



SUPREME AUDIT INSTITUTION OF INDIA
लोकहितार्थं सत्यनिष्ठा
Dedicated to Truth in Public Interest

**Report of the
Comptroller and Auditor General of India
on Direct Taxes for the period ended March 2023**

**Union Government
Department of Revenue
Report No. 14 of 2025
(Compliance Audit – Civil)**

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Laid on the table of Lok Sabha and Rajya Sabha on _____

Table of Contents

Contents	Pages
<i>Preface</i>	<i>i</i>
<i>Highlights</i>	<i>iii-v</i>
<i>Summary of Recommendations</i>	<i>vii-viii</i>
Chapter I: Direct Taxes Administration	1-28
i. Direct Taxes	1-1
ii. Organizational Structure	1-2
iii. Resources of the Union Government	2-3
iv. Direct Taxes - Trends and Composition	3-8
v. Trend of Refunds	8-10
vi. Trend of Allotment of PAN, filing of Income Tax Return and Gross Total Income of taxpayers.	10-20
vii. Budgeting of Direct Taxation Receipts	20-21
viii. Revenue impact of tax incentives	21-23
ix. Tax debt – Uncollected demand	23-24
x. Litigation management	24-26
xi. Tax evasion	26-26
xii. Effectiveness of Internal Audit	26-27
xiii. Tax Administration process	27-28
Chapter II: Audit Mandate, Products and Impact	29-46
i. Authority of the CAG for audit of receipts	29-29
ii. Broad Framework of Audit of Receipts	29-32
iii. Persistent and pervasive irregularities in respect of Corporate Tax and Income Tax Assessment cases	32-38
iv. Audit products and response to audit	38-40
v. Audit impact- Amendments at the instance of Audit	40-44
vi. Recovery at the instance of Audit	44-45
vii. Time-Barred cases	45-46
viii. Non-production of records	46-46
Chapter III: Corporation Tax	47-76
i. Introduction	47-47
ii. Quality of assessments	47-56
iii. Administration of tax concessions/exemptions/deductions	56-65

Contents		Pages
iv.	Income escaping assessments due to errors	65-74
v.	Over-charge of tax/interest	74-75
vi.	Recommendations	76-76
Chapter IV: Income Tax		77-99
i.	Introduction	77-77
ii.	Quality of assessments	77-84
iii.	Administration of tax concessions/exemptions/deductions	84-91
iv.	Income escaping assessments due to errors	91-97
v.	Over-charge of tax/interest	97-98
vi.	Recommendations	98-99
Appendices		101-113
Abbreviations		115

Preface

This Report for the year ended March 2023 has been prepared for submission to the President under Article 151 of the Constitution of India.

The Report contains significant results of the compliance audit of the Department of Revenue - Direct Taxes of the Union Government.

The instances mentioned in this Report include those, which came to notice in the course of the test audit for the period 2022-23 as well as those which came to notice in earlier years but could not be reported in the previous Audit Reports; instances relating to the period subsequent to 2022-23 have also been included, wherever necessary.

The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

Highlights

The Comptroller and Auditor General of India conducts the audit of receipts of the Union Government under Section 16 of the Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act, 1971. This Report primarily discusses compliance to the provisions of the Income Tax Act, 1961 and the associated rules, procedures, directives, etc. as applied to all aspects related to the administration of direct taxes. The Report is organised into four chapters, the highlights of which are described below:

Chapter I: Direct Taxes Administration

Direct tax receipts of the Union Government in the financial year (FY) 2022-23 amounting to ₹ 16,63,686 crore increased by 17.8 *per cent* over the FY 2021-22 (₹ 14,12,422 crore). Direct taxes represented 6.2 *per cent* of the Gross Domestic Product (GDP) in FY 2022-23 and its share in gross tax revenue increased to 54.5 *per cent* in FY 2022-23 from 52.1 *per cent* in FY 2021-22.

There was an increase of 17.8 *per cent* in direct tax collection in FY 2022-23, and an increase of 38.0 *per cent* in refunds issued during FY 2022-23.

Of the two major components of direct taxes, collections from Corporation Tax increased by 16.0 *per cent*, from ₹ 7.12 lakh crore in FY 2021-22 to ₹ 8.25 lakh crore in FY 2022-23 and collections from Income Tax increased by 20.0 *per cent* from ₹ 6.73 lakh crore in FY 2021-22 to ₹ 8.08 lakh crore in FY 2022-23.

The number of corporate assesseees increased from 9.65 lakh in FY 2021-22 to 10.19 lakh in FY 2022-23, registering an increase of 5.6 *per cent*. The number of non-corporate assesseees increased from 6.72 crore in FY 2021-22 to 7.29 crore in FY 2022-23, registering an increase of 8.5 *per cent*.

The arrears of Demand increased from ₹ 19.35 lakh crore in FY 2021-22 to ₹ 22.74 lakh crore in FY 2022-23. The net collectible Demand increased to ₹ 69,396 crore in FY 2022-23 compared to ₹ 51,318 crore in FY 2021-22. The Department indicated that 97.0 *per cent* of uncollected Demand would be difficult to recover.

The number of appeals pending with CIT (Appeals) increased from 5.02 lakh in FY 2021-22 to 5.25 lakh in FY 2022-23. Whereas the amount locked up in these cases increased to ₹ 16.33 lakh crore in FY 2022-23 from ₹ 14.19 lakh crore in FY 2021-22.

Chapter II: Audit Mandate, Products and Impact

During FY 2021-22, the Income Tax Department (ITD) completed 2,15,759 scrutiny assessments in the units audited as per the audit plan of FY 2022-23, out of which ITD produced 2,03,334 cases. Apart from this, the ITD also

produced 64,956 cases of scrutiny assessments completed in the earlier financial years during FY 2021-22. The incidence of errors in assessments checked in audit during FY 2022-23 was 5.87 *per cent* (15,740 cases).

In the last three years, the ITD recovered ₹ 3,588.79 crore from demands raised to rectify the errors in assessments pointed out by Audit. There are 59,352 cases of earlier years pointed out in the audit up to 31st March 2023, which could not be settled for want of replies from the ITD, as of 28th February 2025.

There are 481 high-value cases with a tax effect of ₹ 7,929.21 crore covered in Chapter III and IV of this Report, out of which replies in respect of 414 cases having a tax effect of ₹ 6,526.27 crore (March 2025) were received, of which the Ministry/ITD accepted 238 cases (57.49 *per cent*) having a tax effect of ₹ 4,271.94 crore (65.46 *per cent*).

During FY 2023-24, instructions were issued and amendments were carried out by the CBDT in the Income Tax Act and rules framed thereunder based on audit recommendations given in Audit Report 04 of 2023 - Subject Specific Compliance Audit on 'Attachment of Property of an assessee by ITD under Section 281B' and Audit Report No. 01 of 2019 – Performance Audit on 'Assessment of the Assesseees in the Entertainment Sector', (refer para 2.5.1 and 2.5.2).

Chapter III: Corporation Tax

There are 287 high-value cases of Corporation Tax with a tax effect of ₹ 6,252.06 crore referred to the Ministry/CBDT from August 2024 to March 2025, of which 46 significant instances with a tax effect of ₹ 4,734.67 crore are illustrated in this Chapter.

The irregularities illustrated in this chapter include: non-levy of Dividend Distribution Tax (DDT) of ₹ 1,034.66 crore in income tax computation sheet though decided to levy in assessment order {refer para 3.2.2 (case I)}; incorrect allowance of carry forward of ₹ 6,626.85 crore instead of ₹ 6,086.88 crore which resulted in an excess carry-forward loss of ₹ 539.97 crore with a potential tax effect of ₹ 186.87 crore {refer para 3.3.2 (case I)}; incorrect allowance of set off of brought forward business loss of ₹ 116.70 crore and unabsorbed depreciation of ₹ 80.26 crore which resulted in a short levy of tax of ₹ 100.16 crore {refer para 3.3.2 (case II)}; non-consideration of the earlier assessed income of ₹ 87.68 crore while arriving at assessed income at ₹ 338.61 crore under Section 143(3) read with Sections 263 and 144B in March 2022 and incorrect set off of brought forward losses of ₹ 68.89 crore in the income tax computation sheet which resulted in an under assessment of income of ₹ 135.78 crore, involving a short levy of tax of ₹ 132.29 crore, including interest and excess refund {refer para 3.4.3 (case I)}.

Chapter IV: Income Tax

There are 194 high value cases of income tax with tax impact of ₹ 1,677.15 crore, of which 31 instances of significant errors/irregularities in income tax assessments, involving tax effect of ₹ 1,195.44 crore are illustrated in this Chapter.

The irregularities illustrated in this chapter include incorrect adoption of assessed income as Nil instead of correct assessed income of ₹ 38.98 crore involving short levy of tax of ₹ 18.55 crore {refer para 4.2.2 (Case I)}; incorrect computation of tax payable by the system at ₹ 919.12 crore instead of correct tax leviable of ₹ 1,373.67 crore due to incorrect application of tax rate and surcharge relevant to AOPs involving short levy of tax of ₹ 571.71 crore {refer para 4.2.3 (Case I)}; incorrect levy of interest under Section 234A for default in furnishing of return, involving tax effect of ₹ 98.32 crore {refer para 4.2.4 (Case I)}; incorrect allowance of set off of unabsorbed depreciation of ₹ 18.84 crore involving short levy of tax of ₹ 9.24 crore {refer para 4.3.5 (Case I)}; omission to charge unexplained investment of ₹ 25.91 crore involving short levy of tax of ₹ 16.21 crore {refer para 4.4.6 (Case I)}; excess levy of interest under Section 234B for default in payment of advance tax involving excess levy of tax of ₹ 104.69 crore {refer para 4.5.1 (Case I)}.

Summary of Recommendations

Audit recommends that:

- *The CBDT may consider reviewing the requirement for assessing the effectiveness of recent changes implemented to make the IT system more accountable for minimising the repetition of similar or identical errors in assessments.*

(Paragraph 2.3)

- *The CBDT may consider monitoring the existing institutional mechanism to identify systematic and structural weaknesses and risk of revenue leakages, if any.*

(Paragraph 2.3)

- *The CBDT may consider instituting appropriate controls in the system to prevent the recurrence of errors in scrutiny assessments, especially after implementing Income Tax Business Application (ITBA).*

(Paragraph 2.3)

- *The Department may assess/review cases for which remedial action became time barred and consider issuing instructions/guidelines and, streamlining and strengthening the existing system to ensure that remedial action is taken in a timely manner so that incidents of cases becoming time barred for remedial action, do not recur in the future.*

(Paragraph 2.7)

- *Application of incorrect rates of tax and surcharge, errors in levy of interest, excess or irregular refunds, etc. point to weaknesses in the internal controls of the ITD, which need to be addressed through ITBA system prompts that will cause the Assessing officer to verify calculations before finalization of the case.*

(Chapter III and IV)

- *While the Department has taken action to initiate correction in the cases pointed out by the Audit, it may be mentioned that these are only a few illustrative cases, test checked in the audit. In the entire universe of all assessments, including non-scrutiny assessments, probability of occurrence of such errors of omission or commission cannot be ruled out. The CBDT not only needs to revisit the assessments completed during the year but also put in place a foolproof IT system and internal control mechanism to avoid the recurrence of such errors in the future.*

(Chapter III and IV)

- *The CBDT may examine whether the instances of "errors" noticed are errors of omission or commission, and in the case of errors of commission, the ITD should ensure necessary action, including fixing responsibility as per law.*

(Chapter III and IV)

Chapter I: Direct Taxes Administration

This Chapter gives an overview of the direct tax administration, revenue trends in direct tax collection, and the tax administration process in the Income Tax Department (ITD). The data/information compiled in this Chapter has been obtained from various sources viz. CBDT, Ministry of Corporate Affairs, Principal Chief Controller of Accounts, Union Finance Accounts etc. Audit has not independently verified the data/information received.

1.1 Direct Taxes

This Audit Report covers the levy and collection of direct taxes. The direct taxes covered in this report are discussed below:

- a) **Corporation Tax (CT):** Corporation Tax is a direct tax imposed on the net income or profit that enterprises make from their businesses. Companies, both public and private, registered in India under the Companies Act 1956/2013, are liable to pay Corporation Tax. This tax is levied at specific rates according to the provisions of the Income Tax Act, 1961.
- b) **Income Tax (IT):** Income Tax is a direct tax imposed on the net income or profit that persons other than companies make from their earnings or gains at specific rates according to the provisions of the Income Tax Act, 1961.
- c) **Other Direct Taxes (ODTs):** Other Direct Taxes include direct taxes other than Corporation Tax and Income Tax, for example, Securities Transaction Tax (STT)¹, Wealth Tax², etc.

1.2 Organizational Structure

The Department of Revenue (DoR) of the Ministry of Finance (MoF) functions under the overall direction and control of the Secretary (Revenue) and coordinates matters relating to all the direct and indirect Union Taxes through two statutory boards, namely, the Central Board of Direct Taxes (CBDT) and the Central Board of Indirect Taxes and Customs (CBIC), constituted under the Central Board of Revenue Act, 1963. The CBDT looks after matters relating to the levy and collection of direct taxes.

As on 31 March 2023, the sanctioned staff strength and working strength of the Income Tax Department (ITD) was 77,626 and 47,755, respectively. The sanctioned and working strength of the officers³ was 10,862 and 9,328

¹ Tax on the value of taxable securities purchased and sold through a recognized stock exchange in India.

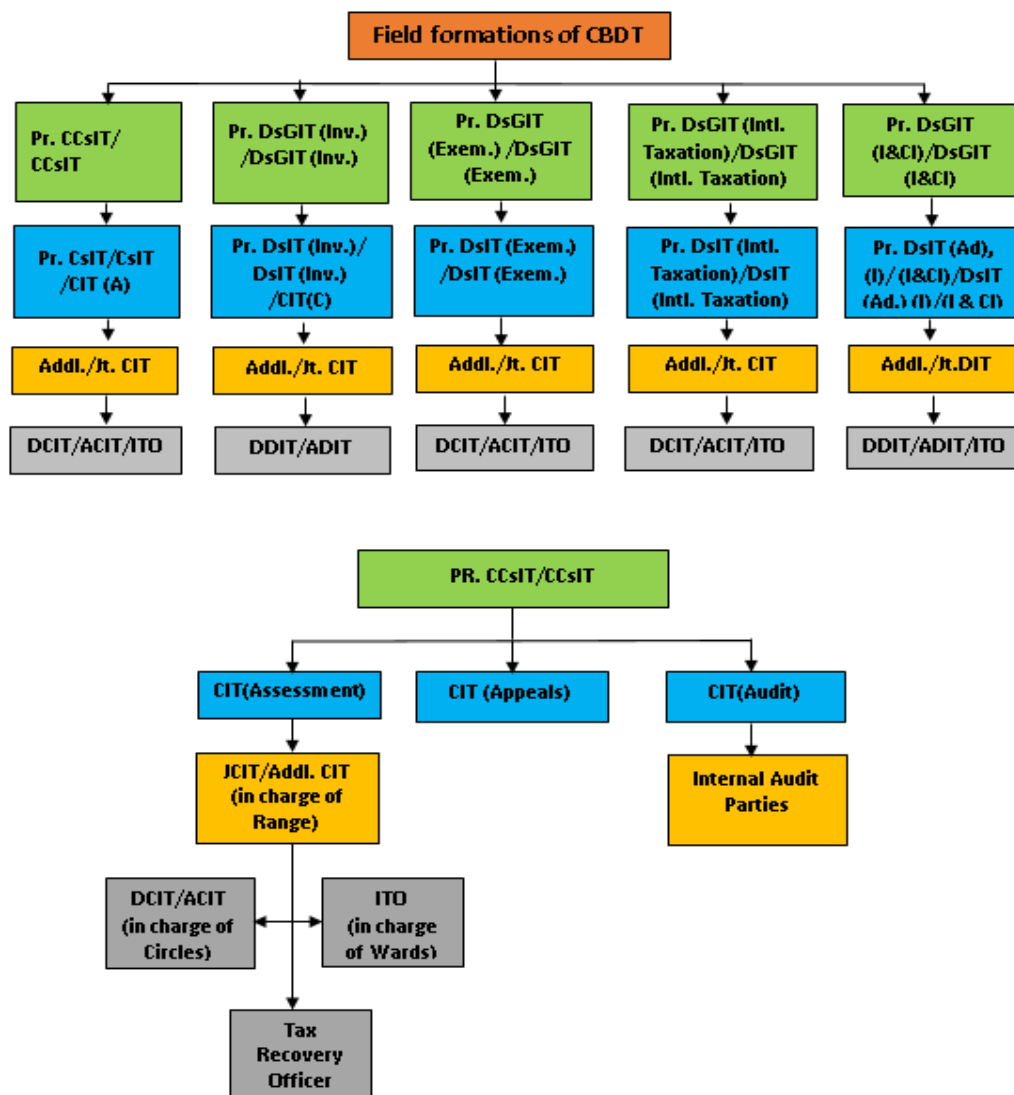
² Tax chargeable on the net wealth comprising certain assets specified under Section 2(ea) of the Wealth Tax Act, 1957.

³ Pr. CCIT/Pr. DGIT, CCIT/DGIT, Pr. CIT/Pr. DIT, CIT/DIT, Addl. CIT/Addl. DIT/JCIT/JDIT, DCIT/DDIT/ACIT/ADIT and ITOs.

respectively. The revenue expenditure of the ITD for the year 2022-23 was ₹ 8,566 crore.⁴

The organizational structure of the CBDT is given in Chart 1.1 below:

Chart 1.1: Organisational set-up of field formation of CBDT



1.3 Resources of the Union Government

1.3.1 The Government of India's resources include revenues received by the Union Government, all loans raised by the issue of treasury bills, internal and external loans and 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) 2022-23 and FY 2021-22.

