995 | (-) 5 | 3.7 | Zero | |
| 2011-12 | 5,32,651 | 5,00,651 | 4,93,987 | (-) 38,664 | (-) 6,664 | (-) 7.3 | (-) 1.3 | |
| 2012-13 | 5,70,257 | 5,65,835 | 5,58,989 | (-) 11,268 | (-) 6,846 | (-) 2.0 | (-) 1.2 | |
| 2013-14 | 6,68,109 | 6,36,318 | 6,38,596 | (-) 29,513 | 2,278 | (-) 4.4 | 0.4 | |

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

1.4.3 The actual collection of direct taxes exceeded the budget estimates in FY 2009-10 and FY 2010-11 whereas it was less than the budget estimates during FY 2011-12 to FY 2013-14. The revised estimates were found realistic in all years as variation in actual collection ranged from (-) 2.4 per cent to 0.4 per cent of revised estimates. In FY 2013-14, the actual collection of direct taxes exceeded revised estimates by ₹ 2,278 crore (0.4 per cent).

1.5 Growth of Direct Taxes

1.5.1 Table 1.4 below gives the relative growth of direct taxes (DT) with reference to Gross Tax Receipts⁵ (GTR) and Gross Domestic Products (GDP) during FY 2009-10 to FY 2013-14.

| Table 1.4: Growth of Direct Taxes | | | | | (₹ in crore) | |
|-----------------------------------|----------|-----------|-----------------------|-------------|-----------------------|--|
| Financial Year | DT | GTR | DT as per cent of GTR | GDP | DT as per cent of GDP | |
| 2009-10 | 3,77,594 | 6,24,527 | 60.5 | 64,77,827 | 5.8 | |
| 2010-11 | 4,45,995 | 7,93,307 | 56.2 | 77,95,314 | 5.7 | |
| 2011-12 | 4,93,987 | 8,89,118 | 55.6 | 90,09,722 | 5.5 | |
| 2012-13 | 5,58,989 | 10,36,460 | 53.9 | 1,01,13,281 | 5.5 | |
| 2013-14 | 6,38,596 | 11,38,996 | 56.1 | 1,13,55,073 | 5.6 | |

Source: DT and GTR - Union Finance Accounts, GDP – Press note of Press information Bureau, Central Statistical Organization (CSO), Ministry of Statistics. Press note dated 30 May 2014 indicates that the figures for GDP at current prices/market prices for the year 2011-12 are second revised estimates, for the year 2012-13 are first revised estimates and for the year 2013-14 are provisional 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.

1.5.2 We find that DT increased by ₹ 79,607 crore (14.2 per cent) in FY 2013-14 as compared to FY 2012-13. However, the share of direct taxes to GTR increased slightly from 53.9 per cent in FY 2012-13 to 56.1 per cent in FY 2013-14. DT as a percentage of GDP also increased marginally during the same period.

⁵ It includes all direct and indirect taxes.

1.5.3 Table 1.5 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 2009-10 to FY 2013-14.

| Table 1.5: Growth of Direct Taxes 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 |
| 2009-10 | 3,77,594 | 13.1 | 2,44,725 | 14.7 | 1,22,417 | 15.4 |
| 2010-11 | 4,45,995 | 18.1 | 2,98,688 | 22.1 | 1,39,102 | 13.6 |
| 2011-12 | 4,93,987 | 10.8 | 3,22,816 | 8.1 | 1,64,525 | 18.3 |
| 2012-13 | 5,58,989 | 13.2 | 3,56,326 | 10.4 | 1,96,843 | 19.6 |
| 2013-14 | 6,38,596 | 14.2 | 3,94,678 | 10.8 | 2,37,870 | 20.8 |

1.5.4 We find that CT increased by ₹ 38,352 crore (10.76 per cent) in FY 2013-14 as compared to FY 2012-13 whereas IT increased by ₹ 41,027 crore (20.8 per cent) during the same period. However, the average rate of growth of CT and IT was 15.3 per cent and 23.6 per cent respectively during FY 2009-10 to FY 2013-14.

