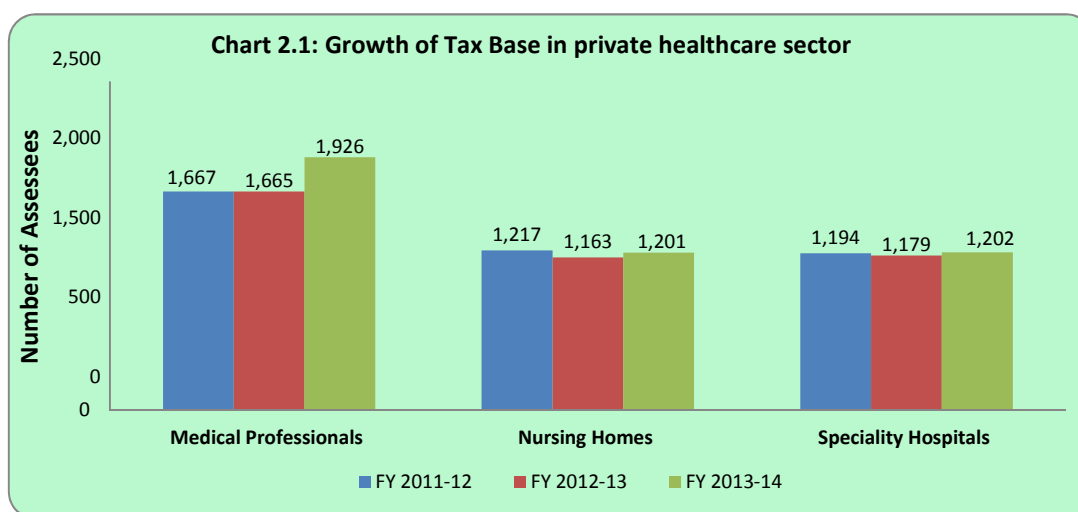


## Chapter 2 – Tax base of assessee engaged in private healthcare sector

### 2.1 Tax base of assessee engaged in business/ profession of private healthcare sector

The Private Health Expenditure<sup>10</sup> as a percentage of GDP has shown an increasing trend during FY 2011-12 to 2013-14, growing respectively at the rates of 3.21 per cent, 3.24 per cent and 3.28 per cent respectively during these three years. GDP at factor cost at current prices in the year 2013-14 was estimated at ₹104.73 lakh crore, growing itself at the rate of 11.5 per cent over the first revised estimates of GDP of ₹ 93.89 lakh crore for 2012-13, which in turn grew at 11.9 per cent over the second revised estimates of GDP for 2011-12 of ₹83.91 lakh crore. This translates into an expansion of the private healthcare expenditure by more than ₹35,000 crore and ₹39,000 crore during the two years 2012-13 and 2013-14 respectively. However, despite this remarkable expansion, the number of corporate assessee in the categories viz. Medical Professionals, Nursing Homes, Speciality Hospitals had actually declined in FY 2012-13 and then increased marginally in FY 2013-14. It could be seen from the graph below that the increase in tax base was not commensurate with growth in the private health care sector.



Source: ITR Statistics, Income Tax Department; World Health Organisation Global Health Expenditure database

### 2.2 Mechanism available with ITD for widening of tax base

As per Action Plan for the year 2016-17 of CBDT, the strategy for widening tax base *inter-alia* includes devising and pursuing region-specific strategies, efficient handling of information without valid Permanent Account Number (PAN) and

<sup>10</sup> Private Health expenditure includes direct household (out-of-pocket) spending, private insurance, charitable donations, and direct service payments by private corporations.

ensuring compliance from identified non-filers. ITD uses various tools of assessment and information-based investigations for detecting tax evasion. The Non-filers Monitoring System was introduced by ITD to identify the non-filers/stop-filers from the PAN holders who have not filed/stopped filing their returns. ITD also undertakes survey operations to collect evidence of tax evasion. The Department receives data relating to cash transactions in bank accounts, registered immovable property below the circle rate and capital market transactions in the form of Annual Information Return (AIR), which is analysed to identify cases of tax evasion.