⁴ Union Finance Accounts for FY 2022-23.

Table 1.1: Resources of the Union Government	(₹ in crore)	
	FY 2022-23	FY 2021-22
A. Total Revenue Receipts [#]	36,61,672	33,34,813
i. Direct Taxes Receipts	16,63,686	14,12,422
ii. Indirect Taxes Receipts including other taxes ⁵	13,90,505	12,96,893
iii. Non-Tax Receipts	6,05,594	6,24,192
iv. Grants-in-aid & contributions	1,887	1,306
B. Miscellaneous Capital Receipts ⁶	46,035	14,638
C. Recovery of Loans & Advances ⁷	36,273	24,948
D. Public Debt Receipts ⁸	88,64,893	82,49,152
Receipts of Government of India (A+B+C+D)	1,26,08,873	1,16,23,551

Source: Union Finance Accounts of the respective years.

Note: Direct Tax Receipts and Indirect Tax Receipts, including Other Taxes, have been worked out from the Union Finance Accounts.

Total Revenue Receipts include ₹ 9,48,406 crore in FY 2022-23 and ₹ 8,98,392 crore in FY 2021-22 directly assigned to States.

It can be seen from Table 1.1 that in FY 2022-23, an increase has been noticed in Direct Tax receipts, which witnessed a growth of 17.8 per cent over the previous year and Direct Taxes accounted 45.4 per cent of total revenue receipts in FY 2022-23. There was an increase of 38.0 per cent in refunds issued during FY 2022-23 compared to FY 2021-22 as shown in Table 1.2.

Table 1.2: Direct Taxes Administration									
Financial Year	Direct Tax Collection (₹ in crore)				Refunds (₹ in crore)		Actual Returns Filed by (Number in lakh)		Revenue expenditure (₹ in crore)
	Corporate Tax	Income Tax	Other Direct Taxes	Total	Corporate Tax	Income Tax	Non-corporate Assesseees	Corporate Assesseees	
2018-19	6,63,571	4,61,652	12,495	11,37,718	1,05,828	55,209	619.8	8.5	7,168
2019-20	5,56,876	4,80,348	13,462	10,50,686	1,21,542	61,889	639.4	8.4	7,052
2020-21	4,57,719	4,70,633	18,822	9,47,174	1,73,402	86,122	662.8	9.2	7,319
2021-22	7,12,037	6,73,414	26,971	14,12,422	1,46,812	76,784	671.9	9.7	7,581
2022-23	8,25,834	8,08,221	29,631	16,63,686	1,75,097	1,33,358	729.8	10.3	8,566

Source: Union Finance Accounts and Pr. CCA; CBDT

1.4 Direct Taxes – Trends and Composition

1.4.1 Table 1.3 below gives the relative growth of Direct Taxes (DT) with reference to Gross Tax Revenues⁹ (GTR) and Gross Domestic Product (GDP) during FY 2018-19 to FY 2022-23.

⁵ Indirect taxes levied on goods and services such as Customs Duty, Excise Duty, Service Tax, Central Goods and Services Tax, Integrated Goods and Services Tax etc.;

⁶ This comprises value of bonus shares, disinvestment of shares in the public sector and other undertakings, and other receipts;

⁷ Recovery of loans and advances made by the Union Government;

⁸ Borrowings by the Government of India internally as well as externally;

⁹ It includes all direct and indirect taxes.

Financial Year	DT (₹ in crore)	GTR (₹ in crore)	GDP (₹ in crore)	DT as <i>per cent</i> of GTR	DT as <i>per cent</i> of GDP
2018-19	11,37,718	20,80,465	1,90,10,164	54.7	6.0
2019-20	10,50,686	20,10,060	2,03,39,849	52.3	5.2
2020-21	9,47,174	20,27,104	1,98,00,914	46.7	4.8
2021-22	14,12,422	27,09,315	2,36,64,637	52.1	6.0
2022-23	16,63,686	30,54,191	2,69,49,646	54.5	6.2

Source: DT and GTR - Union Finance Accounts, GDP-Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation; GDP for FY 2022-23 – Press note released by CSO on 7 January 2025.

1.4.2 It can be seen from Table 1.3 that Direct Taxes accounted for 54.5 *per cent* share of GTR in FY 2022-23 and there was an increase (2.4 *per cent*) in the share of DT to GTR in FY 2022-23 as compared to FY 2021-22. DT was 6.2 *per cent* of the GDP during FY 2022-23 as compared to 6.0 *per cent* in FY 2021-22.

1.4.3 Table 1.4 gives the growth of Direct Taxes and their major components, i.e., Corporation Tax (CT) and Income Tax (IT), from FY 2018-19 to FY 2022-23.

Financial Year	Direct Taxes	<i>Per cent</i> growth over the previous year	Corporation Tax	<i>Per cent</i> growth over the previous year	Income Tax	<i>Per cent</i> growth over the previous year	GDP	<i>Per cent</i> growth over the previous year
(₹ in crore)								
2018-19	11,37,718	13.5	6,63,572	16.2	4,61,652	13.1	1,90,10,164	13.3
2019-20	10,50,686	(-) 7.6	5,56,876	(-) 16.1	4,80,348	4.0	2,03,39,849	7.0
2020-21	9,47,174	(-) 9.9	4,57,719	(-) 17.8	4,70,633	(-) 2.0	1,98,00,914	(-) 2.6
2021-22	14,12,422	49.1	7,12,037	55.6	6,73,414	43.1	2,36,64,637	19.5
2022-23	16,63,686	17.8	8,25,834	16.0	8,08,221	20.0	2,69,49,646	13.9

Source: Union Finance Accounts; GDP-Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation; GDP for FY 2022-23 – Press note released by CSO on 7 January 2025.

1.4.4 It can be seen from Table 1.4 above that there was an increase of 16.0 *per cent* in Corporation Tax in FY 2022-23 in comparison to the previous year, i.e., FY 2021-22, and corresponding change in Income Tax was an increase of 20.0 *per cent* in FY 2022-23. GDP increased by 13.9 *per cent* in FY 2022-23.

1.4.5 There are different stages of direct taxes collection, such as Tax Deducted at Source (TDS), Advance Tax, Self-Assessment Tax (SAT), and Regular Assessment Tax for both Corporation and Income Tax. The pre-assessment collection through TDS, Advance Tax, and Self-Assessment Tax is indicative of voluntary compliance in the system whereas regular assessment tax is collected at post assessment stage, including scrutiny, revision, rectification etc.

1.4.6 Table 1.5 below shows the collection of Corporation Tax under different stages from FY 2018-19 to FY 2022-23.

Table 1.5: Collection of Corporation Tax									
Financial Year	TDS	Advance Tax	Self-Assessment Tax	Pre-assessment collection (Col. 2+3+4)	Percentage of Pre-assessment collection to the Total Collection	Regular Assessment Tax	Percentage of regular assessment collection to the Total Collection	Other receipts	Total Collection (Col. 5+7+9)
(₹ in crore)									
1	2	3	4	5	6	7	8	9	10
2018-19	1,40,784	4,17,365	29,168	5,87,317	76.3	82,140	10.7	99,943	7,69,400
2019-20	1,43,589	3,59,915	30,935	5,34,439	78.8	49,946	7.4	94,032	6,78,417
2020-21	1,39,273	3,94,611	21,536	5,55,420	87.7	29,995	4.7	47,705	6,33,120
2021-22	1,90,084	5,31,274	39,157	7,60,515	88.6	45,303	5.3	53,032	8,58,850
2022-23	2,34,803	5,66,648	41,046	8,42,497	84.2	58,481	5.8	99,952	10,00,930

Source: Pr. CCA, CBDT.

Note: The other receipts include surcharge and cess. The figures of collection include refunds also.

1.4.7 Table 1.5 above shows that there had been a year-on-year increase in the percentage of the collection of Corporation Tax through voluntary compliance by assesseees (pre-assessment stage) except in FY 2022-23, whereas collection through regular assessment (post-assessment) had not witnessed a similar trajectory.

1.4.8 Table 1.6 below shows the collection of Income Tax under different stages from FY 2018-19 to FY 2022-23.

Table 1.6: Collection of Income Tax									
Financial Year	TDS	Advance Tax	Self-Assessment Tax	Pre-assessment collection (Col. 2+3+4)	Percentage of total pre-assessment collection	Regular Assessment Tax	Percentage of regular assessment collection	Other receipts	Total Collection (Col. 5+7+9)
(₹ in crore)									
1	2	3	4	5	6	7	8	9	10
2018-19	3,09,985	1,10,164	55,005	4,75,154	91.9	16,892	3.3	24,815	5,16,860
2019-20	3,36,794	1,07,401	54,163	4,98,358	91.9	17,673	3.3	26,201	5,42,232
2020-21	3,31,002	1,23,158	63,198	5,17,358	92.9	12,301	2.2	27,096	5,56,755
2021-22	4,44,159	1,78,091	75,349	6,97,599	93.0	15,526	2.1	37,072	7,50,197
2022-23	5,83,167	1,61,277	88,908	8,33,352	88.5	20,039	2.1	88,190	9,41,581

Source: Pr. CCA, CBDT.

Note: The other receipts include surcharge and cess, etc. The figures of the collection also include refunds.

1.4.9 Table 1.6 above shows that there had been a year-on-year increase in the percentage of collection of Income Tax through voluntary compliance by the assessee (pre-assessment stage) except in FY 2022-23, whereas collection

through regular assessment (post-assessment) had not witnessed such trajectory.

1.4.10 Table 1.7 below gives the number of non-corporate assessees in different categories of income.

Financial Year	Category of Assessees					Total
	A ¹⁰	B ₁ ¹¹	B ₂ ¹²	C ¹³	D ¹⁴	
2018-19	68.08	403.35	103.36	44.96	0.03	619.78
2019-20	75.05	409.15	104.53	50.63	0.01	639.37
2020-21	72.32	423.42	109.94	57.15	0.00 [#]	662.83
2021-22	73.63	430.84	106.20	61.24	0.00 [*]	671.91
2022-23	69.96	457.64	122.42	79.08	0.00 [^]	729.10

Source: CBDT; These figures are based on actual returns filed during the respective year. [#] 241 assessees, ^{*} 158 assessees, [^]39 assessees

The number of non-corporate assessees registered an increase of 8.5 per cent in FY 2022-23 in comparison to an increase of 1.4 per cent in FY 2021-22. As can be seen from Table 1.7 above and Chart 1.2 below, there was a decrease of 5.0 per cent in Category 'A' during FY 2022-23 in comparison to the previous year, whereas there was an increase of 1.8 per cent during FY 2021-22. There was an increase of 17.6 per cent in non-corporate taxpayers from FY 2018-19 to FY 2022-23, whereas during the same period, tax collection from non-corporate taxpayers increased by 75.0 per cent (refer Table 1.4). Thus, the percentage growth in the number of non-corporate taxpayers was less than the percentage growth in tax collection thereon.

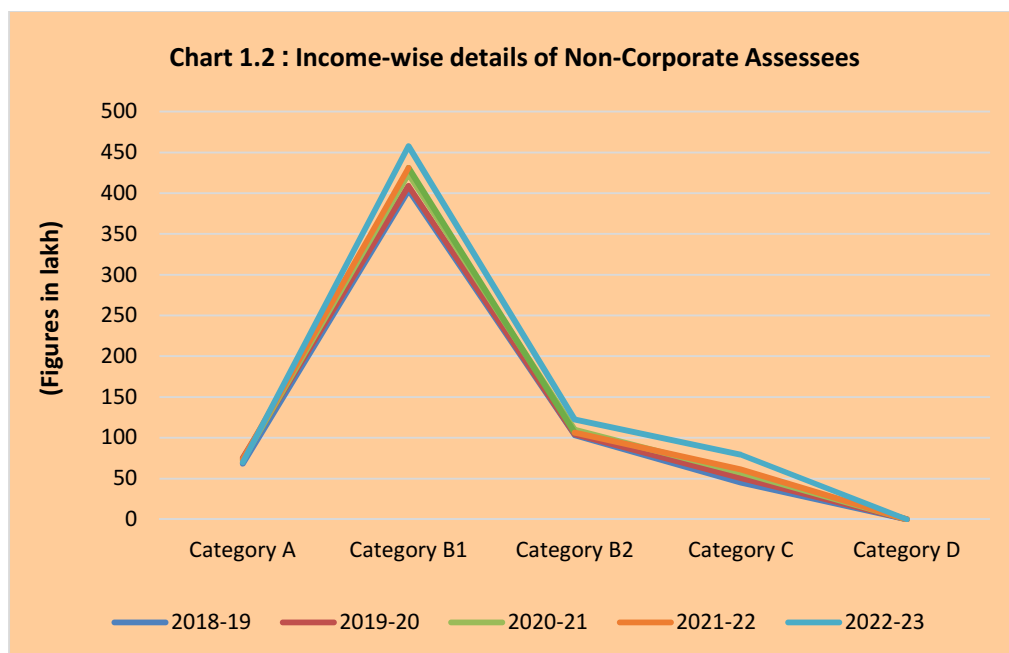
¹⁰ Category 'A' assessees - Assessments with income/loss below ₹ two lakh;

¹¹ Category 'B1' assessees (lower income group) - Assessments with income/loss of ₹ two lakh and above but below ₹ five lakh;

¹² Category 'B2' assessees (higher income group) - Assessments with income/loss of ₹ five lakh and above but below ₹ 10 lakh;

¹³ Category 'C' assessees - Assessments with income/loss of ₹ 10 lakh and above;

¹⁴ Category 'D' assessees - Search and seizure assessments;



1.4.11 Table 1.8 below gives the number of Corporate Assesseees in different categories of income.

Financial Year	Category of Assesseees					Total	Assesseees having income above ₹ 25 lakh
	A ¹⁵	B ₁ ¹⁶	B ₂ ¹⁷	C ¹⁸	D ¹⁹		
	2018-19	3.66	2.00	0.61	2.19		
2019-20	3.48	2.00	0.63	2.27	0.00 [*]	8.38	1.52
2020-21	3.91	2.21	0.68	2.42	0.00 [^]	9.21	1.61
2021-22	4.26	2.26	0.69	2.44	0.00 [#]	9.65	1.63
2022-23	4.62	2.23	0.69	2.65	0.00 [§]	10.19	1.82

Source: CBDT. These figures are based on actual returns filed during the respective year.

[@] 146 assesseees, ^{*}223 assesseees, [^] 60 assesseees, [#] 17 assesseees, [§] 3 assesseees

The number of corporate assesseees registered an increase of 5.6 *per cent* in FY 2022-23 as compared to 4.8 *per cent* in FY 2021-22 with respect to immediate previous year. There was an increase of 20.4 *per cent* in the corporate taxpayers from FY 2018-19 to FY 2022-23, whereas during the same period, tax collection from the corporate taxpayers increased by 24.5 *per cent* (refer Table 1.4).

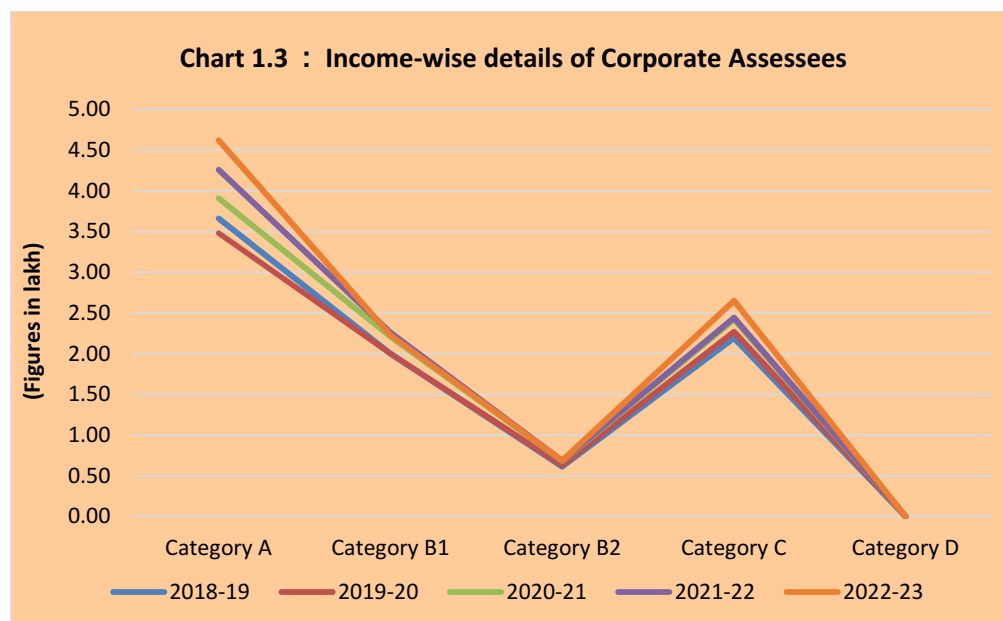
¹⁵ Category 'A' assesseees – Assessments with income/loss below ₹ 50,000;

¹⁶ Category 'B1' assesseees (lower income group) – Assessments with income/loss of ₹ 50,000 and above but below ₹ five lakh;

¹⁷ Category 'B2' assesseees (higher income group) - Assessments with income/loss above ₹ five lakh and above but below ₹ 10 lakh;

¹⁸ Category 'C' assesseees - Assessments with income/loss of ₹ 10 lakh and above;

¹⁹ Category 'D' assesseees – Search and seizure assessments;



1.5 Trend of refunds

When the amount of tax paid exceeds the amount of tax payable, the assesseees are entitled for a refund of the excess amount. If the refund arising to the taxpayer is out of any tax deducted/collected at source or tax paid by way of advance tax, then the taxpayer shall be entitled to interest calculated at the rate of one-half *per cent* for every month or part of a month from the 1st day of April of the assessment year to the date on which the refund is granted if the return of income is furnished on or before the due date of filing of return specified under Section 139(1). In case of a refund arising due to excess tax paid by way of self-assessment tax, then the interest on the refund shall be calculated from the date of furnishing of return of income or payment of tax, whichever is later. However, no interest shall be payable if the amount of refund is less than 10 *per cent* of the tax as determined under Section 143(1) or tax determined under regular assessment.