1.5.5 There are different mode of direct taxes collection {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.

1.5.6 Table 1.6 below shows the collection of Corporate assesseees during FY 2009-10 to FY 2013-14.

| Table 1.6: Corporate assesseees' collections | | | | | (₹ in crore) |
|--|--------|-------------|---------------------|------------------------|--------------|
| Financial Year | TDS | Advance Tax | Self Assessment Tax | Regular Assessment Tax | Collections |
| 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 |
| 2013-14 | 83,443 | 2,45,350 | 18,852 | 60,426 | 4,61,851 |

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.

1.5.7 TDS collection and regular assessment tax marginally increased from 17.7 per cent and 12.8 per cent of the total corporate collection in FY 2012-13 to 18.1 per cent and 13.1 per cent in FY 2013-14 respectively. However, advance tax decreased from 55.3 per cent of the total corporate collection in FY 2012-13 to 53.1 per cent in FY 2013-14.

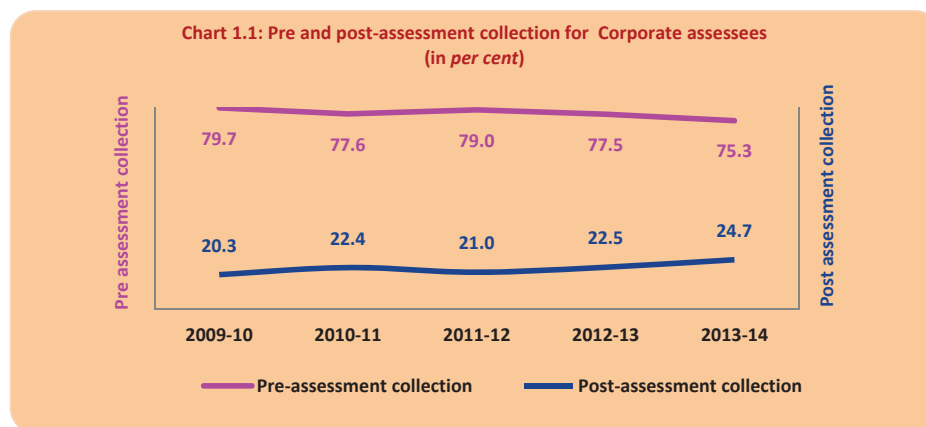
1.5.8 Table 1.7 below shows the collection of non-corporate assessees during FY 2009-10 to FY 2013-14.

| Table 1.7: Non-corporate assessees' collections | | | | | (₹ in crore) |
|---|----------|-------------|---------------------|------------------------|--------------|
| Financial Year | TDS | Advance Tax | Self Assessment Tax | Regular Assessment Tax | Collections |
| 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 |
| 2013-14 | 1,65,104 | 47,172 | 25,271 | 12,102 | 2,59,753 |

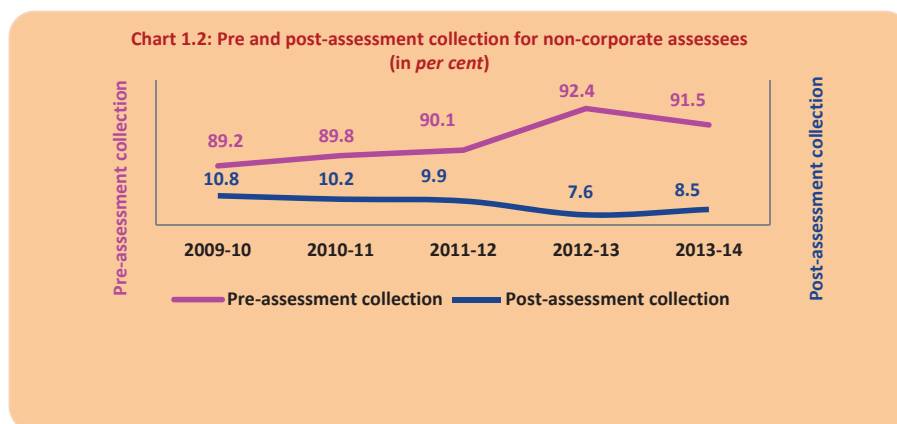
Note: The above figures were received from the Pr. CCA, CBDT during the respective years. The figures of collection also include other receipts including surcharge & cess.