To enhance the performance of the ITD, as well as to increase the revenue of the government, ITD envisaged an integrated data mining tool that would allow them to search for tax information across different internal and external sources. The Income Tax Payer Data Management System (ITDMS) assists in generating a 360-degree profile of an entity by compiling information from all data sources such as AIR, TDS and the Central Information Branch (CIB) that helps the government to track tax payments of individuals. ITDMS is used for analysing data gathered from AIRs, PAN database, ITD applications etc. to unearth illegal transactions. ITDMS is a data mining tool used by ITD for detection of potential cases of tax evasion. This tool has been implemented in all the offices of DGIT (Investigation) in ITD. ITD has also initiated Project Insight for data mining, collection, collation and processing of information on high value transactions for effective risk management with a view to widening and deepening the tax base.

Despite the availability of the above systems and versatile tools for analyzing data collected from external sources for widening of tax base, audit noticed that these have not been effectively utilized/implemented for strengthening the tax base in private healthcare sector as discussed in the succeeding paragraphs.

### **2.3 Allocation of specific jurisdiction for assessment and codes to assessees related to healthcare sector**

Allocation of specific jurisdiction and proper codification of different businesses in the healthcare sector are essential for proper monitoring, collection and sharing of relevant information as also for the expert handling of sector-specific issues in the course of assessment. Specified jurisdiction/codification based on the nature of business/income for a growing sector like health is also essential for the Department to carry out quality assessment, better monitoring and improved vigilance.

As stated already in para 1.6.2, the Department has codified<sup>11</sup> the healthcare sector assesseees under three categories, viz. (a) '604' covering 'Medical Professionals', (b) '605' covering 'Nursing Homes' and (c) '606' covering 'Specialty Hospitals'. Thus, businesses under health sector like Medical Clinics, Diagnostic Centres, Pathological labs and other Medical supplies agencies/stores are not codified. Further, the jurisdictional CIT (COs) in states could not even furnish the data pertaining to these three existing codes, stating that their offices had no facility to generate the requested report.

Audit noticed that the corporate and non-corporate assesseees engaged in business/ profession of Private Hospitals, Nursing Homes etc. were distributed geographically/alphabetically, independent of the nature of business, for assessment purpose amongst the Assessing Officers in Gujarat, Maharashtra, Rajasthan, Tamil Nadu and West Bengal states. Only the assessments of (i) 'non-corporate assesseees' engaged in the Medical Profession/stores in Pune, Mumbai (Maharashtra), Kolkata (West Bengal) and Delhi and (ii) 'corporate assesseees' engaged in healthcare business in Bengaluru<sup>12</sup>, were being done in specified jurisdictions.

#### **2.4 Non-filers Monitoring System (NMS)<sup>13</sup> and action taken on NMS data**

The Non-filers Monitoring System (NMS) was implemented by ITD to prioritize action on non-filers with potential tax liabilities. This project was initiated in February 2013 to identify PAN holders who have not filed their returns based on specific information available in its databases viz. the Annual Information Return (AIR), Central Information Branch (CIB) or TDS/TCS returns.

In healthcare sector, the income (payment) is received largely in form of cash and without any deduction of TDS. Such cash receipts or payments are not being captured by any third party in AIR<sup>14</sup>. Thus NMS is not able to identify/ track the high value cash transactions occurring in the private healthcare sector.

CBDT has notified<sup>15</sup> standard operating procedure for processing and monitoring cases of 'Non-filers of IT Returns' identified by the Directorate of Systems under the NMS cycles after which notices under section 142(1)/148 of the Income Tax Act were to be issued in appropriate cases. In order to ascertain compliance to

<sup>11</sup> The codes for nature of business are extracted from Part A of Income Tax Return – Nature of business. Code 6 is related to Service.

<sup>12</sup> under PCIT-2, Bengaluru

<sup>13</sup> The Non-filers Monitoring System (NMS) is a pilot project to prioritise action on non-filers with potential tax liabilities. Data analysis was carried out to identify non-filers about whom specific information was available in various sources such as Annual Information Return (AIR), Centralised Information Branch (CIB), TDS/TCS Statement etc. The identified non-filers are informed by SMS, e-mails and letters in batches. (source: Step by step Guide version 1.0 (October 2015) issued by Directorate of Income tax (System))

<sup>14</sup> Section 285BA of the Income Tax Act provides that specified entities are required to furnish a statement of financial transaction or reportable account in respect of specified financial transactions or any reportable account in respect of specified financial transactions or any reportable account registered/recorded/maintained by them during the financial year to the income-tax authority or such other prescribed authority.