1.5.1 Disposal of Refund Cases

Table 1.9 below gives the trend of disposal and pendency of refund cases from FY 2018-19 to FY 2022-23.

Financial Year	Refund cases due for disposal	Refund cases disposed of	Refund cases pending	Pendency in percentage
(1)	(2)	(3)	(4)	(5)
2018-19	274.4	261.7	12.7	4.63
2019-20	264.3	248.9	15.4	5.83
2020-21	272.6	236.5	36.1	13.24
2021-22	294.1	242.5	51.6	17.55
2022-23	349.9	314.3	35.5	10.15

Source: CBDT. For FY 2021-22 and 2022-23, as per details provided by CBDT vide letter dated 08.05.2025.

It can be seen from Table 1.9 above that there had been a year-on-year increase in 'refund cases disposed of' during FYs 2018-19 to 2022-23 except in FY 2019-20. During FYs 2018-19 and 2022-23, pendency percentage of refund cases was highest in FY 2021-22 (17.55 *per cent*) followed by FY 2020-21 (13.24 *per cent*) and 2022-23 (10.15 *per cent*).

1.5.2 Year-wise pendency of Refund Cases

Table 1.10 below gives pendency of refund cases year-wise for FY 2021-22 and FY 2022-23:

Financial Year	Pending upto one year		Pending for more than one year and upto 2 years		Pending for more than two years and upto three years		Total	
	No. of refund cases (in lakh)	Amount (₹ in crore)	No. of refund cases (in lakh)	Amount (₹ in crore)	No. of refund cases (in lakh)	Amount (₹ in crore)	No. of refund cases (in lakh) [#]	Amount (₹ in crore)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
2021-22	21.9	22,691.5	5.8	2,433.5	0.0	0.0	27.7	25,125.0
2022-23	23.9	49,204.9	9.9	11,563.5	4.3	853.6	38.1	61,622.0

Source: CBDT. [#] Figures of pending refund cases as given in column no. 4 of Table 1.9 and in column no. 8 of Table 1.10, requires reconciliation by the CBDT and accordingly amount of refund as given in column number (9) of Table 1.10 also requires reconciliation.

It can be seen from Table 1.10 above that more than 60 *per cent* of pending refund cases during FY 2021-22 and 2022-23 were pending for less than a year. In FY 2021-22, there were no refund cases pending for more than two years. In term of amount pending in these refund cases, 90 *per cent* of refund amount in FY 2021-22 was pending for less than one year and whereas in FY 2022-23, 80 *per cent* were pending for less than a year.

1.5.3 Quarterly trend of refunds

Table 1.11 below shows the quarterly trend of refunds made and revenue collection in respect of the Corporation Tax and Income Tax during FY 2018-19 to FY 2022-23.

FY	Quarter ending	Corporation Tax			Income Tax		
		Gross collection	Refunds	Percentage of refunds with reference to collection	Gross collection	Refunds	Percentage of refunds with reference to collection
2018-19	June 2018	1,27,468	61,078	47.9	98,049	12,834	13.1
	September 2018	1,90,200	12,848	6.8	1,27,210	16,823	13.2
	December 2018	1,94,177	10,468	5.4	1,21,069	16,503	13.6
	March 2019	2,57,554	21,434	8.3	1,70,533	9,049	5.3
	Total	7,69,399	1,05,828	13.8	5,16,861	55,209	10.7
2019-20	June 2019	70,435	64,894	92.1	92,449	11,209	12.1
	September 2019	1,78,463	17,404	9.8	1,11,951	17,481	15.6
	December 2019	1,20,124	28,009	23.3	98,494	30,792	31.3

Table 1.11: Quarterly trend of refunds								(₹ in crore)
FY	Quarter ending	Corporation Tax			Income Tax			
		Gross collection	Refunds	Percentage of refunds with reference to collection	Gross collection	Refunds	Percentage of refunds with reference to collection	
	March 2020	1,87,853	11,235	6.0	1,77,449	2,407	1.4	
	Total	5,56,876	1,21,542	21.8	4,80,343	61,889	12.9	
2020-21	June 2020	54,217	40,208	74.2	62,162	23,808	38.3	
	September 2020	96,247	48,155	50.0	1,04,327	7,414	7.1	
	December 2020	1,61,996	20,888	12.9	1,28,943	19,061	14.8	
	March 2021	1,45,269	64,151	44.2	1,75,201	35,839	20.6	
	Total	4,57,719	1,73,402	37.9	4,70,633	86,122	18.3	
2021-22	June 2021	1,23,593	26,204	21.2	1,21,264	9,310	7.7	
	September 2021	1,84,828	34,031	18.4	1,50,895	10,763	7.1	
	December 2021	2,11,814	37,163	17.5	1,72,646	31,038	18.0	
	March 2022	1,91,802	49,414	25.8	2,28,609	25,673	11.2	
	Total	7,12,037	1,46,812	20.6	6,73,414	76,784	11.4	
2022-23	June 2022	1,73,495	24,671	14.2	1,73,964	12,890	7.4	
	September 2022	2,01,653	49,557	24.6	1,68,162	63,097	37.5	
	December 2022	2,32,927	47,066	20.2	1,88,014	32,688	17.4	
	March 2023	2,17,759	53,803	24.7	2,78,081	24,683	8.9	
	Total	8,25,834	1,75,097	21.2	8,08,221	1,33,358	16.5	

Source: Pr. CCA, CBDT

As can be seen from Table 1.11 above, 47.9 per cent, 92.1 per cent, 74.2 per cent, 21.2 per cent, and 14.2 per cent of the gross collection of the Corporation Tax during the first quarters of FY 2018-19, FY 2019-20, FY 2020-21, FY 2021-22 and FY 2022-23 respectively were refunded during the same quarter. Whereas, with respect to Income Tax, 13.1 per cent, 12.1 per cent, 38.3 per cent, 7.7 per cent, and 7.4 per cent of the gross collection during the first quarters of FY 2018-19, FY 2019-20, FY 2020-21, FY 2021-22 and FY 2022-23 respectively were refunded during the same quarter. It has also been noticed that refunds as a percentage of gross collection are higher in the case of Corporation Tax than income tax.

1.6 Trend of allotment of PAN, filing of Income Tax Return, and Gross Total Income of Taxpayers

1.6.1 Taxpayer category-wise PAN allotment

PAN is an essential tool for registering and identifying taxpayers. The ITD checks and monitors taxpayers'/non-taxpayers' monetary transactions -wise PAN and accordingly initiates action as per the provisions of the Income Tax Act.

Table 1.12 below gives the details of taxpayer status-wise cumulative number of PAN allotments at the end of each year.

Taxpayers status	Upto March 2019	Upto March 2020	Change in Per cent	Upto March 2021	Change in Per cent	Upto March 2022	Change in Per cent	Upto March 2023 [#]	Change in Per cent
INDIVIDUAL	4,352.50	4,923.90	13.13	5,415.40	9.98	5,999.20	10.78	6,626.70	10.46
COMPANY	17.4	18.7	7.47	20.3	8.56	22	8.37	23.6	7.27
FIRM	44.3	47.4	7.00	50.7	6.96	54.1	6.71	57.7	6.65
HUF	20.2	20.8	2.97	21.4	2.88	22.1	3.27	22.9	3.62
OTHERS*	22.7	26.1	14.98	29.1	11.49	32.6	12.03	36.5	11.96
Total	4,457.10	5,036.90	13.01	5,536.90	9.93	6,130.00	10.71	6,767.40	10.40

Source: CBDT (up to March 2022). [#] PAN allotment Statistics of the Income Tax Department as available on the website of the Income Tax Department.

*OTHERS include AOP, BOI, GOVT, AJP, LOCAL AUTHORITY, and TRUSTS.

From Table 1.12 above and, Chart 1.4 and Chart 1.5 below, it can be seen that there had been a year-on-year increase in the absolute number of PAN allotments in all the categories of taxpayers from FY 2018-19 to FY 2022-23. However, the percentage increase in PAN allotment witnessed a year-on-year decline during the same period except FY 2021-22.

Chart 1.4 below shows year wise cumulative PAN allotment to Individual:

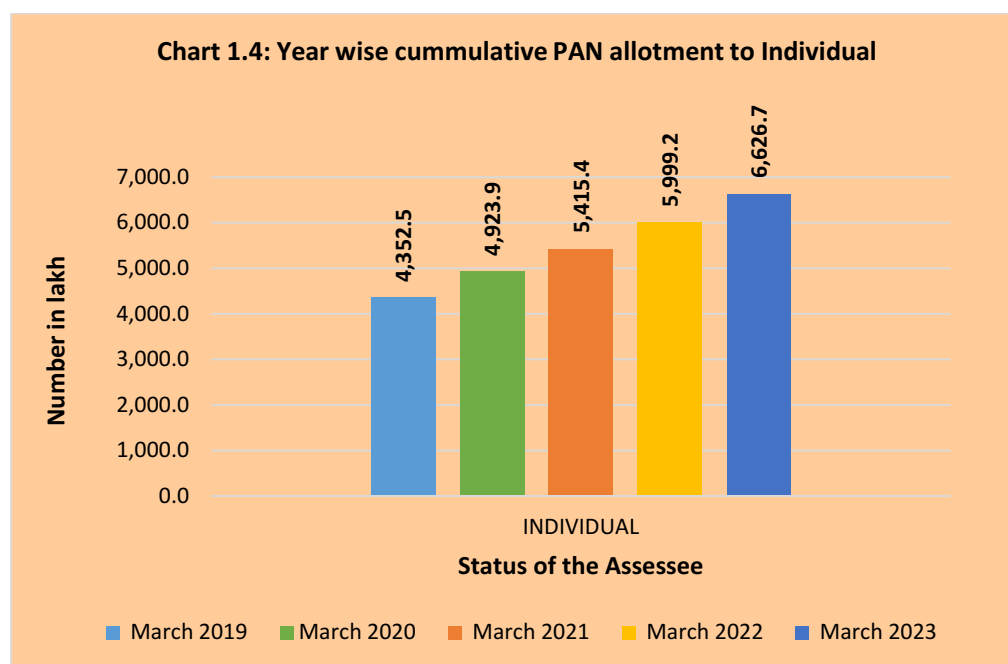
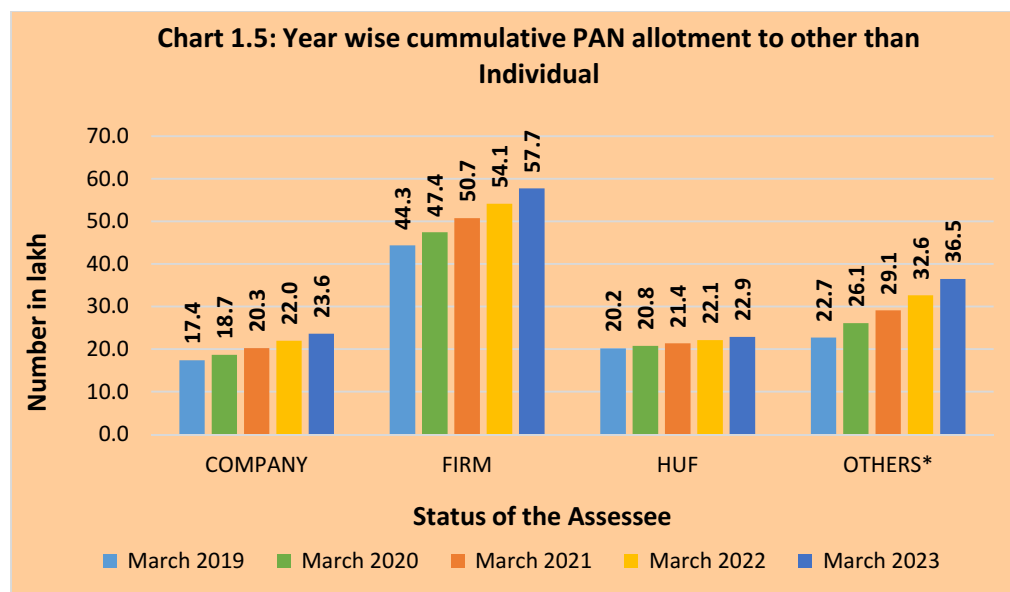


Chart 1.5 below shows year wise cumulative PAN allotment to persons other than Individual:



*OTHERS include AOP, BOI, GOVT, AJP, LOCAL AUTHORITY, TRUSTS

1.6.2 Financial year-wise number of persons filing Income Tax Return

As per Section 139 of the Act, every person being a company or a firm or being a person other than a company or a firm, if his total income or the total income of any other person in respect of which he is assessable under this Act during the previous year exceeded the maximum amount which is not chargeable to income-tax, shall, on or before the due date, furnish a return of his income or the income of such other person during the previous year, in the prescribed form.

Table 1.13 below gives the details of the Financial Year and PAN category-wise number of persons filing income Tax Returns.

PAN Category	2018-19		2019-20		2020-21		2021-22		2022-23	
	No. of ITR Filers	Percentage of Total ITRs	No. of ITR Filers	Percentage of Total ITRs	No. of ITR Filers	Percentage of Total ITRs	No. of ITR Filers	Percentage of Total ITRs	No. of ITR Filers	Percentage of Total ITRs
Individual	595.4	94.0	611.3	94.2	631.7	94.0	654.6	94.0	696.9	94.2
Company	8.5	1.3	8.4	1.3	9.2	1.4	9.7	1.4	10.3	1.4
Firm	13.2	2.1	13	2	14.1	2.1	14.5	2.1	15.1	2.0
HUF	11.7	1.8	11.6	1.8	12	1.8	12.3	1.8	12.5	1.7
Others	4.4	0.7	4.4	0.7	5	0.7	5.3	0.7	5.3	0.7
Total	633.2	100.0	648.7	100.0	672.1	100.0	696.4	100.0	740.1	100.0

Source: CBDT. *Others include AOP, BOI, GOVT, AJP, Local Authority and Trust

From Table 1.13 above and, Chart 1.6 and Chart 1.7 below, it can be seen that there had been a year-on-year increase in the absolute number of persons filing Income Tax Returns from FY 2018-19 to FY 2022-23.