1.5.9 TDS collections and regular assessment tax increased from 62.8 per cent and 3.9 per cent of total non-corporate collection in FY 2012-13 to 63.6 per cent and 4.7 per cent in FY 2013-14 respectively. However, advance tax decreased from 20.0 per cent of total non-corporate collection in FY 2012-13 to 18.2 per cent in FY 2013-14.

1.5.10 Chart 1.1 below shows the pre-assessment and post assessment collection in respect of corporate assessees during FY 2009-10 to 2013-14.



1.5.11 Chart 1.2 below shows the pre-assessment and post assessment collection in respect of non-corporate assessees during FY 2009-10 to FY 2013-14.



1.5.12 Voluntary compliance in respect of corporate assessees declined by 4.4 per cent during FY 2009-10 to FY 2013-14. However, it increased by 2.3 per cent in respect of non-corporate assessees during the same period.

1.6 Revenue Foregone

1.6.1 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 collectively called “tax preferences” (revenue foregone).

1.6.2 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.

1.6.3 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 revenue foregone and its disclosure.

1.6.4 Union Receipt Budget depicts statement of revenue foregone in respect of major taxes only based on returns filed electronically by corporate and non-corporate assessees. The table 1.8 below shows the revenue foregone on account of tax exemptions for FY 2009-10 to FY 2013-14.

| Table 1.8: Revenue Foregone (₹ in crore) | | | | |
|--|------------------------|---------------------------------|------|-------|
| Financial Year | Total Revenue Foregone | Revenue Foregone as per cent of | | |
| | | GDP | DT | GTR |
| 2009-10 | 1,18,023 | 1.8 | 31.3 | 18.9 |
| 2010-11 | 94,738 | 1.2 | 21.2 | 11.9 |
| 2011-12 | 1,01,140 | 1.1 | 20.5 | 11.4 |
| 2012-13 | 1,02,256 | 1.0 | 18.3 | 9.9 |
| 2013-14 | 1,16,530 | 1.0 | 18.3 | 10.23 |

Note: The revenue foregone figures are as per Receipts Budget. For FY 2013-14, figures of revenue foregone are projected and do not include the figures relating to Charitable Institutions. For the first time Receipt Budget 2014-15 has shown separately the total number of electronically filed returns (1,06,443) of Charitable entities during the financial year 2013-14 and the total amount (₹ 2,00,274 crores) applied by these entities for charitable purposes and religious purposes.

1.6.5 The revenue foregone on account of tax exemptions is increasing in absolute terms since FY 2010-11. There is no mechanism in DOR to monitor the results of impact of such revenue foregone. DOR carried out annual exercise of estimating the revenue foregone on account of tax incentives which was reflected in the Budget. According to DOR, the results of impact of such revenue foregone 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 revenue foregone.

1.7 Widening and deepening of tax base

1.7.1 The ITD 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 (AIRs). Automation also facilitates greater cross linking⁶. Most of these mechanisms are available at the level of the assessing officers (AOs). In his keynote address, the Finance Minister in the 29th Annual Conference of Chief Commissioners and Directors General of Income Tax (28-29 May 2013) emphasized on the role of tax revenue in building a strong economy. He stressed upon technology and intelligence-based tax collection which would yield better results and provide non-invasive methods of tax collection. He

⁶ 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.

also emphasized stability and clarity in tax laws, focus on big taxpayers and non filers and improved performance in litigation.

1.7.2 Table 1.9 below gives the details of non-corporate assessees⁷ in different categories.

| Table 1.9: Non-Corporate Assesseees | | | | | | (Figures in lakh) |
|-------------------------------------|----------------|-----------------------------|------------------------------|-----------------|-----------------|-------------------|
| Financial Year | A ⁸ | B ₁ ⁹ | B ₂ ¹⁰ | C ¹¹ | D ¹² | Total |
| 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 |
| 2013-14 | 117.23 | 135.79 | 34.24 | 16.72 | 0.05 | 304.03 |

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

1.7.3 The number of non-corporate assessees has 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 non-corporate assessees declined in category 'A' and 'D' whereas it increased in category 'B' and 'C' during the same period.