<sup>15</sup> CBDT Instruction number 14 of 2013 dated 23 September 2013

instructions issued by CBDT, details of the action taken in the Commissionerates were examined by Audit in respect of non-filers identified by the ITD itself.

The detailed lists of non-filers along with action taken thereof could be furnished in respect of West Bengal, Assam and Gujarat only, where out of 18,333 cases<sup>16</sup>, ITD had closed 3,627 cases<sup>17</sup> and the remaining 14,706 cases<sup>18</sup> were “under verification/action pending” or were yet to be closed. Audit found that no such process of identification of on non-filers through NMS existed in Delhi, Kerala, Rajasthan, Tamil Nadu states.

In West Bengal, out of 808 cases, in case of 668 non-filers<sup>19</sup>, the AOs were yet to initiate proceedings under section 142(1) read with section 148 in Assessment Information System (AST) of ITD. For such cases, verification or any further action was pending even after the expiry of periods ranging from one year to two years from the identification of the assessee. In the remaining 140 cases<sup>20</sup>, it could not be ascertained whether the assessee was engaged in business/profession of private healthcare sector. ITD’s reply is awaited (April 2017).

It was seen that by Audit that the NMS module also did not have any provision for generating reports based on the nature of business (Code-wise). The code-wise information in respect of healthcare sector hence could not be furnished by ITD.

## 2.5 Systems and mechanism operating within ITD to link third party data ineffective

During audit, efforts were made to assess the efficacy of the existing systems and mechanisms available and operating within the Income Tax Department (ITD) for bringing Private Hospitals, Nursing Homes, Medical Professionals, Diagnostic Centres, Pathological labs and other Medical supplies agencies/stores in the medical service sector in the income tax net. Audit collected information through survey questionnaire on likely assessee in respect of 26 states from different third party sources (**Annexure 5A**) viz. various registering bodies, government agencies, besides official websites<sup>21</sup> etc. as indicated below:

<sup>16</sup> PCIT Central 2 Kolkata – 295, PCIT-8 Kolkata – 1296; Gujarat (8 units) – 16024 and PCIT Jorhat - 728

<sup>17</sup> PCIT Central 2 Kolkata – 159, PCIT-8 Kolkata – 624; Gujarat (8 units) – 2693 and PCIT Jorhat - 151

<sup>18</sup> PCIT Central 2 Kolkata – 136, PCIT-8 Kolkata – 672; Gujarat (8 units) – 13321 and PCIT Jorhat - 577

<sup>19</sup> FY 2012-13 (270) and FY 2013-14 (398) of three units under PCIT-8 (Range-22), Kolkata (being the specified jurisdiction for Medical professionals/stores etc.)

<sup>20</sup> relating to PCIT (Central)-2, Kolkata

<sup>21</sup> Mediffee, SulekhaVouchers, Just Dial Limited, Yellow Pages, Service tax database etc.

**Table 2.1: Third party sources/ registering bodies from which details of probable assesseees was collected**

| Sl. No. | Name of third party sources from which data/information collected/obtained:             |
|---------|---|
| 1       | Medical Council of India and States   |
| 2       | Indian School of Nursing/Nursing Council  |
| 3       | Dental Council of India and States  |
| 4       | Central Government Health Scheme  |
| 5       | Municipal Corporations/ Municipalities  |
| 6       | Central/State Public Sector Undertakings  |
| 7       | Department of Health and Family Welfare, State Governments                              |
| 8       | Charity Commissioners   |
| 9       | Pollution Control Board   |
| 10      | Drug Inspector/Controller   |
| 11      | Blood Bank database   |
| 12      | Registrar of Companies  |
| 13      | Polio Immunisation Authority  |
| 14      | District Collectors   |
| 15      | Scientific & Industrial Research Organizations (SIROs) (Medical Sciences) <sup>22</sup> |