Chart 1.6 below shows FY-wise number of Individuals, filing Income Tax Return:

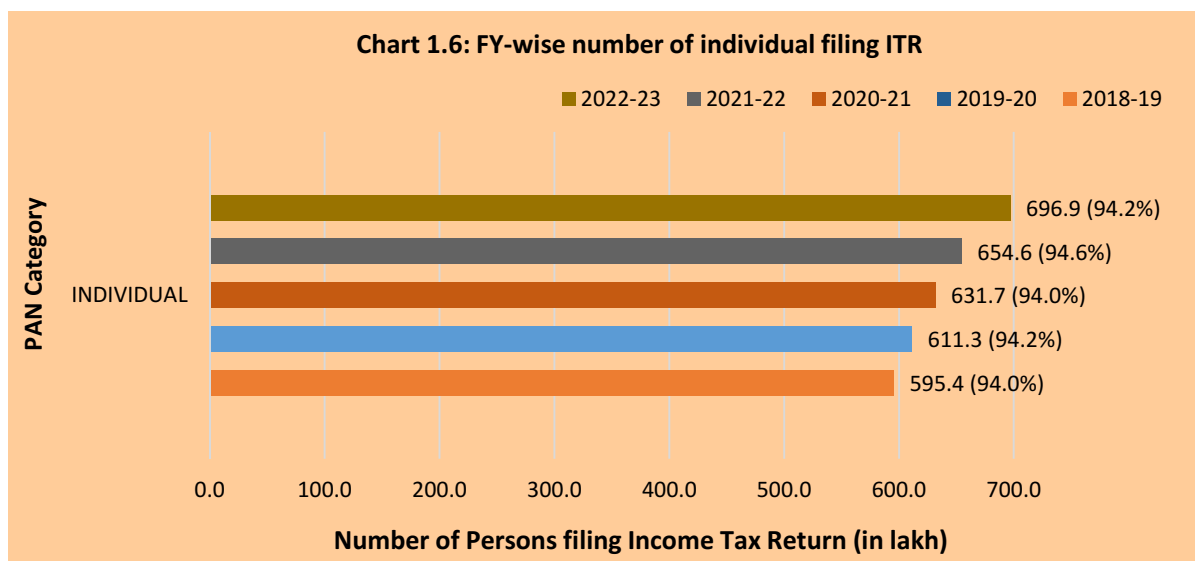
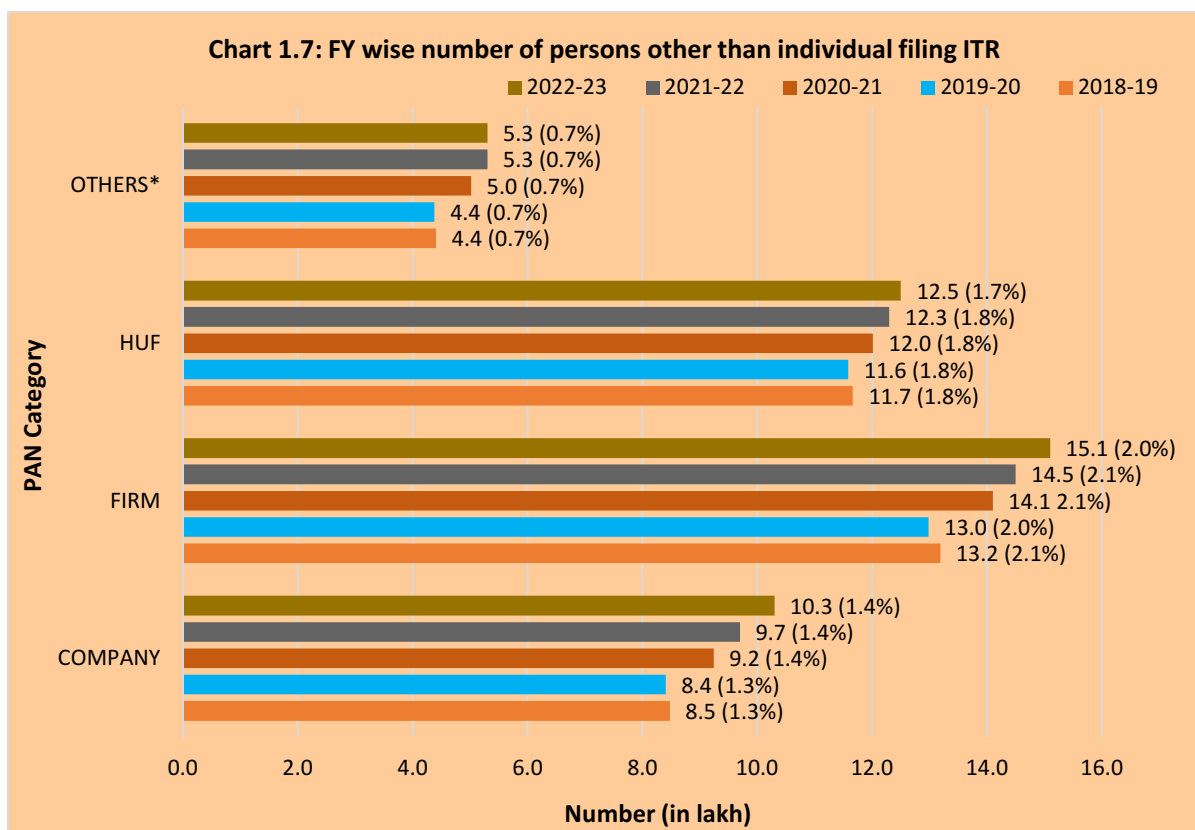


Chart 1.7 below shows FY-wise persons other than Individual, filing Income Tax Return:



* Others include AOP, BOI, GOVT., AJP, Local Authority and Trust

1.6.3 Income category and Assessment year-wise number of Income Tax Returns (ITRs) filed by taxpayers

Table 1.14 below gives the details of Income category and Assessment Year-wise number of ITRs filed by taxpayers and the percentage increase in the number of ITRs compared to the immediate previous Assessment Year.

Table 1.14: Income Category and Assessment Year-wise number of ITRs filed by All taxpayer (Number of ITR in Thousand)

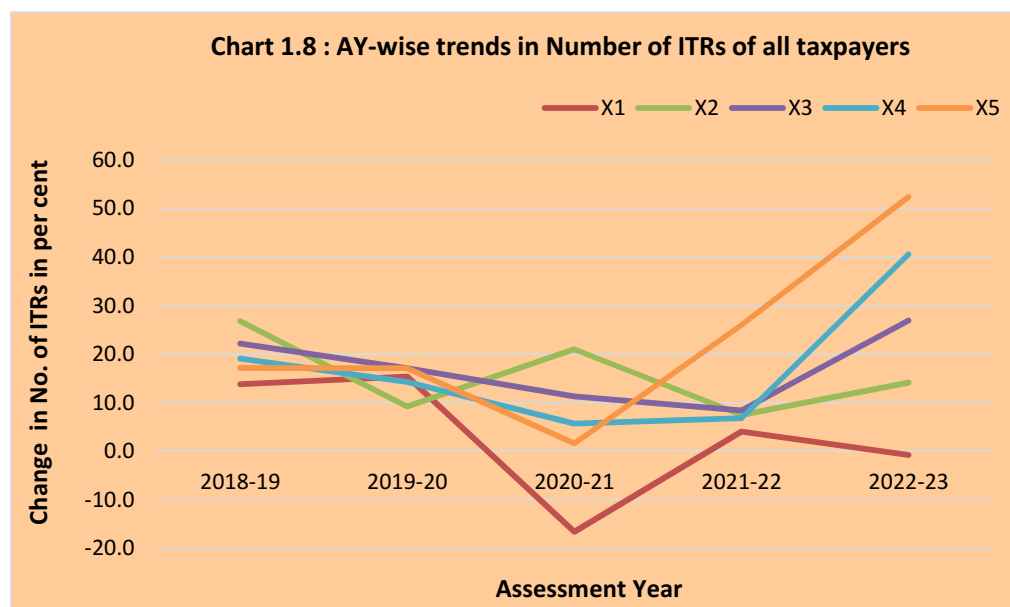
Income Category*	2018-19		2019-20		2020-21		2021-22		2022-23	
	No. of ITR	Change in per cent	No. of ITR	Change in per cent	No. of ITR	Change in per cent	No. of ITR	Change in per cent	No. of ITR	Change in per cent
X1	37,723.2	13.8	43,525.7	15.4	36,319.0	-16.6	37,793.1	4.1	37,503.1	-0.8
X2	15,059.7	26.8	16,448.2	9.2	19,906.7	21.0	21,401.0	7.5	24,428.8	14.1
X3	5,763.7	22.2	6,750.2	17.1	7,512.3	11.3	8,145.4	8.4	10,342.0	27.0
X4	163.4	19.1	186.8	14.3	197.4	5.7	210.8	6.8	296.4	40.6
X5	3.4	17.2	4.0	17.1	4.0	1.6	5.1	26.0	7.8	52.4
Total	58,713.4	17.7	66,914.9	14.0	63,939.4	-4.4	67,555.4	5.7	72,578.1	7.4

* X1: Gross income ₹ 5 lakh and below; X2: Gross Income above ₹ 5 lakh but ₹ 10 lakh and below; X3: Gross Income above ₹ 10 lakh but ₹ 1 crore and below; X4: Gross Income above ₹ 1 crore but ₹ 50 crore and below; X5: Gross Income above ₹ 50 crore

Source: CBDT

It can be seen from Table 1.13 above that there had been a year-on-year increase in the total number of ITRs filed by all taxpayers except for AY 2020-21. Further, there had been a year-on-year increase in the number of ITRs for all income categories for AY 2018-19 to 2022-23 except assesseees with Gross income of ₹ 5 lakh and below for AY 2020-21 and 2022-23. Furthermore, there had been a significant increase in the number of ITRs for AY 2022-23 for assesseees with Gross Income of ₹ 1 crore and above.

Chart 1.8 below gives income category-wise year-on-year change in increasing/decreasing percentages in the number of ITRs filed by all taxpayers.



1.6.4 Income Category and Assessment Year-wise Gross Total Income of the Taxpayers

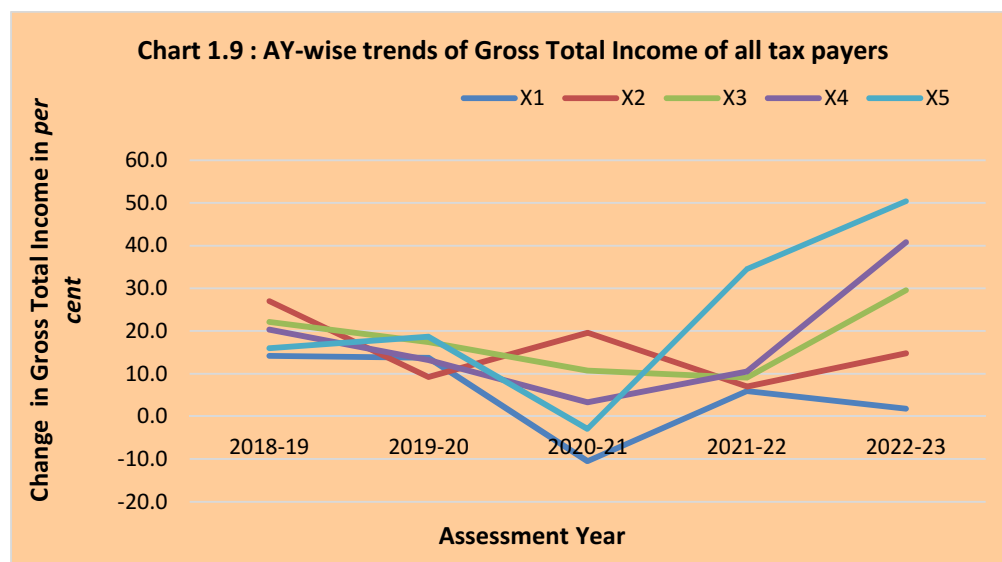
Table 1.15 below gives the details of Income category and Assessment Year-wise gross total income of taxpayers and percentage increase in gross

total income of the taxpayers in comparison to the immediate previous Assessment year.

Income Category*	2018-19		2019-20		2020-21		2021-22		2022-23	
	Gross Total Income	Change in per cent	Gross Total Income	Change in per cent	Gross Total Income	Change in per cent	Gross Total Income	Change in per cent	Gross Total Income	Change in per cent
X1	11,44,466	14.2	13,01,293	13.7	11,64,691	-10.5	12,33,846	5.9	12,56,530	1.8
X2	10,23,588	27	11,17,809	9.2	13,36,609	19.6	14,29,561	7.0	16,40,525	14.8
X3	11,22,811	22.1	13,18,410	17.4	14,59,848	10.7	15,93,155	9.1	20,64,635	29.6
X4	5,98,674	20.3	6,77,756	13.2	7,00,434	3.3	7,74,069	10.5	10,89,741	40.8
X5	12,43,543	16	14,76,214	18.7	14,33,727	-2.9	19,28,921	34.5	29,01,241	50.4
Total	51,33,084	19.4	58,91,483	14.8	60,95,309	3.5	69,59,552	14.2	89,52,672	28.6

*X1: Gross income ₹ 5 lakh and below; X2: Gross Income above ₹ 5 lakh but ₹ 10 lakh and below; X3: Gross Income above ₹ 10 lakh but ₹ 1 crore and below; X4: Gross Income above ₹ 1 crore but ₹ 50 crore and below; X5: Gross Income above ₹ 50 crore
Source: CBDT

It can be seen from Table 1.15 above and Chart 1.9 below that there had been a year-on-year increase in aggregate gross total income with respect to all income categories and all categories of taxpayers (except taxpayers in the category with 'gross income ₹ 5 lakh and below' for AY 2020-21; and taxpayers in the category with 'gross income above ₹ 50 crore' for AY 2020-21). However, there had been a year-on-year increase in the aggregate gross total income of all taxpayers from AY 2018-19 to AY 2022-23.



1.6.5 Income Category and Assessment Year-wise number of Income Tax Returns (ITRs) filed by Companies

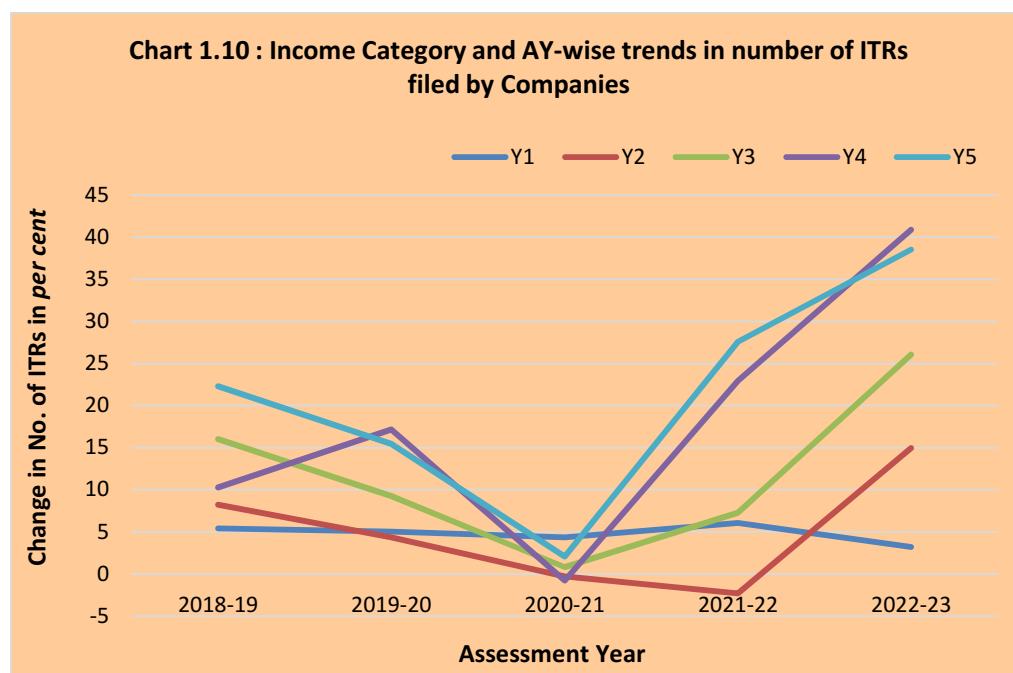
Table 1.16 below gives the details of the Income category and assessment-wise number of ITRs filed by companies and the percentage increase in the number of ITRs compared to the immediate previous Assessment Years.

Table 1.16: Income Category and Assessment Year-wise number of returns filed by Companies
(Number of ITRs in Thousand)

Income Category*	2018-19		2019-20		2020-21		2021-22		2022-23	
	No. of ITR	Change in per cent	No. of ITR	Change in per cent	No. of ITR	Change in per cent	No. of ITR	Change in per cent	No. of ITR	Change in per cent
Y1	693.0	5.4	727.8	5.0	759.5	4.4	805.5	6.1	831.2	3.2
Y2	102.8	8.21	107.3	4.4	107.0	-0.3	104.5	-2.3	120.1	14.9
Y3	43.3	16.03	47.3	9.2	47.7	0.8	51.1	7.3	64.5	26.1
Y4	1.2	10.26	1.4	17.2	1.4	-0.8	1.7	22.9	2.4	40.9
Y5	1.6	22.27	1.9	15.4	1.9	2.1	2.4	27.6	3.3	38.5
Total	841.9	6.27	885.7	5.2	917.5	3.6	965.2	5.2	1,021.5	5.8

*Y1: Gross income zero and above but ₹ 10 lakh and below; Y2: Gross income above ₹ 10 lakh but ₹ 1 crore and below; Y3: Gross income above ₹ 1 crore but ₹ 50 crore and below; Y4: Gross income above ₹ 50 crore but ₹ 100 crore and below; Y5: Gross income above ₹ 100 crore
Source: CBDT

It can be seen from Table 1.15 above and Chart 1.10 below that in comparison to the immediate previous AY, there had been an increase in the number of ITRs filed by the companies during AY 2018-19 to 2022-23 in all income categories except income category Y2, i.e. 'gross income above ₹ 10 lakh but ₹ 1 crore and below' and Y4 i.e. 'gross income above ₹ 50 crore but ₹ 100 crore and below' for AY 2020-21; and income category Y2 i.e. 'gross income above ₹ 10 lakh but ₹ 1 crore and below' for AY 2021-22. However, there had been a year-on-year increase in the total number of ITRs filed by the companies from AY 2018-19 to 2022-23. Further, a significant increase in ITRs was noticed for companies with gross total income of ₹ 50 crore and above during AY 2022-23.



1.6.6 Income Category and Assessment Year-wise Trends of Gross Total Income of Companies

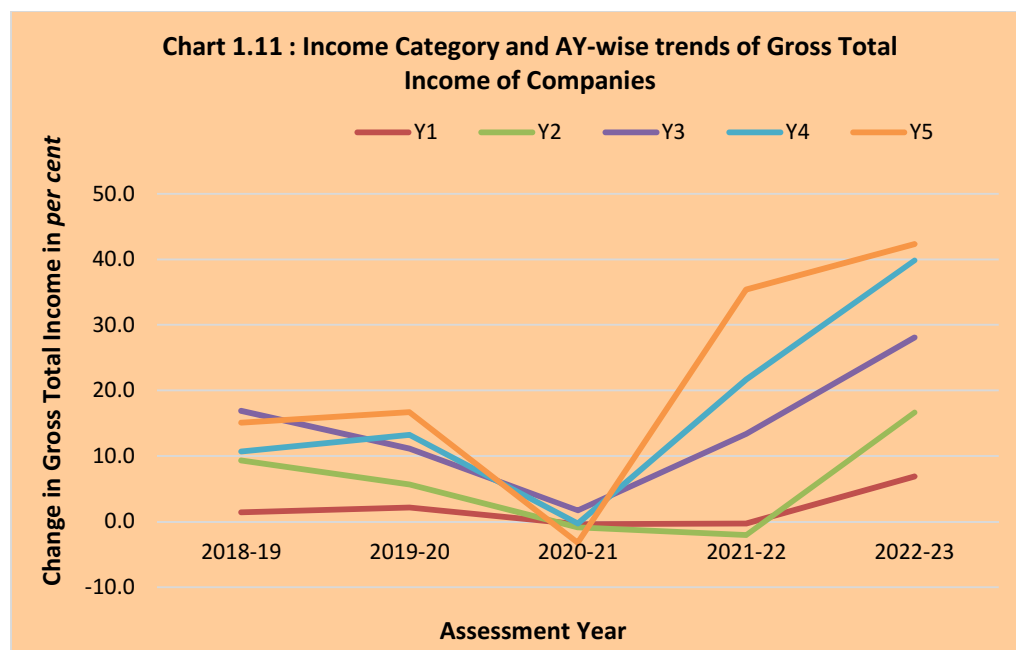
Table 1.17 below gives the details of Income category and Assessment Year-wise aggregate gross total income of companies and percentage change in gross total income of the companies in comparison to previous AYs.