1.7.4 Table 1.10 below gives the details of corporate assessees in different categories.

| Table 1.10: Corporate Assesseees | | | | | | | (Figures in lakh) | |
|----------------------------------|-----------------|------------------------------|------------------------------|-----------------|-----------------|-------|--|---|
| Financial Year | A ¹³ | B ₁ ¹⁴ | B ₂ ¹⁰ | C ¹¹ | D ¹² | Total | Assesseees having income above ₹ 25 lakh | Working companies as per RoC as on 31 st March |
| 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 |
| 2013-14 | 4.14 | 0.89 | 0.31 | 1.01 | 0.01 | 6.36 | 0.65 | 9.52 |

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

1.7.5 The number of corporate assessees has 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 assessees having income above ₹ 25 lakh increased substantially from 0.14 lakh in FY 2012-13 to 0.65 lakh in FY 2013-14. The

⁷ Source: Directorate of Income Tax (Legal & Research), Research & Statistics Wing

⁸ Category 'A' assesseees – Assessments with income/loss below ₹ two lakh;

⁹ Category 'B₁' assesseees (lower income group) - Assessments with income/loss above ₹ two lakh and above; but below ₹ five lakh;

¹⁰ Category 'B₂' assesseees (higher income group) - Assessments with income/loss above ₹ five lakh and above; but below ₹ 10 lakh;

¹¹ Category 'C' assesseees - Assessments with income/loss of ₹ 10 lakh and above;

¹² Category 'D' assesseees – Search and seizure assessments;

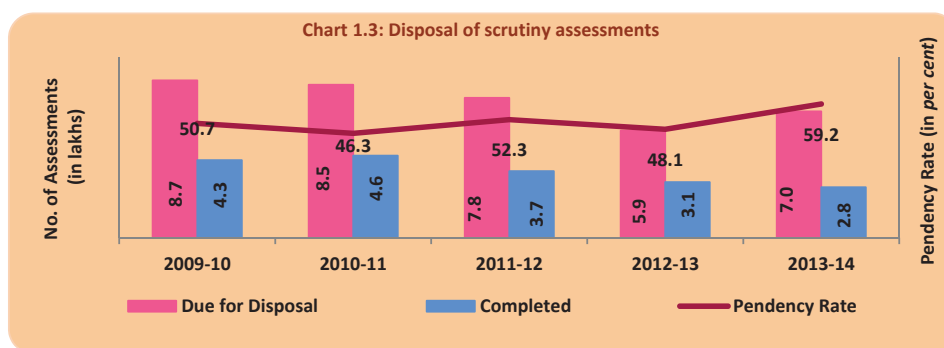
¹³ Category 'A' assesseees – Assessments with income/loss below ₹ 50,000;

¹⁴ Category 'B₁' assesseees (lower income group) – Assessments with income/loss of ₹ 50,000 and above; but below ₹ five lakh;

number of corporate assesseees (6.36 lakh) is different from the number of working companies (8.84 lakh) registered with Registrar of Companies (ROCs)¹⁵ in FY 2012-13. Since all working companies (whether profit earning or loss incurring) has to file their return of income, 28 per cent of such working companies did not file their return of income in FY 2013-14. The ITD needs to reconcile the differences.

1.8 Disposal of Scrutiny assessments

1.8.1 Chart 1.3 gives the trend of disposal and pendency of scrutiny assessments during FY 2009-10 to FY 2013-14.



1.8.2 The disposal of scrutiny assessment cases has come down from 3.1 lakh in FY 2012-13 to 2.8 lakh in FY 2013-14 which resulted in increase of pending cases.

1.9 Disposal of Refund claims

1.9.1 Table 1.11 below gives the trend of disposal and pendency of direct refund claims during FY 2009-10 to FY 2013-14.

| Table 1.11: 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 |
| 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 | 28.9 |
| 2013-14 | 34.5 | 25.7 | 8.8 | 25.5 |

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

1.9.2 The number of direct refunds pending for disposal decreased to 8.8 lakh in FY 2013-14 from 11.2 lakh in FY 2012-13. Citizen Charter of the ITD (July 2010) laid down the declaration of commitment to the taxpayers

¹⁵ Source: Ministry of Corporate Affairs (R & A Division)

that refund alongwith interest would be issued within the prescribed time limits¹⁶. Despite that there is substantial pendency of refund cases.

