

## Executive Summary

Tax deducted at source (TDS) and Tax collected at source (TCS) are tools in the hands of the Income Tax Department (ITD) designed for quick and smooth collection of tax due to the Government from the taxpayer. It helps the Government to ensure collection of revenue at the time of the transactions itself and prevent tax evasion.

Regular inflow of TDS/TCS collection ensures a good flow of revenue to government accounts and assists treasury management. TDS/TCS provisions also place a responsibility of deducting and depositing tax on the shoulders of persons other than the payees.

We conducted performance audit on 'Implementation of TDS/TCS schemes' with the objective to assess (a) efficacy of all stakeholders in complying to the provisions of the Act relating to TDS/TCS; (b) efforts made by the ITD for widening the TDS/TCS net; (c) implementation of e-TDS scheme; and (d) correctness of accounting procedure in TDS/TCS.

We covered the (i) verification orders processed by respective Assessing Officer (TDS) on TDS returns filed by the tax deductors and (ii) assessment orders completed by jurisdictional Assessing Officer (AO) on return of income filed by the assessee processed/completed during the financial years (FYs) 2012-13 to 2014-15 and a total number of 7,489 verification orders in 150 selected TDS circles/wards were selected for performance audit. We also verified 2,332 assessment orders completed by jurisdictional AO in the assessment charges with reference to TDS provisions for the same period. We held entry conference with Central Board of Direct Taxes (CBDT) in November 2015 wherein we explained audit objectives, scope of audit and the main areas of audit examination. We held exit conference with CBDT in December 2016 to discuss the audit findings and recommendations vis-à-vis the Ministry's Reply.

### Summary of audit findings:

a. We found in 168 cases that, AO(TDS) failed to impose interest amounting to ₹ 902.16 crore under section 201(1A)/206C(7) on the defaulting tax deductors. We found 311 cases and 343 cases of non-initiation of penalty and prosecution under section 271C/271CA and 276B/276BB/278A respectively against the tax deductors. We noticed in 128 cases that AO failed to disallow expenditure though tax was not deducted at source or deducted but not deposited by the assessee, resulting in short levy of tax of ₹ 2026.42 crore. In 108 cases, we found that the deductors failed to deduct

tax at source on sale of immovable property resulting in non/short deduction of tax at source of ₹ 23.69 crore. We also noticed the lack of coordination between assessment units and TDS units in 369 cases where information was not being shared in order to ensure compliance to various TDS provisions of the Act. We found in 27 cases AO failed to utilize the information of income of assessee available during regular assessment. *(Paragraphs 2.2 to 2.8)*

**b.** We noticed that the criteria for selection of verification of TDS returns were not prescribed by the CBDT. We found that in more than 50 *per cent* of the Commissioner of Income Tax(TDS) charges, the annual target of number of surveys to be conducted was either not fixed/not available or was zero and the ITD's approach towards fixing of target for conducting of surveys was not scientific. We also noticed that the ITD was not doing sufficient 'Know Your Customer' (KYC) before allotting 'Tax Deduction/Collection Account Number' (TAN) to tax deductors and therefore was not able to track all TDS defaulters. *(Paragraphs 3.3 to 3.5)*

**c.** We noticed that the extent of unconsumed challans was significant in terms of number of challans as well as TDS amount involved and the facility of tagging of unconsumed challans was not being utilized by all AOs. We also noticed that non-utilization of facilities available for AO(TDS) on portal of Centralised Processing Cell (TDS) for realization of resolvable demand and resolving defaults from defaulters report of tax deductors was high. *(Paragraphs 4.2 to 4.4)*

**d.** We found that the amount reported by State Government Accounts Office Identification Numbers (AINs) in Form 24G were different from the amount reported by the State Accountant Generals (AGs) showing non reconciliation of Online Tax Accounting System for government deductors (G-OLTAS). We found that there were delays in furnishing Form 24G by the 18,703 AIN holders. We noticed that during the years 2012-13 to 2014-15, 19.3 *per cent* of total AINs allotted were inactive and default in case of Government deductors constituted 42.3 *per cent* of the total default by all categories of deductors during the same period. *(Paragraphs 5.2 to 5.5)*

## Summary of Recommendations

- ❖ **Sharing of information between assessment and TDS units**
  - We recommend that the CBDT may ensure sharing of information among TDS units and respective Jurisdictional assessment units so that revenue collection efforts are synergized.
- ❖ **Criteria for verification of TDS returns**
  - We recommend that the CBDT may prescribe the procedure and criteria for selection of TDS returns for verification.
- ❖ **Survey conducted by TDS units**
  - We recommend that the CBDT may fix realistic targets of the surveys for its CIT(TDS) charges to be conducted in all TDS units and thereafter finalized in time for broadening the tax base by bringing hitherto uncovered tax deductors in the tax net.
- ❖ **Know Your Customer**
  - We recommend that the CBDT examines the inadequacies in the 'KYC' and without sufficient 'KYC' the ITD may not issue TAN so as to keep track of tax defaulters.
- ❖ **Unconsumed challans, resolvable demand and defaulters report of tax deductors**
  - We recommend that the CBDT may take steps to ensure that all AOs may utilize the facilities available in CPC(TDS) portal for addressing the issues of unconsumed challans, realization of resolvable demand and resolving defaults from defaulters report of tax deductors.
  - We recommend that the CBDT may take effective steps for quick recovery of the resolvable demand as it is free from any dispute.
- ❖ **Reconciliation of TDS reported by the State Government AINs and State Accountant Generals**
  - We recommend that the CBDT may ensure the reconciliation of tax payments reported by State Accountants General (AGs) and the TDS reported by the AIN holders through Form 24G.



**Form 24G**

- We recommend that the CBDT may take steps for better compliance in filing of Form 24G by the AIN holders so as to enable the DDOs to file the quarterly statements in time.



**In-active AIN holders**

- We recommend that the ITD may review the reasons for inactive AINs holders and remove those who are no longer performing the function of Accounts Officer for better monitoring of submission of Form 24G.