Data were collected through survey questionnaires from the respective Controlling Officers of the above agencies to ascertain whether the healthcare facilities/ professionals empanelled with them were covered by the income tax net. The data of probable assesseees as depicted in **(Annexure 5B)** (approximately 3,20,733 records with respect to 26 states) so obtained from the sources mentioned in Table 2.1 were segregated according to jurisdictions and issued to the respective Pr.CsIT/CsIT of ITD<sup>23</sup> (May 2016 to December 2016) for verifying the income tax registration status of such assesseees and to identify the non-filers/stop-filers among them, if any. However, any attempt to identify such status through cross verification of such data with the income tax assessee database records proved by and large unsuccessful (as discussed in para 2.6 *infra*).

ITD in its replies stated<sup>24</sup> (August-October 2016) that the current system in the Department did not allow name-based search without PAN and expressed difficulty to manually search and identify assesseees under respective jurisdictions. The reply confirms that the existing mechanisms in ITD for strengthening and widening of tax base for identification of probable assesseees engaged in business/profession in the private healthcare sector are either inoperative or grossly inadequate. It also suggests that the Departmental tools to map data collected from external sources for identification of details of probable assesseees without PAN, which is a part of the strategy outlined in

<sup>22</sup> Recognised by Department of Scientific & Industrial Research (DSIR), Ministry of Science & Technology, New Delhi.

<sup>23</sup> Different PCsIT/CsIT/others in respect of Andhra Pradesh & Telangana, Assam, Bihar, Chhattisgarh, Delhi, Goa, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu, Uttarakhand, Uttar Pradesh and West Bengal.

<sup>24</sup> Different PCsIT/CsITs in respect of Andhra Pradesh & Telangana, Delhi, Jharkhand, Rajasthan, Uttar Pradesh, Uttarakhand, and West Bengal.

their Central Action Plan for the year 2016-17, were ineffective, as detailed in the following section.

## **2.6 Coverage of registered medical professionals/active companies in PAN database:**

**2.6.1** Data/information sought on registered medical professionals from Medical Council (MC) and Dental Council (DC) were received only in case of eight states viz. Assam, Arunachal Pradesh, Karnataka, Tamil Nadu, Tripura, Uttarakhand and West Bengal, while it could not be obtained in Andhra Pradesh & Telangana, Delhi, Gujarat, Kerala, Maharashtra, Rajasthan and Uttar Pradesh. Out of the first eight states, the ITD's PAN database was made available by the Department in case of West Bengal only.

In West Bengal, the data of registered medical professionals collected from the registering bodies, viz. West Bengal Medical Council (WBMC) and West Bengal Dental Council (WBDC), were verified<sup>25</sup> vis-à-vis the PAN database of ITD. Out of the total 19,822 registered practitioners, PAN registration status of only 4,849 cases<sup>26</sup> could be traced. The remaining 14,973 cases<sup>27</sup> were again referred (December 2016) to the Department<sup>28</sup> for reconfirmation of their existence in their tax net. ITD's reply was awaited (April 2017).

In remaining six states Medical/Dental Council data could not be verified as the relevant PAN database was not furnished by the Department.

**2.6.2** To ascertain the coverage of private healthcare companies in the income tax net, the data of such companies were extracted from the official website of the Registrar of Companies (ROC) by issuing a letter. Their income tax registration status (PAN and jurisdiction details) was verified from the official website of ITD through "Know Your PAN" search feature on the basis of "date of incorporation" or "Corporate Identity Number" (CIN). A total of 4,851 cases of private hospitals, nursing homes, diagnostic centres etc. identified in Assam, Chhattisgarh, Delhi, Gujarat, Maharashtra, Meghalaya, Mizoram, Manipur, Nagaland, Tamil Nadu, Tripura and West Bengal from the ROC database were test checked in audit.