1.9.3 The Government has refunded ₹ 89,060 crore which includes interest of ₹ 6,598 crore (7.4 per cent) in FY 2013-14. The interest paid on refunds in FY 2012-13 was ₹ 6,666 crore (8.0 per cent of ₹ 83,766 crore, the amount refunded).

1.10 Uncollected demand

1.10.1 Table 1.12 below gives the trend of uncollected demand¹⁷ pending during the period FY 2009-10 to FY 2013-14.

| Table 1.12: 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) |
| 2009-10 | 1,81,612 | 47,420 | 2,29,032 | 2,12,758 (92.9) |
| 2010-11 | 2,02,859 | 88,770 | 2,91,629 | 2,71,143 (93.0) |
| 2011-12 | 2,65,040 | 1,43,378 | 4,08,418 | 3,87,614 (94.9) |
| 2012-13 | 4,09,456 | 76,724 | 4,86,180 | 4,66,854 (96.0) |
| 2013-14 | 4,80,065 | 95,274 | 5,75,340 | 4,32,285 (94.4) |

Source: CAP I Demand & Collection Statement alongwith Analysis for the month of March 2014

1.10.2 The uncollected demand is rising despite clear provisions in the Act to enforce collection and recovery of outstanding demand viz. attachment and sale of assessee's movable and immovable property, appointment of a receiver for the management of assessee's properties and imprisonment. Pending demands at the end of the year increased more than 2.5 times during FY 2009-10 to FY 2013-14. Out of total pending demand, the ITD indicated that more than 94 per cent is difficult to recover in FY 2013-14. Demand & Collection Statement for the month of March 2014 analysed various factors viz. inadequate assets for recovery, cases under liquidation/ BIFR, assessee not traceable, demand stayed by various authorities etc. leading to demand difficult to recover.

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 assessee and proceed to recover the amount. The recovery mechanism is deficient as certified demand remaining uncollected increased to ₹ 2.2 lakh crore in FY 2013-14 from ₹ 1.5 lakh crore in FY 2012-13.

¹⁶ Six months - e-return and nine months - other returns processed under section 143(1); and within one month in cases assessed other than section 143(1).

¹⁷ Source: CAP-I for the month of March of respective year

1.11 Disposal of Appeal cases

1.11.1 Table 1.13 below gives the trend of disposal and pendency of appeal cases before CIT(Appeals) during FY 2009-10 to FY 2013-14.

| 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) | | | | |
| 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 |
| 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 |
| 2013-14 | 3.03 | 0.88 | 2.15 | 71.0 | 2,87,444 |

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

1.11.2 The disposal of appeal cases pending with CIT(A) is stagnant over the years resulting in increase in pendency. The amount locked up in appeal cases with CIT(Appeals) is equivalent to 77.6 *per cent* of the revised revenue deficit of Government of India in FY 2013-14.

1.11.3 Table 1.14 below gives the position of Appeals/Writs and other matters pending with Income Tax Appellate Tribunals (ITATs)/High Courts and Supreme Court as on 31 March 2014.

| Table 1.14: Appeals/Writs and other matters pending with ITATs/High Courts/ Supreme Court | | |
|---|----------------------------|-------------------------------|
| Authority with whom pending | Cases pending (in Numbers) | Amount locked up (₹ in crore) |
| ITATs | 35,266 | 1,43,255.8 |
| High Courts | 35,696 | 33,128.5 |
| Supreme Court | 5,960 | 3,202.1 |
| Total | 76,922 | 1,79,586.4 |

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

1.11.4 The amount locked up at higher levels (ITATs/High Courts/Supreme Court) was increased to ₹ 1.8 lakh crore (76,922 cases) as on 31 March 2014 in comparison to ₹ 1.5 lakh crore (69,714 cases) as on 31 March 2013.