Table 1.17 : Income Category and Assessment Year-wise aggregate Gross Total Income of companies										
(₹ in Crore)										
Income Category*	2018-19		2019-20		2020-21		2021-22		2022-23	
	Gross Total Income	Change in per cent	Gross Total Income	Change in per cent	Gross Total Income	Change in per cent	Gross Total Income	Change in per cent	Gross Total Income	Change in per cent
Y1	5,051	1.4	5,158	2.1	5,137	-0.4	5,122	-0.3	5,474	6.9
Y2	36,146	9.3	38,191	5.7	37,846	-0.9	37,064	-2.1	43,223	16.6
Y3	2,63,045	16.9	2,92,282	11.1	2,97,207	1.7	3,36,910	13.4	4,31,554	28.1
Y4	86,989	10.7	98,512	13.2	98,212	-0.3	1,19,512	21.7	1,67,148	39.9
Y5	10,82,240	15.1	12,62,749	16.7	12,21,822	-3.2	16,54,135	35.4	23,54,687	42.4
Total	14,73,472	14.9	16,96,893	15.2	16,60,225	-2.2	21,52,743	29.7	30,02,085	39.5

*Y1: Gross income zero and above but ₹ 10 lakh and below; Y2: Gross income above ₹ 10 lakh but ₹ 1 crore and below; Y3: Gross income above ₹ 1 crore but ₹ 50 crore and below; Y4: Gross income above ₹ 50 crore but ₹ 100 crore and below; Y5: Gross income above ₹ 100 crore

Source: CBDT

It can be seen from Table 1.17 above and Chart 1.11 below that during AY 2018-19 to AY 2022-23, there was a year-on-year increase in the aggregate gross total income of the companies in all the categories except AY 2020-21. However, there had not been a consistent increase in percentage terms in the aggregate gross total income of the companies in all the income categories. Further, during AY 2020-21, there was a decline in the aggregate gross total income of the companies in all income categories except in income category Y3, i.e., with 'gross total income above ₹ 1 crore but ₹ 50 crores and below'. Furthermore, during AY 2022-23, a significant percentage increase in gross total income was noticed for companies having gross total income of ₹ 50 crore and above.



1.6.7 Income Category and Assessment Year-wise number of Income Tax Returns (ITRs) filed by Individual

Table 1.18 below gives the details of Income category and Assessment Year-wise number of ITRs filed by individuals and percentage increase in the number of ITRs in comparison to the immediate previous AYs.

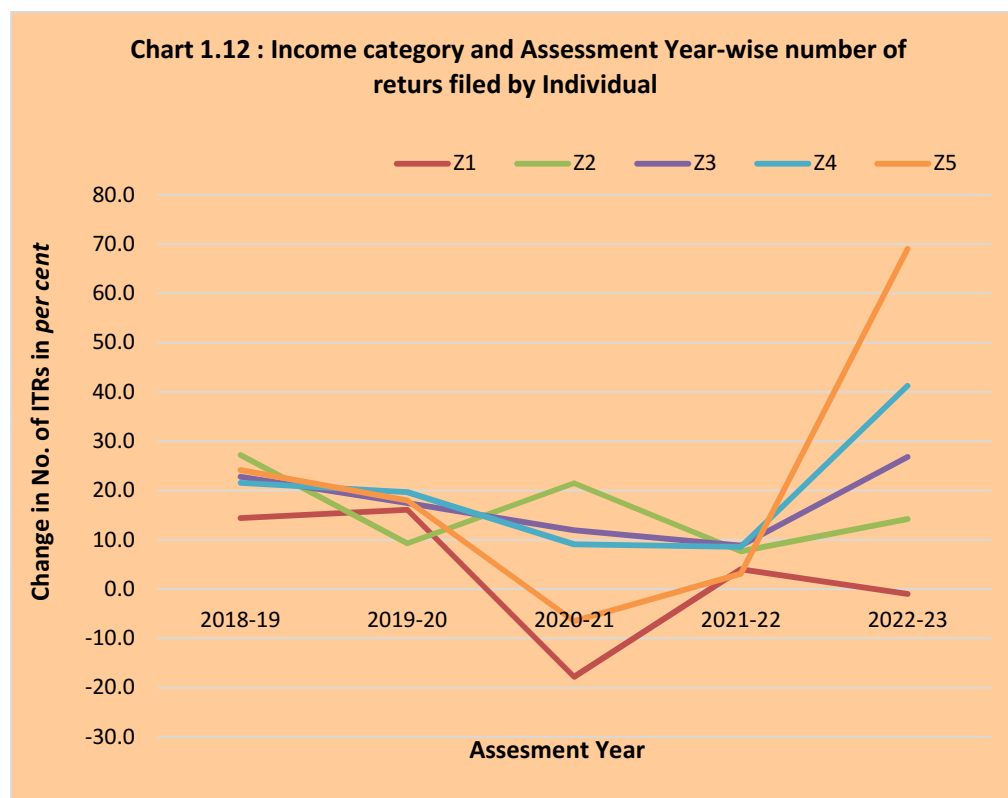
Income Category*	2018-19		2019-20		2020-21		2021-22		2022-23	
	No. of ITRs (in thousand)	Change in per cent	No. of ITRs (in thousand)	Change in per cent	No. of ITRs (in thousand)	Change in per cent	No. of ITRs (in thousand)	Change in per cent	No. of ITRs (in thousand)	Change in per cent
Z1	34,954.2	14.4	40,577.6	16.1	33,356.7	-17.8	34,690.7	4.0	34,349.4	-1.0
Z2	14,754.2	27.2	16,121.0	9.3	19,578.4	21.4	21,071.3	7.6	24,069.1	14.2
Z3	5,244.8	22.8	6,160.8	17.5	6,894.4	11.9	7,500.9	8.8	9,511.9	26.8
Z4	299.1	21.6	357.9	19.6	390.4	9.1	423.8	8.6	598.5	41.2
Z5	7.9	24.1	9.3	18.0	8.7	-6.5	9.0	3.1	15.2	69.0
Total	52,260.2	12.0	63,226.6	21.0	60,228.6	-4.7	63,695.7	5.8	68,544.1	7.6

*Z1: Gross income ₹ 5 lakh and below; Z2: Gross Income above ₹ 5 lakh but ₹ 10 lakh and below; Z3: Gross Income above ₹ 10 lakh but ₹ 50 lakh and below; Z4: Gross Income above ₹ 50 lakh but ₹ 5 crore and below; Z5: Gross Income above ₹ 5 crore

Source: CBDT

It can be seen from Table 1.18 above and Chart 1.12 below that in comparison to the immediate previous AY, there had been an increase in the number of ITRs filed by individual assesseees during AY 2018-19 to 2022-23 in all income categories except income category Z1, i.e., 'Gross income ₹ 5 lakh and below' for AY 2020-21 and AY 2022-23; and Z5, i.e., 'Gross Income above ₹ 5 crore' for AY 2020-21. However, there had been a year-on-year increase in the total number of ITRs filed by the individual assesseees except during AY 2020-21. Furthermore, during AY 2022-23, a significant increase in the total number of

ITRs was noticed for individual assesseees having gross total income of ₹ 50 lakh and above.



1.6.8 Income Category and Assessment Year-wise Trends of Gross Total Income of Individual

Table 1.19 below gives the details of Income category and Assessment Year-wise aggregate gross total income of individuals and percentage change in gross total income of the individuals in comparison to the immediate previous AYs.

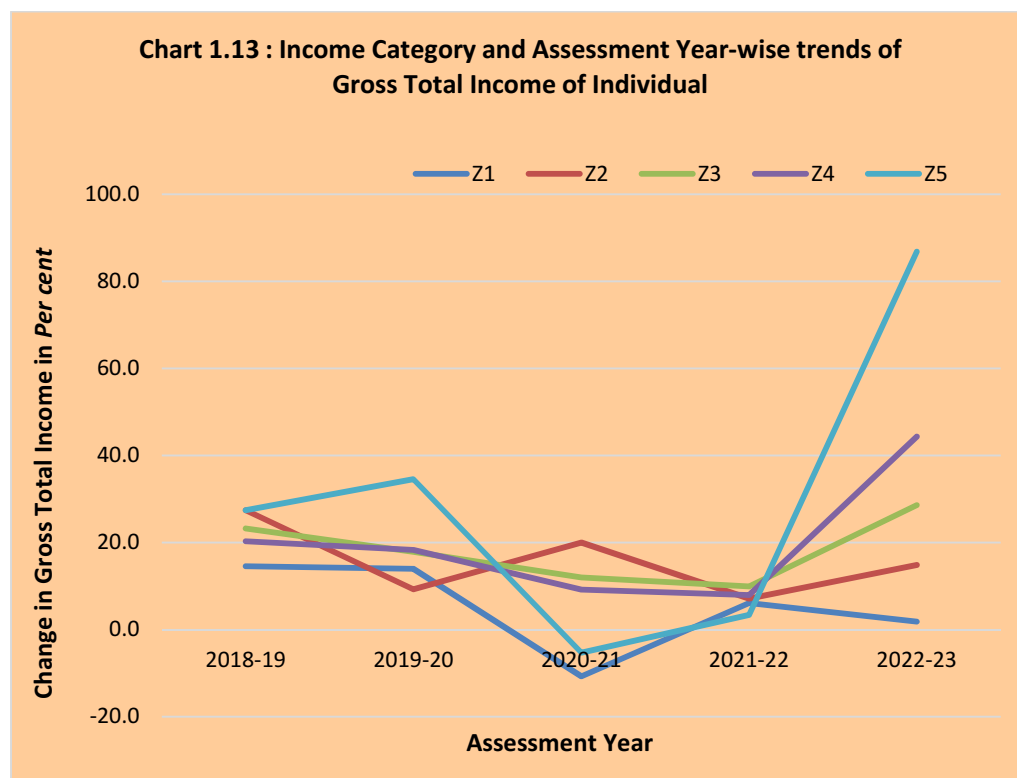
Table 1.19: Income Category and AY-wise trends of Gross Total Income of Individuals
(Gross Total Income in ₹ crore)

Income Category*	2018-19		2019-20		2020-21		2021-22		2022-23	
	Gross Total Income	Change in per cent	Gross Total Income	Change in per cent	Gross Total Income	Change in per cent	Gross Total Income	Change in per cent	Gross Total Income	Change in per cent
Z1	11,11,819	14.5	12,66,973	14.0	11,30,680	-10.8	11,99,626	6.1	12,21,421	1.8
Z2	10,02,382	27.4	10,95,075	9.2	13,13,787	20.0	14,06,639	7.1	16,15,385	14.8
Z3	8,91,399	23.2	10,50,480	17.8	11,75,806	11.9	12,92,494	9.9	16,61,864	28.6
Z4	3,02,846	20.2	3,58,159	18.3	3,90,928	9.1	4,21,792	7.9	6,08,832	44.3
Z5	1,06,737	27.4	1,43,613	34.5	1,35,934	-5.3	1,40,511	3.4	2,62,487	86.8
Total	34,15,183	21.2	39,14,300	14.6	41,47,135	5.9	44,61,063	7.6	53,69,988	20.4

*Z1: Gross income ₹ 5 lakh and below; Z2: Gross Income above ₹ 5 lakh but ₹ 10 lakh and below; Z3: Gross Income above ₹ 10 lakh but ₹ 50 lakh and below; Z4: Gross Income above ₹ 50 lakh but ₹ 5 crore and below; Z5: Gross Income above ₹ 5 crore

Source: CBDT

It can be seen from Table 1.19 above and Chart 1.13 below that there had been a year-on-year increase in gross total income for all income categories of individual assesseees except in income category Z1 i.e. with 'Gross Total Income of ₹ 5 lakh and below'; and Z5 i.e. with 'Gross Total Income above ₹ 5 crore' for AY 2020-21. However, there had been a year-on-year increase in the aggregate gross total income during AYs 2018-19 to 2022-23. Further, during AY 2022-23, a significant increase in gross total income was noticed for individual assesseees having gross total income of ₹ 5 crore and above.



1.7 Budgeting of Direct Taxation Receipts

1.7.1 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). Comparison of Budget Estimates with the corresponding actuals is an indicator of the quality of fiscal management. Actuals may differ from the estimates because of unanticipated and random external events, methodological inadequacies, or unrealistic assumptions about critical parameters.

1.7.2 Table 1.20 below shows the details of Budget Estimates (BE), Revised Estimates (RE), and Actual collection of direct taxes during FY 2018-19 to FY 2022-23.

Table 1.20: Budget Estimates, Revised Estimates <i>vis-à-vis</i> Actual Collection of Direct Taxes							
Financial Year	Budget estimates	Revised estimates	Actual	Actual minus budget estimates	Actual minus Revised estimates	Difference as per cent of budget estimates	Difference as per cent of Revised estimates
							(₹ in crore)
2018-19	11,50,000	12,00,000	11,37,718	(-) 12,282	(-) 62,282	(-) 1.1	(-) 5.2
2019-20	13,35,000	11,70,000	10,50,686	(-) 2,84,314	(-) 1,19,314	(-) 21.3	(-) 10.2
2020-21	13,19,000	9,05,000	9,47,174	(-) 3,71,826	42,174	(-) 28.2	4.7
2021-22	11,08,000	12,50,000	14,12,422	3,04,422	1,62,422	27.5	13.0
2022-23	14,20,000	16,50,000	16,63,686	2,43,686	13,686	17.2	0.8

Source: BE and RE figures are as per respective Receipt Budget, and Actual are as per respective Finance Accounts

1.7.3 The variation between Revised Estimates and Actual Collection ranged from (-) 5.2 *per cent* to 13.0 *per cent* of Revised Estimates from FY 2018-19 to FY 2022-23. The variation between Budget Estimates and Actuals was higher than between the Revised Estimates and the Actuals from FY 2019-20 to FY 2022-23.

1.8 Revenue impact of tax incentives

1.8.1 The primary objective of any tax law and its administration is to raise revenues for the purpose of funding government expenditure. The revenues raised primarily depend on the tax base and effective tax rate. The determinant of these two factors is a range of measures, which include special tax rates, exemptions, deductions, rebates, deferrals, and credits. These measures are collectively called as “tax incentives or tax preferences”. These are also referred to as tax expenditures.

1.8.2 The Income Tax Act, 1961 (the Act), *inter alia*, provides for tax incentives to promote exports, balanced regional development, creation of infrastructure facilities, employment, rural development, scientific research and development, growth of the co-operative sector and encourages savings by individuals and donations for charity. Most of these tax benefits can be availed of by both corporate and non-corporate taxpayers.

1.8.3 The Union Receipt Budget depicts the revenue impact of major incentives on corporate and non-corporate taxpayers based on returns filed electronically. Table 1.21 below shows the revenue impact of major tax incentives for FY 2018-19 to FY 2022-23.

Table 1.21: Revenue Impact of Tax Incentives				
Financial Year	Total Revenue impact of tax incentives (₹ in crore)	Revenue impact as per cent of		
		GDP	Direct Taxes	Gross Tax Receipts
2018-19	2,06,113	1.1	18.1	9.9
2019-20	2,57,582	1.3	24.5	12.8
2020-21	2,11,194	1.1	22.3	10.4
2021-22	2,74,477	1.2	19.4	10.1
2022-23	3,09,720	1.1	18.6	10.1

Source: Respective Receipt Budget.

Note: The figures for the revenue impact of tax incentives are actuals except for FY 2022-23 (projected). These do not cover Charitable Institutions. However, the amount applied by Charitable Institutions was ₹ 8,17,187 crore in respect of 2,07,675 electronically filed returns for AY 2022-23 relevant to FY 2021-22 till 31 March 2023.

1.8.4 As shown in Table 1.21 above, the revenue impact of tax incentives has increased by 50.3 *per cent* from ₹ 2,06,113 crore in FY 2018-19 to ₹ 3,09,720 crore in FY 2022-23. Further, though the tax incentives increased by 12.8 *per cent* in FY 2022-23 compared to FY 2021-22, there was a decrease in *per cent* of revenue impact on tax incentives to Direct Taxes collection during FY 2022-23. The revenue impact of tax incentives was 1.1 *per cent* of GDP during FY 2022-23 as compared to 1.2 *per cent* in FY 2021-22.