<sup>25</sup> Steps followed in comparing data relating to West Bengal Medical Council/West Bengal Dental Council (Kolkata, Howrah and North & South 24 Paraganas shown under district column against their current address) with PAN database (as received from the department in respect of Circle-22, Ward 22(1) and Ward (2) under PCIT-8, Kolkata) included:

- firstly, all the PAN databases were converted into excel format by fixed width method and merged,  
-secondly, Names in both PAN database & medical council database cleaned by removing salutations such as M/s, Shri, Smt, Dr, Ms, Mrs etc. and then removing additional spaces, if any, and  
-finally, Name of both the databases was matched using formula INDEX & MATCH.

<sup>26</sup> 4849 = 4401(WBMC) and 448 (WBDC)

<sup>27</sup> 14973 = 13992(WBMC) and 981 (WBDC)

<sup>28</sup> Pr.CCIT (West Bengal & Sikkim), Pr.CIT-8 Kolkata, Pr.CCIT-19, Kolkata; Pr.CCIT-20 Kolkata and Pr.CCIT-21, Kolkata.

Out of the above cases, PAN could not be ascertained in 3,379 cases<sup>29</sup> (69.65 per cent), whereas in respect of 1,472 cases<sup>30</sup>, PAN and jurisdiction status could be traced, the details of which were referred to ITD to reconfirm their existence in the tax net. ITD's reply was awaited (April 2017).

Audit noticed that there was a mismatch in the number of corporate taxpayers registered with the ITD as compared to the number of active companies registered with the ROC, even though all of them were required to file tax returns mandatorily, pointing to the possibility of existence of non-filers, who could otherwise have been detected in case ITD had a system of checking the PAN status with the external databases of other Government agencies. Thus the ITD could not effectively utilize the existing tools for identifying potential tax payers or non-filers/ stop-filers from the databases of other registering bodies.

**2.6.3** Audit, attempted to ascertain through a questionnaire<sup>31</sup> based survey whether the private healthcare facilities and AMAs empanelled with PSUs were within the income tax net. Out of the 207 PSUs in 4 states<sup>32</sup>, responses from 78 PSUs<sup>33</sup> were received. Based on the responses and subsequent checking in audit, a total of 271 cases<sup>34</sup> were verified in West Bengal and Gujarat to ascertain the tax filing status out of which 137 cases<sup>35</sup> of empanelled hospitals, nursing homes, etc. were identified<sup>36</sup> as tax filers. The remaining 134 cases<sup>37</sup> that could not be identified were forwarded to the Department for ascertaining their existence in the income tax net. ITD's reply was awaited (April 2017).

**2.6.4** The details of 49,856 healthcare units<sup>38</sup> where licenses were issued by the Municipal Corporations and Director General of Health and Family Welfare in 10 states were referred to the ITD to verify their income tax registration

<sup>29</sup> Assam:84, Delhi:101 cases out of 160 cases test checked, Gujarat:155, Maharashtra: 111, Meghalaya: 3, Mizoram:1, Manipur:3, Nagaland: 1,Tamil Nadu: 2442, Tripura: 4, and West Bengal: 474.

<sup>30</sup> Assam: 120, Delhi: 59 out of 160 cases test checked, Maharashtra: 167, Meghalaya: 5, Gujrat-387, Manipur:8 Tripura: 2, and West Bengal: 724)

<sup>31</sup> Questionnaire calling for the following information was issued to the Controlling Officers:

- a. list of private hospitals, nursing homes/medical clinics, medical colleges/ research institutes, diagnostic centres, pathological labs and other Medical supplies agencies/ stores and Authorised Medical Attendants which are empanelled with their organisation for providing health facility to Central Government/ State Government/ PSU employees, along with their complete address, phone numbers, email IDs;
- b. whether PAN/TAN details and status of filing of income tax returns are sought and collected, While empanelling/ registering a medical professional/ health facility;
- c. terms and conditions of empanelment of these institutions along with the list of documents which are mandatory requirement for registration; and
- d. Criteria for de-registering/ de-listing (black-listing) the medical facilities/ professionals from empanelled/ registered body.

<sup>32</sup> Assam: 49, Gujarat: 10, Maharashtra: 4 and West Bengal: 144.

<sup>33</sup> Assam: 8, Gujarat: 6 and West Bengal: 64.

