

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 Auditor General of India (Duties, Powers and Conditions of Service) Act, 1971. This Report discusses direct taxes administration, audit mandate and findings of compliance audit including transfer pricing and write-off of arrears of tax demand.

Chapter I: Direct Taxes Administration

Direct tax receipts of Union Government in FY 2014-15 was ₹ 6,95,792 crore which represented 5.5 *per cent* of the GDP. Share of direct taxes in Gross Tax Revenue decreased to 55.9 *per cent* in FY 2014-15 from 56.1 *per cent* in FY 2013-14.

Two major components of Direct taxes viz. Corporation Tax increased from ₹ 3.95 lakh crore in FY 2013-14 to ₹ 4.29 lakh crore in FY 2014-15 and Income Tax increased from ₹ 2.38 lakh crore in FY 2013-14 to ₹ 2.58 lakh crore in FY 2014-15.

The number of non-corporate assesseees increased from 304.03 lakh in FY 2013-14 to 360.55 lakh in FY 2014-15 registering an increase of 18.6 *per cent*.

The number of corporate assesseees increased from 6.36 lakh in FY 2013-14 to 6.75 lakh in FY 2014-15 registering an increase of 6.1 *per cent*.

Out of total 10.3 lakh scrutiny assessment cases, the Department had disposed of 5.4 lakh cases (47.8 *per cent*) in FY 2014-15 resulting in decrease in pendency rate.

The uncollected demand increased from ₹ 5.75 lakh crore in FY 2013-14 to ₹ 7.00 lakh crore in FY 2014-15. The Department indicated that more than 96 *per cent* of uncollected demand is difficult to recover in FY 2014-15.

Appeals pending with CIT(A) increased from 2.15 lakh in FY 2013-14 to 2.32 lakh in FY 2014-15. The amount locked up in these cases with CIT(A) was ₹ 3.84 lakh crore in FY 2014-15. The amount locked up at higher levels (ITAT/High Court/Supreme Court) increased from ₹ 1.8 lakh crore (76,922 cases) in FY 2013-14 to ₹ 1.9 lakh crore (77,448 cases) in FY 2014-15.

Chapter II: Audit Mandate, Products and Impact

ITD completed 2.26 lakh scrutiny assessments in FY 2013-14 in those units which were audited during audit plan of FY 2014-15, of which we checked 2.11 lakh cases. The incidence of errors in assessments checked in audit was 0.16 lakh which averaged to 7.4 *per cent*.

ITD recovered ₹ 127.67 crore in FY 2014-15 from demands raised to rectify the errors in assessments that we pointed out.

This Report discusses 455 high value and important cases issued to the Ministry. Of these, the Ministry/ITD accepted 159 cases (34.9 *per cent*). In 16 cases, ITD did not accept the audit observation. In remaining cases, the Ministry/ITD did not furnish replies.

The accretion in pendency in replies to audit findings each year has resulted in pile-up of 50,005 cases involving revenue effect of ₹ 62,415.2 crore as of 31 March 2015.

During FY 2014-15, 3,889 cases with tax effect of ₹ 2,490.8 crore became time-barred for remedial action.

Chapter III: Corporation Tax

We pointed out 312 high value cases pertaining to corporation tax with tax effect of ₹ 2,459.0 crore. We classified these cases in four broad categories namely quality of assessments involving tax effect of ₹ 426.8 crore (93 cases), administration of tax concessions/exemptions/deductions involving tax effect of ₹ 1,796.79 crore (155 cases), income escaping assessments due to omissions involving tax effect of ₹ 176.56 crore (44 cases) and over-charge of tax/interest involving ₹ 58.84 crore (20 cases).

Chapter IV: Income Tax and Wealth Tax

We pointed out 137 high value cases pertaining to Income tax with tax effect of ₹ 286.29 crore. We classified these cases in four broad categories namely quality of assessments involving tax effect of ₹ 165.18 crore (54 cases), administration of tax concessions/exemptions/deductions involving tax effect of ₹ 93.18 crore (49 cases), income escaping assessments due to omissions involving tax effect of ₹ 16.93 crore (27 cases) and over-charge of tax/interest involving ₹ 11.0 crore (seven cases). Besides, we also pointed out six cases of Wealth Tax involving tax effect of ₹ 0.18 crore.

Chapter V: Transfer Pricing

We pointed out 10 high value cases where TPOs of Ahmedabad, Hyderabad and Mumbai made mistakes in arriving at Arm's Length Price and adjustments thereof.

Chapter VI: Write-off of Arrears of tax demand

We noticed that percentage of demand difficult to recover due to pending write-off/assessee not traceable/no asset and inadequate resources with the total arrears of tax demand substantially increased from ₹ 34,962.26 crore (12.59 *per cent*) in FY 2012-13 to ₹ 74,077.78 crore (22.60 *per cent*) in FY 2014-15 in respect of Pr. CsIT/CsIT test checked in audit. Out of this, only ₹ 2.21 crore was written off.

ITD did not declare arrear demand irrecoverable by following regular procedure in cases where the assessee were not traceable, there was no fund/asset or insufficient fund/asset and did not write-off arrears of tax demand for which irrecoverability certificates were issued by the respective tax recovery officers.

The CBDT did not evolve any mechanism/system for monitoring of high value cases which were pending for a considerable time and were required to be written-off.