1.8.5 As reported in the Receipts Budget for the FY 2024-25, the effective tax rate²⁰ of the entire base of companies was 23.26 *per cent*²¹ for FY 2021-22 as against the statutory tax rate of 31.20 *per cent* in the case of companies having income up to ₹ one crore, 33.38 *per cent* in the case of companies having income up to ₹ 10 crore and 34.94 *per cent* in the case of companies having income exceeding ₹ 10 crore. Further, for existing companies which opted for the new concessional tax regime²², the statutory tax rate was 25.17 *per cent*. Furthermore, as reported in the Receipt Budget, the significant reduction in the effective tax rate is primarily due to the fact that a significant number of companies with higher profits have shifted to the new tax regime provided for existing companies under Section 115BAA.

1.8.6 As reported in the Receipt Budget for FY 2024-25, the revenue impact²³ of the major tax incentives given to non-corporate assesseees in FY 2022-23 were deduction on account of certain investments and payments under Section 80C (₹ 1,02,172 crore), rebate under Section 87A (₹ 40,953 crore), deduction on account of contribution to the New Pension Scheme under Section 80CCD (₹ 12,813 crore), deduction on account of health insurance premium under Section 80D (₹ 11,039 crore) and deduction in respect of profit of co-operative societies under Section 80P (₹ 5,484 crore) etc. The major tax

²⁰ The effective tax rate in the case of companies is the ratio of total taxes [including surcharge and education cess but excluding Dividend Distribution Tax] to the total profits before taxes [PBT] and expressed as a percentage.

²¹ Which is higher than the effective tax rate of 22.81 *per cent* in FY 2020-21.

²² Section 115BAA of the Income-Tax Act provides for a lower tax rate without deductions and exemptions

²³ Projected Revenue Impact

incentives given to corporate assesseees in FY 2022-23 were deduction of export profits to SEZ units under Section 10AA (₹ 27,846 crore), accelerated depreciation under Section 32 (₹ 24,235 crore), deductions to undertakings in generation/transmission and distribution of power under Section 80-IA (₹ 17,249 crore), deductions to undertakings engaged in the development of infrastructure facilities under Section 80-IA (₹ 9,267) and deduction of profits of undertakings set-up in Sikkim under Section 80IE (₹ 4,362 crore), etc.

1.9 Tax debt – Uncollected Demand

1.9.1 Table 1.22 below gives the trend of arrears of Demand pending during the period FY 2018-19 to FY 2022-23.

Table 1.22: Arrears of Demand						
Financial Year	Arrears of earlier years' Demand	Arrears of current year's Demand	Total arrears of Demand	Classified as Demand difficult to recover [#]	Classified as Demand difficult to recover (in Per cent)	Net collectible Demand
						(₹ in crore)
2018-19	9,46,190	2,87,888	12,34,078	12,19,485	98.82	14,593
2019-20	11,25,314	4,93,640	16,18,954	15,80,220	97.61	38,734
2020-21	14,63,126	31,166	14,94,292	14,68,013	98.24	26,279
2021-22	14,16,809	5,18,629	19,35,438	18,84,120	97.35	51,318
2022-23	19,73,408	3,01,034	22,74,442	22,05,046	96.95	69,396

Source: Directorate of Income Tax (Organisation & Management Services), Demand & Collection report (CAP-1) for March of the respective FY. [#] This includes current year demand also.

1.9.2 Though total arrears of Demand in FY 2022-23 amounted to ₹ 22,05,046 crore, increased by 17.5 per cent as compared to FY 2021-22 (₹ 19,35,438 crore); demands classified as 'difficult to recover' decreased marginally to 96.95 per cent of the total arrears of demands in FY 2022-23 as compared to 97.35 per cent in FY 2021-22 due to increase in net collectible Demand.

1.9.3 Audit noted that the Demand & Collection Report prepared by the Income Tax Department for the month of March of the respective FYs had analysed various factors, viz. no assets/inadequate assets for recovery, cases under liquidation/BIFR, assesseees not traceable, Demand stayed by Courts/ITAT/IT authorities, TDS/prepaid taxes mismatch, rectification pending on account of duplication of entries, etc. leading to an estimation of the demands difficult to recover.

Table 1.23 below gives details of the amount classified as Demand difficult to recover for FY 2022-23 on account of the following factors:

Table 1.23: Various factor-wise arrear demands classified as difficult to Recover for FY 2022-23		
Sl. No.	Description	Arrear Demand (₹ in crore)
1	No assets/inadequate assets for recovery (to the extent of inadequacy)	6,62,716
2	Assessee's not traceable (to the extent it is likely to affect recovery)	2,97,767
3	Demand stayed by Courts/ITAT	2,36,336
4	Demand stayed by IT Authorities	1,82,808
5	Any other reasons (to be specified in a separate Annexure) for which the Demand is considered difficult to recover	1,80,515
6	TDS/Prepaid taxes mismatch	1,39,739
7	Cases pending before NCLT under IBC - 2016	1,00,822
8	Rectification pending on account of duplication of entries	77,953
9	Assets jointly attached with other agencies except BIFR	69,520
10	Companies in Liquidation	69,228
11	Cases where the Department has lost in appeal but the Demand is outstanding for other years or is continuing to be raised to keep the issue alive as the Department is in further appeal	49,289
12	Others*	1,38,353
Total		22,05,046

Source: Demand & Collection report (CAP-1) for the month of March 2023.

*Others include 'Demand the recovery of which is not being pursued on account of assessee's stay petition pending consideration by IT Authorities', 'Protective Demand', 'Rectification pending on account of duplication of entries' etc.

It can be seen from Table 1.23 above that the amount of arrear demand classified as difficult to recover was highest for 'No assets/inadequate assets for recovery (to the extent of inadequacy)' (30.1 per cent) followed by 'Assessee's not traceable (to the extent it is likely to affect recovery)' (13.5 per cent).

1.10 Litigation Management

1.10.1 An aggrieved tax payer has the right to dispute a tax demand with the Income Tax Department through the CIT (Appeals). Second appeal against the orders of CIT (Appeals) lies in the Income Tax Appellate Tribunal (ITAT) which functions under the Ministry of Law. On any question of law arising out of an order of ITAT, a taxpayer may appeal progressively to the High Court and the Supreme Court. Analogous right to appeal is also available to the Department against the orders of CIT (Appeals) and onwards. Further, the CBDT vide their circular no. 17 of 2019 dated 8 August 2019 raised the monetary limit for filing appeals by the Department before ITAT, from ₹20 lakh to ₹ 50 lakh; before High Court from ₹ 50 lakh to ₹ one crore; and before the Supreme Court, from ₹ one crore to ₹ two crore.

1.10.2 Table 1.24 below gives the trend of disposal and pendency of appeal cases before CIT (Appeals) during FY 2018-19 to FY 2022-23:

Table 1.24: Disposal of Appeal Cases by CIT(A)					
Financial Year	Appeal cases due for disposal	Appeal cases disposed of	Appeal cases pending	Pendency in percentage	Amount locked up in Appeal cases
	(Number in lakh)				
2018-19	4.62	1.23	3.39	73.4	5,62,806
2019-20	5.57	0.99	4.58	82.2	8,83,331
2020-21	4.85	0.26	4.59	94.6	24,64,610
2021-22	5.73	0.71	5.02	87.6	14,37,592
2022-23	6.51	1.21	5.30	81.4	16,53,320

Source: CBDT

1.10.3 The number of appeals pending with CIT (Appeals) increased from 5.02 lakh in FY 2021-22 to 5.30 lakh in FY 2022-23. Whereas the amount locked up in these cases increased from ₹ 14.38 lakh crore in FY 2021-22 to ₹ 16.53 lakh crore in FY 2022-23. However, pendency percentage reduced from 87.6 per cent in FY 2021-22 to 81.4 per cent in FY 2022-23.

1.10.4 Table 1.25 below gives the position of appeal cases pending with the ITATs/High Courts and Supreme Court from FY 2018-19 to FY 2022-23.

Table 1.25: Appeals pending with ITATs/High Courts/Supreme Court								
Financial Year	ITATs		High Courts		Supreme Court		Total	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
(₹ in crore)								
2018-19	92,205	NA [®]	38,539	1,36,465	4,425	74,368 [#]	1,35,169	2,10,833
2019-20	31,495	2,67,424	37,374	3,09,238	6,182	27,304	75,051	6,03,966
2020-21	26,111	2,70,039	31,971	2,75,329	5,567	25,274	63,649	5,70,642
2021-22	19,238	3,05,087	27,950	3,31,245	4,379	27,736	51,567	6,64,068
2022-23	21,805	2,89,565	32,510	3,88,803	4,330	39,663	58,645	7,18,031

Source: CBDT;

[®] The amount in respect of appeals filed in ITATs by the Department and assessees is not available. [#] Amount in respect of appeals filed in the Supreme Court by the assessees not available

1.10.5 Audit noted that though there was an increase in the total number of cases pending before ITAT and High Courts, there was a decrease in the amount locked against cases pending before ITAT during FY 2022-23 in comparison to the previous year, i.e., FY 2021-22. Further, though there was a slight decrease in the number of cases pending before the Supreme Court, the amount locked therein increased significantly (43 per cent) during FY 2022-23 compared to the previous year, i.e., FY 2021-22. The total number of cases pending before ITAT/High Court/Supreme Court increased by 13.73 per cent, whereas the amount locked therein increased by 8.13 per cent in FY 2022-23 in comparison to FY 2021-22.

1.10.6 Though the number of appeals pending at the level of ITAT was made available to Audit by the CBDT, the amount locked corresponding to these appeals had not been made available to Audit for the FYs 2018-19.

1.11 Tax Evasion

1.11.1 Survey²⁴ and Search and Seizure²⁵ and are amongst the main evidence-collecting mechanisms used in cases where credible information about tax evasion is in possession of the ITD. Table 1.26 below shows the details of search and seizure operations and surveys conducted and the undisclosed income admitted/detected during FY 2018-19 to FY 2022-23.

Financial Year	Number of groups searched	Undisclosed income admitted (in search & seizure)	Number of surveys conducted	Undisclosed income detected (in surveys)
2018-19	983	18,594	15,401	16,126
2019-20	984	10,370	12,720	22,244
2020-21	569	4,145	426	5,111
2021-22	686	5,432	1,046	5,135
2022-23	741	8,417	1,248	9,746

Source: Investigation Wing, CBDT;

1.11.2 During FY 2022-23, the number of groups searched increased by 8.0 *per cent*, whereas undisclosed income admitted during search and seizure increased by 55.0 *per cent*, and the number of surveys conducted increased by 19.3 *per cent*, whereas undisclosed income detected during the survey increased by 89.8 *per cent* as compared to the respective figures in FY 2021-22.

1.12 Effectiveness of Internal Audit

1.12.1 Internal Audit is an important part of the Departmental control that provides assurance that demands/refunds are processed accurately by the correct application of the provisions of the Act. The Internal Audit of ITD completed audit of 1,37,351 cases in FY 2022-23 as against 1,46,908 cases audited in FY 2021-22. Further, out of 12,957 major finding cases²⁶ raised by Internal Audit, the Assessing Officers (AOs) acted upon 3,009 cases (23.2 *per cent*) in FY 2022-23 in comparison to 2,537 cases (21.6 *per cent*) out of 11,740 cases in FY 2021-22.

²⁴ Survey is carried out under Sections 133A and 133B of the Act for collecting any information that may be useful for ITD in deterring tax evasion.

²⁵ Search and Seizure is carried out under Section 132 of the Act to unearth any undisclosed income or valuables.

²⁶ The monetary limit of major Internal Audit objections has been raised from ₹ Two lakh to ₹ 10 lakh as per instruction no. 6 of 2017 dated 21/07/2017.

1.12.2 Table 1.27 below shows details of Internal Audit observations raised, settled, and pending for the period of five years from FY 2018-19 to FY 2022-23.

Table 1.27: Details of Internal Audit observations								
Financial Year	Opening balance [^]		Addition		Settled		Pending	
	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount
(₹ in crore)								
2018-19	25,408	12,602	16,975	3,147	11,847	4,334	30,536	11,415
2019-20	31,024	11,388	14,887	4,088	10,084	1,206	35,827	14,270
2020-21	36,054	14,038	11,173	7,262	8,957	2,946	38,270	18,354
2021-22	37,879	18,680	9,048	7,418	12,013	3,548	34,914	22,550
2022-23	35,316	22,507	11,649	12,436	12,210	4,475	34,755	30,469

Source: Directorate of Income Tax (Audit & Inspection);

[^]Figures revised after verification by respective CsIT (Audit) subsequent to submission of quarterly statement for the quarter ending March for FY 2018-19 to 2021-22.

1.12.3 It can be seen from Table 1.27 above that 34,755 cases raised by Internal Audit were pending in FY 2022-23, with a decrease of 0.5 *per cent* compared to the pending cases (34,914 cases) in FY 2021-22. However, the amount involved in pending cases increased to ₹ 30,469 crore in FY 2022-23 from ₹ 22,550 crore in FY 2021-22, i.e., an increase of 35.1 *per cent*. Follow-up of the internal audit observations by the AOs needs to be strengthened.

1.13 Tax Administration Process

1.13.1 Faceless Assessment Scheme

In order to avoid personal interaction between the taxpayer and the Department, which leads to certain undesirable practices on the part of tax officials, a scheme of Faceless Assessment in electronic mode involving no human interface has been launched in 2019 in a phased manner. As per this scheme, scrutiny is allocated to assessment units in a random manner and notices are issued electronically by a Central Cell, without disclosing the name, designation or location of the Assessing Officer. The Central Cell is the single point of contact between the taxpayer and the Department.

Consequent to the introduction of “Faceless Assessment”, adopted by CBDT under the “Faceless Assessment Scheme, 2019”, restructuring of the assessment charges and other functional wings of the ITD was carried out in FY 2020-21. Further details are mentioned in **Appendix-1.1**.

1.13.2 Tax Administration Process in the Income Tax Department involves allotment of permanent account number (PAN); filing of income tax returns (ITRs); processing of ITRs; scrutiny of ITRs; rectification of mistakes; income escaping assessments; revision of assessment orders; appeal process;

determination of refund; generation of Demand; collection of taxes; penalty and prosecution etc. **Appendix-1.2** and **Appendix-1.3** show these processes.

Chapter II: Audit Mandate, Products and Impact

2.1 Authority of the CAG for audit of receipts

Article 149 of the Constitution of India provides that the Comptroller and Auditor General of India (CAG) shall exercise such powers and perform such duties in relation to the accounts of the Union and of the States and any other authority or body as may be prescribed by or under any law made by the Parliament. The Parliament passed the Comptroller and Auditor General's DPC Act (CAG's DPC Act) in 1971.

As per Section 16 of the CAG's DPC Act, it shall be the duty of the Comptroller and Auditor General (CAG) to audit all receipts which are payable into the Consolidated Fund of India and to satisfy himself that the rules and procedures in that behalf are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed and to make for this purpose such examination of the accounts as he thinks fit and report thereon. Further, Regulations on Audit & Accounts, 2020 lays down the broad framework for Receipt Audit.

2.2 Broad Framework of Audit of Receipts

2.2.1 Audit of receipts includes an examination of the systems, rules and procedures and their efficacy in respect of:

- a. Assessment, collection and allocation of revenue by the Tax Department
- b. identification of potential tax assessees, ensuring compliance with laws, as well as detection and prevention of tax evasion;
- c. exercise of discretionary powers in an appropriate manner, including levy of penalties and initiation of prosecution;
- d. appropriate action to safeguard the interests of the Government on the orders passed by the departmental appellate authorities;
- e. any measures introduced to strengthen or improve revenue administration;
- f. amounts that may have fallen into arrears, maintenance of records of arrears, and action taken for the recovery of the arrears;
- g. pursuit of claims with due diligence and to ensure that these are not abandoned or reduced except with adequate justification and proper authority.

2.2.2 To achieve the above, we examined the assessments completed by the Income Tax Department (ITD) in the financial year 2021-22. In addition, some assessments completed in earlier years were also taken up for audit examination.

2.2.3 The ITD undertakes scrutiny assessments with respect to a sample of returns filed by the assessee as per the Income Tax Act, 1961. The Income Tax Returns (ITRs) are selected for scrutiny through Computer Aided Scrutiny Selection (CASS) based on parameters identified and pre-defined by the ITD. These cases are then closely examined with respect to claims of deductions, losses, exemptions, etc., to arrive at the correct assessments to ensure that there is no evasion of taxes.

The CBDT under the Faceless Assessment²⁷ Scheme 2019 has set up w.e.f. August 2020, various units with pre-determined roles (further amended as the Faceless Assessment (1st Amendment) Scheme, 2021) viz., National e-Assessment Centre (NeAC), Regional e-assessment Centres (ReACs), Assessment Units (AUs), Verification Units (VUs), Technical Units (TUs) and Review Units (RUs). The details of the Faceless Assessment Scheme are given in **Appendix 1.1**.

Post implementation of the Income Tax Business Application (ITBA), the ITD System undertakes the calculation of tax, calculation of interest under various Sections of the Act, time barring checks, etc. In the case of scrutiny assessments, rectification, and appeal effect orders, figures are data-fed to the system by the AOs based on the orders, even after the implementation of the Faceless assessment. The payments made by an assessee with respect to TDS/TCS, advance tax, etc., are auto-populated from the Form 26AS application and Online Tax Accounting System (OLTAS) application, respectively.

Under Faceless Assessment, the assessee is given an opportunity to substantiate the claim(s), if any, with evidence, failing which the National e-Assessment Centre (NeAC) makes the assessment as deemed appropriate. The work of processing, completing and rectifying assessment orders with respect to scrutiny cases is done by the NeAC in ITBA.