<sup>34</sup> West Bengal: 239, Gujarat: 25

<sup>35</sup> WB: 137 (in case of Assam there were no empanelled agency as informed by 8 PSUs).

<sup>36</sup> Included in the tax net of the department as checked/identified from the selected units of 13 PCsIT/CsIT from West Bengal.

<sup>37</sup> Gujarat: 25 and West Bengal: 102.

<sup>38</sup> Assam (0+612), Chhattisgarh (0+1325), Delhi (0+932), Gujarat (4314+0), Karnataka (439 +17040), Maharashtra (647+0), Rajasthan (0+97), Tamil Nadu (738+3713), Uttarakhand (0+8128), West Bengal (9086+2785). Figures in bracket represents details for Municipal corporations and Director General of Health and Family Welfare respectively.

status. ITD could not furnish any information on the existence of these units in their tax net in the absence of PAN details. Here also, the existing tools could not be utilized effectively to widen the tax base as per the existing strategy of the ITD.

## **2.7 Role of Investigation wing in strengthening/widening of tax base in medical service sector**

The Intelligence and Criminal Investigation(I&CI) wing/Investigation wing<sup>39</sup> of the Department collects, collates and disseminates information under section 285BA<sup>40</sup> of the Income Tax Act, 1961 (Annual Information Return-AIR) as well as other information under the Compulsory Central Information Branch(CIB) codes<sup>41</sup>. Audit sought information to ascertain the efforts made by them for strengthening the tax base in healthcare sector. ITD informed that no information was collected in respect of private hospitals, nursing homes etc. during FY 2012-13 to 2015-16, in any of the states except in Punjab where only 5 cases<sup>42</sup> of assessee engaged in healthcare sector were noticed and brought into the tax net by the Investigation wing.

## **2.8 Surveys under Income Tax Act**

The Income Tax authorities are empowered to carry survey under section 133A and 133B of the Income Tax Act. Surveys enable ITD to identify new assessee, stop filers and detect tax evasions.

Information in respect of regular surveys conducted by ITD was sought at the Commissionerate (Pr.CIT/ CIT) level. It was seen that during FYs 2012-13 to 2015-16, out of total 1,172 surveys conducted by ITD, only 147 surveys (12.54 per cent) conducted in Andhra Pradesh & Telangana, Assam, Gujarat, Jharkhand, Kerala, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu, and West Bengal pertained to the healthcare sector, which resulted in accrual of additional revenue by ₹4,925.65 lakh in respect of assessee engaged in business/ profession of healthcare sector in these states. (Table 2.2).

<sup>39</sup> Andhra Pradesh & Telangana, Assam, Chhattisgarh, Delhi, Gujarat, Haryana, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu and West Bengal.

<sup>40</sup> Under section 285BA of the IT Act read with Rule 114E (up to FY 2015-16), it is obligatory on the part of certain category of persons to furnish annual information return on specified financial transactions.

<sup>41</sup> Based on threshold limits of various transactions codes 401 to 415 relating to sale of immovable property, transfer of capital asset, time deposit, sale & purchase of motor vehicle, payment to hotel/restaurants, payment/deposit in cash, investor details etc.

<sup>42</sup> In case of Punjab Already included in the tax base as such no new assessee were identified.



Table: 2.2: Results of Survey Operations

| Name of the State          | Total no. of surveys conducted in the selected units | No. of surveys conducted in health sector in the selected units | Addition made in taxable income as a result of surveys (₹ in lakh) |
|----------------------------|--|---|--|
| Andhra Pradesh & Telangana | 287  | 32  | 712.13   |
| Assam                      | *  | 1   | 100  |
| Delhi                      | NIL  | NIL   | NIL  |
| Gujarat                    | *  | 3   | 0.01   |
| Haryana                    | *  | NIL   | NIL  |
| Jharkhand                  | 8  | 8   | NIL  |
| Karnataka                  | *  | NIL   | NIL  |
| Kerala                     | 549  | 75  | 2,637.94   |
| Madhya Pradesh             | 258  | 5   | 0  |
| Maharashtra                | 15   | 7   | 1,253.67   |
| Odisha                     | 1  | NIL   | NIL  |
| Punjab                     | 3  | NIL   | NIL  |
| Rajasthan                  | 32   | 2   | 61.89  |
| Tamil Nadu                 | 15   | 0   | 0  |
| Uttarakhand                | 4  | 4   | 0  |
| Uttar Pradesh              | NA   | 2   | 129.66   |
| West Bengal                | *  | 8   | 30.35  |
| <b>Total</b>               | <b>1,172</b>   | <b>147</b>  | <b>4,925.65</b>  |