1.12 Status of prosecution

1.12.1 Table 1.15 below shows the status of prosecutions launched, cases decided viz. convicted, compounded and acquitted from FY 2009-10 to FY 2013-14.

| Table 1.15: Status of Prosecution cases | | | | | (Number) |
|---|----------------------|---------------|-------------|------------|-------------------------|
| Financial Year | Prosecution launched | Cases decided | Convictions | Compounded | Acquitted (in per cent) |
| 2009-10 | 312 | 599 | 32 | 291 | 276 (46.1) |
| 2010-11 | 244 | 356 | 51 | 83 | 222 (62.4) |
| 2011-12 | 209 | 593 | 14 | 397 | 182 (30.7) |
| 2012-13 | 283 | 265 | 10 | 205 | 50 (18.9) |
| 2013-14 | 641 | 664 | 41 | 561 | 62 (9.3) |

Source: Investigation Wing, CBDT

1.12.2 The above table shows that acquittals in prosecution cases decreased sharply from 46.1 per cent in FY 2009-10 to 9.3 per cent in FY 2013-14. Further, as on 31 March 2014, the total number of outstanding prosecution cases was 3,775.

1.13 Result framework document of CBDT

1.13.1 Under 'Performance Monitoring and Evaluation System Scheme', each Central Government/Department is required to prepare a Results Framework Documents (RFD). Accordingly, CBDT has been preparing its RFD. In its RFD for FY 2013-14, CBDT reiterated its commitment to focused effective and meaningful implementation of the taxpayer services that will also facilitate voluntary compliance. It has set out objectives viz. better communication with taxpayers; better management and development of human resources in the ITD to enhance taxpayer services and strengthening IT enabled services for taxpayers. With a view to achieve these objectives, specific goals were set to ensure that tangible and recordable progress is made within the specified time lines.

1.14 ITD's IT Initiatives

1.14.1 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, ITD introduced many ICT applications from time to time. The ITD initiatives towards uploading of scrutiny orders in the AST system were made mandatory. From FY 2011-12, all AOs are required to pass scrutiny assessments orders through AST software only. ITD established a Central Processing Centre (CPC) at

Bengaluru to process e-filed returns of all India and paper returns of Karnataka and Goa.

1.14.2 The ITD 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. ITD has also designed an Integrated Taxpayer Data Management System (ITDMS) as a data mining software to profile a taxpayer. It enables the users to build a near 360 degree profile of taxpayers dealing with high volumes of data and more linkages. The improved version is giving better linkages and handling a higher quantum of data.

1.15 Effectiveness of Internal Audit

1.15.1 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. From June 2007, assessment functions have been separated from internal audit functions headed by CIT(Audit). Based on the working strength of Internal audit wing; 2,60,650 cases¹⁸ were to be audited by the internal audit during FY 2013-14. Out of this, 1,66,759 cases were completed, thereby achieving 63.98 per cent of the target.

1.15.2 Table 1.16 shows details of internal audit observations raised, settled and pending for each of the five years from FY 2009-10 to FY 2013-14:

| Financial Year | Addition during the year | | Settled during the year | | Pending at the end of year | |
|----------------|--------------------------|----------|-------------------------|----------|----------------------------|----------|
| | Number | Amount | Number | Amount | Number | Amount |
| 2009-10 | 14,577 | 1,224.81 | 6,434 | 657.58 | 29,442 | 3,971.4 |
| 2010-11 | 13,494 | 5,466.88 | 7,996 | 921.85 | 34,940 | 8,516.4 |
| 2011-12 | 13,771 | 1,879.85 | 14,148 | 1,118.49 | 34,563 | 9,277.8 |
| 2012-13 | 18,275 | 4,135.48 | 16,626 | 2,736.12 | 36,212 | 10,677.1 |
| 2013-14 | 14,423 | 8,950.66 | 26,322 | 8,610.12 | 24,313 | 11,017.7 |

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

¹⁸ The figure has been worked out on the basis of circular no. 3 of 2007.

1.15.3 The pendency of internal audit observations increased during 2009-10 to 2012-13. However, this has decreased by 32.8 *per cent* during FY 2013-14 as compared to FY 2012-13. In FY 2013-14, the AOs acted upon in 5,446 cases (39.6 *per cent*) having tax effect of ₹ 8,541.4 crore (43.8 *per cent*) out of 13,742 cases having tax effect of ₹ 19,487.9 crore of the major findings¹⁹ raised by internal audit.

¹⁹ Audit objection above ₹ two lakh in Income tax and above ₹ 30,000 in other taxes.