Examining scrutiny assessment cases, Audit noticed that despite irregularities of certain types being pointed out repeatedly in earlier Audit Reports, these irregularities continue to occur in following the tax laws and instructions and directives of the CBDT during scrutiny assessments completed by the AOs, raising questions about the efficiency of tax administration despite the implementation of ITBA. Some of these cases are discussed in the subsequent paragraphs.

2.2.4 A total of 681.50 lakh returns²⁸ were filed during FY 2021-22, of which the ITD completed 2,15,759 scrutiny assessments in those units audited during FY 2022-23, and the ITD produced 2,03,334 assessment cases to Audit. To this

²⁷ "Faceless Assessment" was adopted by CBDT under the "Faceless Assessment Scheme, 2019" on 13th August 2020 by amending the E-assessment Scheme, 2019, already published vide notification dated 12th September 2019 of the Central Board of Direct Taxes.

²⁸ Total number of returns filed during FY 2021-22 were 681.50 lakh.

was added 64,956 cases from amongst 1,58,092 cases of scrutiny assessments completed for financial years prior to 2021-22. In 2,68,290 total scrutiny assessments audited during the year 2022-23, the Audit noticed 17,317 mistakes in 15,740 assessment orders having a tax effect of ₹ 64,463 crore. The incidence of errors in the assessments checked in Audit during FY 2022-23 was 5.87 per cent. Out of the cases of scrutiny assessments audited by Audit, Internal Audit of ITD had checked 2,385 cases. The cases not selected/audited by Audit may be taken up for check by the Ministry, which may also examine the capacity of the ITD to take up more cases for scrutiny assessment. State-wise incidence of errors in assessments is given in **Appendix 2.1**.

2.2.5 Further, Table 2.1 depicts incidence of errors in ten States where more than 10,000 assessments were checked in Audit during FY 2022-23

State	Assessments (in number)			Total revenue effect of the Audit Observations (₹ in crore)	Percentage of assessments with errors
	completed in units selected for Audit during 2022-23	checked in Audit during 2022-23	with errors		
Andhra Pradesh	23,193	14,852	1,727	2,117.56	11.63
Delhi	16,800	16,599	1,414	7,182.07	8.51
Madhya Pradesh	12,439	10,073	856	2,058.02	8.50
Tamil Nadu	39,329	27,865	1,872	4,696.72	6.72
Karnataka	12,881	10,171	570	5,548.06	5.60
Gujarat	34,742	28,525	1,483	5,210.70	5.20
Rajasthan	24,124	12,605	634	1,234.79	5.03
West Bengal	35,989	33,574	1,511	5,830.51	4.50
Maharashtra	63,653	32,352	1,364	18,761.30	4.22
Uttar Pradesh	26,543	26,151	919	4,875.20	3.51

Andhra Pradesh (11.63 per cent) has the highest percentage of assessments with errors, followed by Delhi (8.51 per cent). The ITD needs to take corrective action with respect to errors noticed by the Audit in the assessments.

2.2.6 Table 2.2 summarises audit observations noticed in the selected assessment cases in the local audit during FY 2022-23.

Category	No. of Observations	Tax effect (TE) (₹ in crore)
Corporate tax (CT)	5,831	41,774.09
Income tax (IT)	11,455	22,622.68
Other Direct taxes (ODT)	31	66.22
Total	17,317	64,462.99

2.2.7 Out of 17,317 audit observations with a tax effect of ₹ 64,462.99 crore noticed in the selected assessment cases in the local audit during FY 2022-23, 1,852 audit observations²⁹ with a tax effect of ₹ 11,119.36 crore were related to over-assessment, and 15,465 audit observations³⁰ with tax effect of ₹ 53,343.63 crore were related to under-assessment.

2.2.8 Table 2.3 below shows the category-wise details of observations related to under assessment in respect of Corporation Tax and Income Tax. **Appendix 2.2** indicates details with respect to sub-categories under these categories.

Category	No. of Observations	Tax effect (₹ in crore)
Quality of assessments	8,159	19,161.59
Administration of tax concessions/exemptions/deductions	2,319	16,840.05
Income escaping assessments due to omissions	1,100	5,486.07
Others	3,857	11,790.69
Total	15,435	53,278.41

2.3 Persistent and pervasive irregularities in respect of Corporation Tax and Income Tax assessments cases

We have been pointing out various irregularities with respect to the assessment of the corporation and the income tax cases in the Compliance Audit Reports year after year, and some of these irregularities seem to be both persistent and pervasive, including those relating to:

- (i) Irregularities in allowing depreciation/ business losses/ capital losses etc.,
- (ii) Incorrect allowance of business expenditure,
- (iii) Excess or irregular refunds/interest on refunds and
- (iv) Mistakes under special provisions include MAT/AMT/Tonnage Tax, etc.

The recurrence of irregularities, incorrect allowance, excess or irregular refunds and mistakes, despite being pointed out repeatedly in audit reports and even after the implementation of ITBA, is indicative of a lack of controls in the systems to prevent the recurrence of such repetitive mistakes, especially after the implementation of ITBA. It also points to a lack of effective monitoring and an effective institutional mechanism to respond to the systematic and structural weaknesses leading to revenue leakage. The high-value audit

²⁹ Included one audit observation involving a tax effect of ₹ 1.00 crore relating to Wealth Tax

³⁰ Included 30 audit observations involving tax effect of ₹ 65.22 crore relating to Wealth Tax

observations included in the earlier Compliance Audit Report³¹ were analysed along with the high-value audit observations issued to the Ministry from August 2024 to March 2025 to examine the persistence and pervasiveness of mistakes. A profile of such irregularities reported in the categories mentioned above is discussed in the subsequent paragraphs.

2.3.1 Administration of tax concessions/exemptions/deductions—Irregularities in allowing depreciation, business losses, capital losses, etc.

We noticed irregularities related to incorrect allowance and set-off of business losses, capital losses and unabsorbed depreciation, incorrect allowance of depreciation, etc. The nature of such mistakes included:

- (i) Incorrect allowance of set-off of brought forward business losses and unabsorbed depreciation where no loss in respect of earlier assessment years was available,
- (ii) adoption of incorrect figures, viz. earlier years' business loss adopted as returned loss in the current assessment year,
- (iii) incorrect allowance of carry forward of business loss, although the Income Tax Return for the said assessment year was filed after the due date of filing of the return, etc.

Such irregularities occurred due to the non-correlation of assessment records, which indicates the failure of the assessing officers to apply due diligence and comply with the law. Mistakes noticed in allowance of depreciation/ business losses/capital losses, etc., from 2019-20 to 2022-23, as brought out in the Compliance Audit Reports of the past three years, along with findings of the current year Audit Report (2022-23), are summarised in Table 2.4 below:

Category	Audit Report for the year ended							
	March 2020		March 2021		March 2022		March 2023	
	No. of errors	Tax Effect	No. of errors	Tax Effect	No. of errors	Tax Effect	No. of errors	Tax Effect
CT	87 ³²	1,017.28	54 ³³	392.05	53 ³⁴	1,134.44	41 ³⁵	1,061.86

³¹ C&AG Compliance Audit Report (Union Government – Department of Revenue – Direct Taxes) 11 of 2020 (for the year ended March 2019), 8 of 2021 (for the year ended March 2020), 29 of 2022 (for the year ended March 2021) and 13 of 2024 (for the year ended March 2022).

³² Andhra Pradesh & Telangana, Assam, Bihar, Delhi, Gujarat, Madhya Pradesh, Punjab, Karnataka, Kerala, Maharashtra, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal.

³³ Gujarat, West Bengal, Maharashtra, Rajasthan, Delhi, Kerala, Madhya Pradesh, Tamil Nadu, Andhra Pradesh & Telangana, Karnataka, Odisha and Haryana.

³⁴ Assam, Gujarat, Karnataka, Kerala, West Bengal, Maharashtra, Delhi, Odisha, Punjab, Tamil Nadu and Uttar Pradesh.

³⁵ Andhra Pradesh & Telangana, Gujarat, Karnataka, Maharashtra, New Delhi, Odisha, Tamil Nadu, Uttar Pradesh and West Bengal.

Table 2.4: Mistakes noticed in allowing depreciation/ business losses/ capital losses etc. (₹ in crore)								
Category	Audit Report for the year ended							
	March 2020		March 2021		March 2022		March 2023	
	No. of errors	Tax Effect	No. of errors	Tax Effect	No. of errors	Tax Effect	No. of errors	Tax Effect
IT	11 ³⁶	27.83	3 ³⁷	2.32	4 ³⁸	38.93	9 ³⁹	18.64

During the years 2019-20 to 2022-23, non-compliance on this account with respect to Corporate and Income tax of the total tax effect of Audit Paragraphs issued to the Ministry was found to be highest in the respective States, as depicted in Table 2.5 below:

Table 2.5: States with the highest incidence of mistakes of the total tax effect noticed in allowing depreciation/ business losses/ capital losses, etc.		
Year	States (<i>per cent</i>)	
	Corporate Tax	Income Tax
2019-20	Karnataka (30.3)	Karnataka (44.25)
	Maharashtra (26.19)	
2020-21	Maharashtra (28.8)	Gujarat (94.12)
	Delhi (25.3)	
2021-22	Maharashtra (77.85)	Andhra Pradesh & Telangana (57.38)
	West Bengal (9.17)	Odisha (33.90)
2022-23	Maharashtra (43.16)	Gujarat (52.31)
	Tamil Nadu (22.17)	West Bengal (23.34)

For Corporate tax, during 2021-22, these irregularities were found highest in Maharashtra (77.85 *per cent*), followed by West Bengal (9.17 *per cent*), whereas during 2022-23, these irregularities were found highest in Maharashtra (43.16 *per cent*), followed by Tamil Nadu (22.17 *per cent*)

For Income tax, during 2021-22, these irregularities were found to be the highest in Andhra Pradesh and Telangana (57.38 *per cent*), followed by Odisha (33.90 *per cent*), whereas during 2022-23, these irregularities were found to be the highest in Gujarat (52.31 *per cent*) followed by West Bengal (23.34 *per cent*).

2.3.2 Administration of tax concessions/exemptions/deductions - Incorrect allowance of business expenditure

We noticed irregularities related to the incorrect allowance of ineligible claims of business expenditure, *viz.* capital expenditure, unpaid claims and provisions deemed as unascertained liability, etc. Mistakes in incorrect allowance of expenditure noticed during 2019-20 to 2022-23, as brought out in the

³⁶ Delhi, Madhya Pradesh, Karnataka, Maharashtra, Rajasthan, Odisha and Tamil Nadu

³⁷ Assam and Gujarat.

³⁸ Andhra Pradesh & Telangana, Odisha, Assam and Karnataka.

³⁹ Gujarat, Karnataka, Kerala, Maharashtra, Rajasthan and West Bengal.

Compliance Audit Reports of the past three years, along with findings of the current year Audit Report (2022-23), are summarised in Table 2.6 below:

Category	Audit Report for the year ended							
	March 2020		March 2021		March 2022		March 2023	
	No. of errors	Tax Effect	No. of errors	Tax Effect	No. of errors	Tax Effect	No. of errors	Tax Effect
CT	40 ⁴⁰	187.75	49 ⁴¹	617.86	40 ⁴²	626.14	16 ⁴³	118.29
IT	Nil	Nil	7 ⁴⁴	9.33	8 ⁴⁵	13.40	9 ⁴⁶	14.08

During the years 2019-20 to 2022-23, non-compliance on this account with respect to Corporate and Income tax was found to be highest in the respective States, as depicted in Table 2.7 below:

Year	States (per cent)	
	Corporate Tax	Income Tax
2019-20	Andhra Pradesh & Telangana (32.3) Delhi (20.3)	NIL
2020-21	Maharashtra (41.1) West Bengal (28.2)	Maharashtra (65.3) Punjab (17.2)
2021-22	Maharashtra (49.61) Tamil Nadu (34.17)	Tamil Nadu (24.20) Kerala (23.32)
2022-23	Maharashtra (59.16) Odisha (15.03)	Odisha (36.64) Goa (25.52)

For Corporate tax, during 2021-22, irregularities on this account were the highest in Maharashtra (49.61 per cent), followed by Tamil Nadu (34.17 per cent), whereas during 2022-23, irregularities on this account were the highest in Maharashtra (59.16 per cent), followed by Odisha (15.03 per cent)

For Income tax, in 2021-22, irregularities on this account were the highest in Tamil Nadu (24.20 per cent), followed by Kerala (23.32 per cent), whereas

⁴⁰ Andhra Pradesh & Telangana, Bihar, Delhi, Gujarat, Haryana, Jharkhand, Maharashtra, Odisha, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal.

⁴¹ Gujarat, Odisha, Maharashtra, Rajasthan, West Bengal, Tamil Nadu, Karnataka, Jammu and Kashmir, Haryana, Jharkhand, Punjab and Uttar Pradesh.

⁴² Gujarat, Odisha, Maharashtra, Rajasthan, West Bengal, Tamil Nadu, Karnataka, Jammu and Kashmir, Haryana, Jharkhand, Punjab and Uttar Pradesh.

⁴³ Gujarat, Maharashtra, Rajasthan, Tamil Nadu, Karnataka, Kerala, New Delhi and Odisha.

⁴⁴ Punjab, Maharashtra, Jharkhand and Assam.

⁴⁵ Punjab, Maharashtra, Jharkhand and Assam.

⁴⁶ Assam, Goa, Madhya Pradesh, Maharashtra, Odisha, Rajasthan and Uttar Pradesh.

during 2022-23, these irregularities were found to be highest in Odisha (36.64 per cent) followed by Goa (25.52 per cent).

2.3.3 Quality of Assessments-Excess or irregular refunds/interest on refunds

We noticed irregularities emanating from excess or irregular refunds or interest on refunds caused by computing errors, not considering the refund already issued/adjusted, excess computation of interest on refund, etc. Mistakes noticed in this category from 2019-20 to 2022-23, as brought out in the Compliance Audit Reports of the past three years, along with findings of the current year Audit Report (2022-23), are summarised in Table 2.8 below:

Table 2.8: Excess or irregular refunds/interest on refunds								(₹ in crore)	
Category	Audit Report for the year ended								
	March 2020		March 2021		March 2022		March 2023		
	No. of errors	Tax Effect	No. of errors	Tax Effect	No. of errors	Tax Effect	No. of errors	Tax Effect	
CT	6 ⁴⁷	24.08	1 ⁴⁸	7.36	5 ⁴⁹	6.89	6 ⁵⁰	17.14	
IT	NIL	NIL	2 ⁵¹	5.28	1 ⁵²	0.29	1 ⁵³	41.11	

During the years 2019-20 to 2022-23, non-compliance on this account with respect to Corporate and Income tax was found to be highest in the respective States, as depicted in Table 2.9 below:

Table 2.9: States with the highest incidence of excess or irregular refunds/interest on refunds of the total tax effect

Year	States (per cent)	
	Corporate Tax	Income Tax
2019-20	Karnataka (56) Maharashtra (32.3)	NIL
2020-21	Delhi (100)	Delhi (87.3)
2021-22	Maharashtra (71.52) Delhi (20.83)	West Bengal (100)
2022-23	Delhi (76.76) Tamil Nadu (14.36)	Odisha (100)

For Corporate tax, during 2022-23, irregularities on this account were the highest in Delhi (76.76 per cent), followed by Tamil Nadu (14.36 per cent).

With respect to Income tax, during 2022-23, irregularities on this account were highest in Odisha (100 per cent).

⁴⁷ Maharashtra, Karnataka and West Bengal.

⁴⁸ Delhi.

⁴⁹ Maharashtra, New Delhi and Tamil Nadu

⁵⁰ Maharashtra, New Delhi and Tamil Nadu.

⁵¹ Delhi and Maharashtra.

⁵² West Bengal

⁵³ Odisha.

2.3.4 Income escaping assessment due to omissions – Mistakes under special provisions, including MAT/AMT⁵⁴/Tonnage Tax, etc.

We noticed irregularities related to mistakes in levying tax under special provisions of the Act due to:

- (i) mistakes in the computation of book profit,
- (ii) not considering the expenditure disallowed under normal provisions for computing book profit,
- (iii) not considering the specified expenditure for computing book profit,
- (iv) tax levied under normal provisions instead of special provisions, etc.

Mistakes noticed under special provisions of the Act from 2019-20 to 2022-23, as brought out in the Compliance Audit Reports of the past three years, along with findings of the current year Audit Report (2022-23), are summarised in the Table 2.10 below:

Table 2.10: Mistakes under special provisions, including MAT/AMT/Tonnage Tax, etc. (₹ in crore)								
Category	Audit Report for the year ended							
	March 2020		March 2021		March 2022		March 2023	
	No. of errors	Tax Effect	No. of errors	Tax Effect	No. of errors	Tax Effect	No. of errors	Tax Effect
CT	8 ⁵⁵	234.18	10 ⁵⁶	70.18	16 ⁵⁷	107.76	5 ⁵⁸	605.36
IT	0	0	2 ⁵⁹	5.36	2 ⁶⁰	2.96	Nil	Nil

During the years 2019-20 to 2022-23, non-compliance on this account with respect to Corporate and Income tax was found to be highest in the respective States, as depicted in Table 2.11 below:

Table 2.11: States with the highest incidence of mistakes of the total tax effect under special provisions, including MAT/AMT/Tonnage Tax, etc.		
Year	States (per cent)	
	Corporate Tax	Income Tax
2019-20	Delhi (92.4)	Nil
2020-21	Maharashtra (54.5)	Karnataka (100)
2021-22	Tamil Nadu (41.60) Maharashtra (39.26)	Punjab (92.84)
2022-23	Maharashtra (79.99) Tamil Nadu (16.09)	Nil

⁵⁴ MAT stands for Minimum Alternate Tax, and AMT stands for Alternate Minimum Tax. MAT is applicable for companies, whereas AMT is applicable to all other taxpayers.