Source: Information provided by field formations of ITD; \*: Not Available

Further, in West Bengal, surveys were conducted only in eight cases pertaining to three units<sup>43</sup> (specified jurisdiction for medical professionals/stores etc.), where the total number of assesses in the state stood at 46,225<sup>44</sup>.

In Delhi, Haryana, Karnataka, Odisha, Punjab, Tamil Nadu and Uttar Pradesh, no surveys were conducted in respect of assesseees related to the healthcare sector. The information on surveys conducted was not provided by the ITD in case of Bihar and Chhattisgarh.

Thus surveys, though an effective tool for strengthening tax base as well as deterrence against evasion, were not utilised altogether in some states during FYs 2012-13 to 2015-16 by ITD. The reasons for not carrying out such surveys were called for from the Department. The CBDT replied (May 2017) that the Exemption charges have now been given power to survey under section 133A of the Income Tax Act, 1961 with effect from 01.04.2017.

*Audit has noticed that such powers were already bestowed with AO and that the number of surveys conducted was found inadequate. The potential of survey, which is an effective tool for strengthening tax base as well as a deterrence against evasion, was not utilized at all in some states.*

<sup>43</sup> Circle- 22, Kolkata, Ward-22(1), Kolkata and Ward-22(2), Kolkata under PCIT-8 (Range-22), Kolkata

<sup>44</sup> As per the PAN database as on 23 November 2016 furnished by Range 22 (Circle 22, Ward 22(1) and Ward 22(2)) under PCIT-8, Kolkata.

## 2.9 Selection criteria for scrutiny

ITD uses Computer Aided Scrutiny Selection (CASS) for selection of cases for scrutiny in a centralized manner, based on the risk analysis and 360-degree data profiling of tax payers. Prior to the introduction of CASS in November 2004 and even till the AY 2012-13, trust hospitals having annual receipts of more than ₹5 crore were required to be compulsorily selected for scrutiny assessments. After the introduction of online filing of ITR 7 (Returns for Trusts and Charitable Institutions) with effect from AY 2013-14, selection of such cases is now being done through CASS. However, the Assessing Officer can still exercise discretion for manual selection under specified circumstances.

In CIT (Exemption), Pune case records, the selection criteria for CASS were indicated in general terms like “Large receipts reported by trust for charitable purposes”, “Large amount spent on charity”, “Large cash deposits” etc. Audit noticed that some assesseees having significant gross receipts (e.g. Mahatma Gandhi Mission, Aurangabad, having a turnover of ₹ 1,635 crore (AY 2013-14), Terna Public Trust (Terna Medical College and Research Centre's Sahyadri Hospital) having gross receipts of ₹89 crore (FY 2013-14)), were not selected for scrutiny during AY 2012-13. Neither did the Assessing Officer utilise his powers of manual selection despite the turnover of the assesseees being high and far above the earlier prescribed threshold.

In PCIT-Siliguri, West Bengal, in case of Dr. Chhang’s Super Specialty Hospital Private Limited, although the assessee had earned high incomes<sup>45</sup> during the FYs 2009-10 to 2012-13, it was not selected for scrutiny during AY 2010-11, though selected for the subsequent years (AYs 2011-12, 2012-13 and 2013-14). Similarly, in PCIT-Exemption, Kolkata, in case of Kothari Welfare Institute, the assessee despite having very high income<sup>46</sup> during FY 2010-11, was not selected for scrutiny during the subsequent year AY 2011-12, when the income had dropped significantly but still remained high.

## 2.10 Summary of Findings

- The existing allocation of codes based on nature of business with respect to healthcare assesseees does not allow for separate classification with respect to Medical Clinics, Diagnostic Centres, Pathological labs and other Medical supplies agencies/stores, leading to the possibility of potential taxpayers under these categories remaining uncovered in the tax net.

<sup>45</sup> Dr.Chhang’s Super Specialty Hospital Private Limited, Siliguri having total operating income of ₹ 1,305.96 lakh, ₹1,609.05 lakh, ₹2,020.89 Lakh and ₹ 2,195.63 lakh in FYs 2009-10, 2010-11, 2011-12 and 2012-13 respectively.

<sup>46</sup> Kothari Welfare Institute, Kolkata having income of ₹6,656.32 lakh, ₹ 861.55 lakh and ₹1,058.92 lakh in FYs 2010-11, 2011-12 and 2012-13 respectively.

- Although ITD has systems and tools for analyzing data collected from external sources for widening of tax base, the same could not be effectively utilized/ implemented for strengthening of the tax base in private healthcare sector and for identifying the stop-filers and non-filers. The existing tools could not verify whether medical professionals and medical companies/healthcare facilities registered with other registering agencies were effectively covered in the income tax base of assesseees as well. Absence of such cross-verification points to the possibility of many potential assesseees remaining outside the tax net.
- The scope and results of survey operations conducted in private healthcare sector during FYs 2012-13 to 2015-16 were inadequate and ineffective to identify the potential assesseees in the healthcare sector and for widening of the tax base in this sector.

### 2.11 Recommendations

Audit recommends that:

- i) The CBDT may consider
  - a. requesting the registering bodies/agencies through their administrative Ministries/Departments for introducing provision of mandatory quoting of PAN details as a pre-condition while registering the private hospitals, nursing homes/medical clinics, medical colleges/ research institutes, diagnostic centres, pathological labs, medical supplies stores etc;

The CBDT replied (May 2017) that requiring mandatory quoting of PAN as a part of registration process for private hospitals, nursing homes/medical clinics, medical colleges/research institutes, diagnostic centers, pathological labs, medical supplies stores of the respective Municipality, State or Central Government was beyond the remit of the Income Tax Department.

*Audit is of the view that in such cases CBDT may reconsider instituting an appropriate mechanism to ensure that all potential assesseees are included in the taxpayer base to reduce the scope of evasion.*

- b. modifying its existing mechanism to identify non-filer/stop-filer private companies and registered medical professionals in healthcare sector to widen its tax base;

*The CBDT replied (May 2017) that the non-filer monitoring system (NMS) of ITD identifies the non-filers based on significant financial transactions reported to the ITD by the reporting entities.*

*Audit is of the view that the CBDT may consider modifying the NMS module to generate sector-specific details of stop-filers and non-filers to widen its tax base.*

- c. using survey operations more effectively to strengthen the tax base of assesseees related to the healthcare sector and fixing of sector-specific targets for survey operations to factor in the increases in revenues of the private healthcare sector;

*The CBDT replied (May 2017) that the Exemption charges have been given power to survey under section 133A of the Income Tax Act, 1961 with effect from 1 April 2017.*

*The reply is not acceptable as there were no surveys conducted at all in some states.*

- d. allocating specific codifications to different businesses in the healthcare sector that are not covered presently (viz. Medical Clinics, Diagnostic Centres, Pathological labs and other Medical supplies agencies/stores) under the existing codes specific to healthcare sector.

*The CBDT agreed during Exit Conference (May 2017) to examine this issue.*

- e. introducing provision for generating sector specific data in NMS module.

*The CBDT replied (May 2017) that the recommendation is already included in NMS criteria.*

*The reply is not acceptable as the NMS module did not have any provision for generating reports pertaining to the healthcare sector at all, and within the healthcare sector, reports based on the nature of business (hospitals, nursing homes, diagnostic centres, pathological labs, professionals etc.).*

- ii) The CBDT may review the criteria built into CASS particularly in respect of Charitable Trust Hospitals which are high risk areas.

*The CBDT replied (May 2017) that the recommendation is already included in CASS module.*

*The reply is not acceptable as audit noticed instances where trusts having significant amount of gross receipts had not been selected for scrutiny. As the assessment of charitable trusts is a high risk area CBDT may reconsider the audit recommendation.*