⁵⁵ Delhi, Gujarat, Maharashtra and Tamil Nadu.

⁵⁶ Maharashtra, Tamil Nadu, West Bengal, Odisha and Delhi.

⁵⁷ Tamil Nadu, Maharashtra, Gujarat, Karnataka, Rajasthan, Uttar Pradesh and West Bengal.

⁵⁸ Maharashtra, Punjab and Tamil Nadu.

⁵⁹ Karnataka.

⁶⁰ Punjab and Assam.

In the year 2021-22, these irregularities were highest in Tamil Nadu (41.60 per cent), followed by Maharashtra (39.26 per cent) with respect to Corporate Tax and with respect to Income Tax these were highest in Punjab (92.84 per cent). During 2022-23, these irregularities were highest in Maharashtra (79.99 per cent), followed by Tamil Nadu (16.09 per cent) with respect to Corporate Tax.

Conclusion and Recommendation:

Non-compliance with tax laws and the instructions and directives of CBDT is one of the significant risk areas affecting the efficiency of tax administration. In order to improve the same, the departmental systems and processes have been computerised over the years for efficient processing and improved compliance at all stages of assessment. ITD selects cases through Computer Aided Scrutiny Selection (CASS) based on pre-defined parameters, for AO to do detailed scrutiny. However, as seen from the above analysis, the risk of non-compliance still exists in the above areas as indicated by the continuing occurrence of similar types of irregularities over time, despite these being pointed out by Audit from year to year.

- i) The CBDT may consider reviewing the requirement for assessing the effectiveness of recent changes implemented to make the IT system more accountable for minimising the repetition of similar or identical errors.*
- ii) The CBDT may consider monitoring the existing institutional mechanism to identify systematic and structural weaknesses and risk of revenue leakages, if any.*
- iii) The CBDT may consider instituting appropriate controls in the system to prevent the recurrence of such errors, especially after implementing ITBA.*

2.4 Audit products and response to audit

2.4.1 We elicit responses from the audited entities at different stages of the Audit. As per the provisions of Regulation 136⁶¹ of Regulations on Audit & Accounts, 2020, at the close of the Audit, we issue the local audit report (LAR) to ITD for comments.

2.4.2 Table 2.12 below depicts the position of the number of observations included in the LAR issued during FY 2020-21 to FY 2022-23, replies received thereto, and observations accepted (as of 31st March of the respective financial year).

⁶¹ Earlier Regulation 193 of Regulations of Audit and Accounts, 2007

Financial Year	Observations raised	Reply received		Reply not received	Percentage of Observations accepted	Percentage of replies not received
		Observations Accepted	Observations not accepted			
2020-21	11,066	1,931	1,659	7,476	55.60	67.08
2021-22	10,708	1,200	1,677	7,831	41.71	73.20
2022-23	17,317	3,640 ⁶²	2,017	11,660	64.35	67.33

From the above table, it can be seen that during the financial year 2021-22, there is an increase in the percentage of replies not received to 73.20 *per cent* from 67.08 *per cent* in the previous financial year, which has subsequently improved to 67.33 *per cent* during the current financial year.

2.4.3 Table 2.13 below shows the position of pending observations:

Period	CT		IT		ODT		Total	
	No.	TE	No.	TE	No.	TE	No.	TE
Upto March 2021	20,602	1,10,541.17	18,492	23,196.01	973	91.14	40,067	1,33,828.32
March 2022	3,509	29,489.88	4,328	11,428.93	18	7.86	7,855	40,926.66
March 2023	4,205	33,649.36	7,210	20,014.05	15	65.79	11,430	53,729.20
Total	28,316	1,73,680.41	30,030	54,638.98	1,006	164.79	59,352	2,28,484.18

The accretion in pendency in replies to audit findings each year has resulted in an accumulation of 59,352 cases involving a revenue effect of ₹ 2,28,484.18 crore as of 31st March 2023.

Chapter 12⁶³ of the Regulations on Audit & Accounts (Amendments), 2020 lays down the broad framework for follow-up action on pending audit observations and for the establishment of systems and procedures to ensure adequate, constructive and timely action on audit observations and recommendations communicated by audit and establishment of audit committees for monitoring and ensuring compliance and settlement of pending audit observations. The Department's efforts to ensure that replies to Audit are sent in the prescribed period have not been satisfactory. The CBDT needs to ensure that timely action is taken on Audit observations and reply to Audit to avoid the risk of cases

⁶² 2,432 Observations accepted and remedial action taken; 1,208 Observations accepted but remedial action not taken

⁶³ Regulation 141. Maintenance of record of audit observations and recommendations by audit and auditable entities and adequate oversight by the Government
 Regulation 143. Follow-up action on systemic faults or high risks pointed out by Audit
 Regulation 144. Intimation of follow-up action taken by the Department
 Regulation 145. Establishment of audit committees and their constitution
 Regulation 149. Preparation of action taken note for submission to PAC
 Regulation 150. Vetting of action taken notes and responses on the recommendations of PAC/COPU by Accountant General (Audit)
 Regulation 151. Duty of Government for systems and procedures to ensure timely response

becoming time-barred for taking remedial action to protect the interest of revenue in these cases.

2.4.4 We issue significant and high-value cases noticed in Audit to the Ministry for comments before inclusion in the Audit Report as per provision of Regulations 137 to 139⁶⁴. We give six weeks to the Ministry to offer their comments on cases issued to them before their inclusion in the Audit Report. We have covered 481 high-value cases having a tax effect of ₹ 7,929.76 crore in Chapters III and IV of this Report, out of which replies were received for 414 cases having a tax effect of ₹ 6,526.27 crore till March 2025, of which the Ministry/ITD accepted 238 cases⁶⁵ (57.49 per cent) having a tax effect of ₹ 4,271.94 crore (65.46 per cent), while it did not accept six cases⁶⁶ having a tax effect of ₹ 592.63 crore. Replies to the remaining 67 cases having a tax effect of ₹ 1,402.99 crore were not received (March 2025).

However, out of 481 high-value cases, the Department has initiated/taken remedial action in 411 cases (85.45 per cent) having a tax effect of ₹ 6,419.43 crore (80.96 per cent). Table 2.14 below shows category-wise details of high-value cases and sub-category-wise details are given in **Appendix 2.3**.

Category	CT		IT		Total	
	No.	TE	No.	TE	No.	TE
Quality of assessments	124	2,507.68	106	1,136.17	230	3,643.85
Administration of tax concessions/exemptions/ deductions	85	1,490.63	29	62.42	114	1,553.05
Income escaping assessments due to omissions	38	1,049.27	21	77.83	59	1,127.10
Overcharge of tax/ interest	40	1,204.48	38	400.73	78	1,605.21
Total	287	6,252.06	194	1,677.15	481	7,929.21

2.4.5 Chapters III and IV of this report detail errors in assessments of the Corporation Tax and Income Tax, respectively.

2.5 Audit impact – Amendments/CBDT’s instructions at the Instance of Audit

We analyse the impact of audits resulting in amendments to the Income Tax Act, the rules framed thereunder, and CBDT's instructions, which are issued based on our observations/ recommendations. During FY 2022-23 and during

⁶⁴ Earlier Regulations 205 to 209, now Regulation 137. Communicate the draft audit report/draft paragraph to the Government and discuss it thereon. Regulation 138. Reply to draft audit report/ draft paragraph by Government. Regulation 139. Communication of finalised paragraphs for inclusion in the audit report

⁶⁵ ITD -238 cases

⁶⁶ ITD - six cases

FY 2019-20, Subject Specific Compliance Audit on Attachment of Property of an assessee by ITD under Section 281B- Audit Report 04 of 2023 and PA on Assessment of Assesseees in Entertainment sector- Audit Report 01 of 2019 were placed in the Parliament respectively. The following paragraphs, 2.5.1 and 2.5.2, describe the impact of the Audit.

2.5.1 Audit Report No. 04 of 2023 – Subject Specific Compliance Audit on Attachment of Property of an assessee by ITD under Section 281B –

2.5.1.1 Audit observed that there was no prescribed format for issuing Provisional Attachment orders, resulting in missing essential information such as estimated tax liability, validity period, and not providing assesseees with the option of furnishing Bank Guarantee in lieu of the attached property, etc., from the Provisional Attachment orders which were not in conformity with the provisions/rules. The audit recommended that the CBDT may prescribe a format for the order under Section 281B to include all the elements of essential information required for Provisional Attachment to ensure consistency and legal sustainability. Audit suggested a sample format for issuing an order by AO for consideration by the CBDT.

The sample format suggested by Audit was adopted in full and prescribed by CBDT in their instruction No. 1/2024 in File No. 402/31/2022-ITCC dated 03/06/2024.

2.5.1.2 The AOs were not adequately establishing and documenting the basis/grounds for invoking these provisions, and in the absence of documentation, Audit could not draw assurance whether the applicability of the provisions was justified in those cases. The audit recommended that the CBDT may frame specific criteria for opinion formation, perhaps with illustrative examples, and clarify "Exceptional circumstances" to facilitate the AOs in initiating Provisional Attachment proceedings in an effective, transparent and legally sustainable manner.

The Ministry accepted the suggestion given by the Audit and implemented vide para 3.1.6 of Instruction No. 1/2024 in File No. 402/31/2022-ITCC dated 03/06/2024.

2.5.1.3 Audit commented that notification of provisional attachment orders to Registering Authorities was found to be inadequate, which eventually defeated the purpose of such notification in a few cases. Audit recommended that the CBDT may consider issuing a comprehensive SOP for provisional attachment, including notification of Provisional Attachment order under Section 281B to the concerned authorities to ensure uniformity in the implementation of relevant provisions of the Act and to protect the revenue of the Government. Further, the CBDT may make it mandatory to notify the provisional attachment orders under Section 281B to the concerned Authorities,

including CERSAI, with specific directions to the Authorities for making note of the provisional attachment and to monitor the assessee's compliance with the directions issued therein.

The Ministry accepted the suggestion given by the Audit and implemented vide para 3.2.2 of Instruction No. 1/2024 in File No. 402/31/2022-ITCC dated 03/06/2024.

2.5.1.4 Audit noticed that the AOs did not comply with the Board's instructions of ascertaining details of all assets in possession of assessees that could be considered for provisional attachment. Audit also noticed deficiencies in respect of the list of assets provided in the Appraisal, which resulted in incorrect attachment of a property. The process of identification of assets was found to be deficient. Audit recommended that the CBDT may enforce the extant instructions for enquiry into all assets of the assessee during search and seizure by devising or suggesting appropriate guidelines for selecting the appropriate assets for provisional attachment to ensure maximum coverage of likely tax demand and thereby achieve optimum protection of revenue, as intended. Further, such enquiry should be appropriately documented.

The Ministry accepted the suggestion given by the Audit and implemented vide para 3.1.3 of Instruction No. 1/2024 in File No. 402/31/2022-ITCC dated 03/06/2024.

2.5.1.5 Audit noted that the AOs did not comply with the Board's instructions of ascertaining details of all assets in the possession of assessees that could be considered for provisional attachment. Audit recommended that the CBDT may bring out specific guidelines to facilitate AOs in ascertaining details of and recording all the property(ies) available with the assessee to facilitate the selection of appropriate and sufficient property to maximise the interest of revenue.

The Ministry accepted the suggestion given by the Audit and implemented vide para 3.4 of Instruction No. 1/2024 in File No. 402/31/2022-ITCC dated 03/06/2024.

2.5.1.6 Audit noticed that the AOs did not establish an evaluation of the property of assessees for their ownership requirements or for their non-encumbrance status before considering them for provisional attachment in the majority of cases. Audit recommended that the CBDT may devise an appropriate mechanism for ensuring the verification of the ownership status of the property to be attached. If enquiries have been made from the concerned registering or other authorities for confirmation of ownership/ non-encumbrance- in such cases where properties are sold or transferred shortly before the issue of the

attachment order, necessary penal action against the assessee may need to be considered.

The Ministry accepted the suggestion given by the Audit and implemented vide para 3.4 of Instruction No. 1/2024 in File No. 402/31/2022-ITCC dated 03/06/2024.

2.5.1.7 Audit noticed that the value of attachment was either excessive or insufficient compared to the estimated tax liability, which may have resulted in undue harassment to the concerned assessee or insufficient coverage of the estimated tax liability. The audit also noticed that the AOs did not ascertain the fair market value of properties in the majority of the cases. As a result, the probability of achieving the primary objective of protecting the interest of revenue seems remote. Audit recommended that the CBDT may ensure compliance with the provisions of Section 281B of the IT Act and the CBDT's Instruction of September 2004 regarding the adequacy of provisional attachment of property by determining its Fair Market Value (FMV) where found necessary for ensuring appropriate protection of interests of revenue.

The Ministry accepted the suggestion given by the Audit and implemented vide para 3.2.4 and 4 of Instruction No. 1/2024 in File No. 402/31/2022-ITCC dated 03/06/2024

2.5.1.8 Audit noticed that the validity period of several orders under Section 281B lapsed either before the tax demands raised were fully recovered or even before the completion of assessments. Audit recommended that the CBDT may enforce the implementation of extant provisions relating to the validity period of an order under Section 281B to ensure that the cases remain continuously protected till the tax demand(s) on assessment are fully recovered.

The Ministry accepted the suggestion given by the Audit and implemented vide para 2 of Instruction No. 1/2024 in File No. 402/31/2022-ITCC dated 03/06/2024 prescribing a pro-forma for quarterly report on provisional attachment, which will ensure proper monitoring.

2.5.1.9 Audit noted that the assessee had disposed-off of the property even after notifying the order under Section 281B to the Sub Registrar. Audit recommended that the CBDT may consider investigating, from a penal perspective, changes in ownership after the issue of the attachment order to evade the consequences thereof, including any role of the registering authorities.

The Ministry stated that the suggestion by the Audit requires an amendment to the Income Tax Act and agreed to examine it during budgetary exercise.

2.5.2 Audit Report No. 01 of 2019 – Performance Audit on Assessment of Assesseees in the Entertainment sector

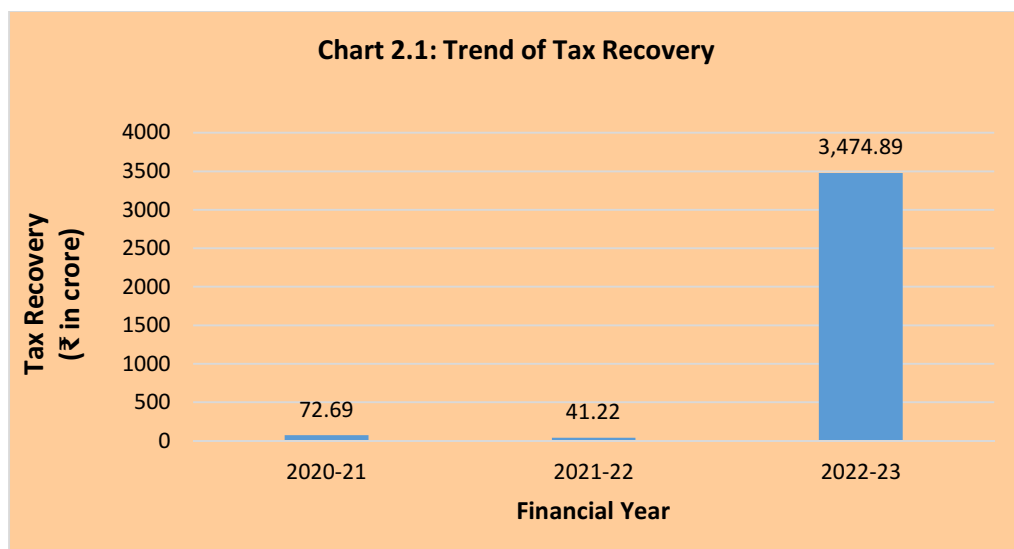
– With reference to internal control and ambiguity in the provisions of the Act/Rules, Audit recommended that in respect of effective utilisation of Form 52A, CBDT may consider extending disclosure requirement vide Form 52A for assesseees engaged in other emerging sub-sectors of Entertainment Industry, viz, documentary producer, event management firms/ companies etc., (ii) changing template of Form 52A to include PAN of payees receiving payments from the producers, (iii) making it necessary to disclose, separately details of amounts actually paid during the FY and amounts due for payment as on the date of filing of Form 52A to facilitate cross verification of receipts in respect of assesseees who are following cash/ mercantile basis of accounting.

The Ministry, vide Finance Act 2022, amended Section 285B, extending the application of provisions of Section 285B to persons engaged in any specified activity, i.e. event management, documentary production, production of programmes for telecasting on television or over-the-top platforms or any other similar platform, sports event management, other performing arts or any other activity as the Central Government may, by notification in the Official Gazette, specify in this behalf. Further, CBDT vide Notification No.109/2022 (F.No.370142/44/2022-TPL]/GSR 697(E) dated 14th September 2022 amended Rule 121A of Income Tax Rules, 1962, by substituting a new 'Rule 121A – Form of statement to be furnished by producers of cinematograph films or persons engaged in specified activity' and template of Form 52A has been changed in line with audit recommendation, requiring PAN or Aadhaar number to be specified in respect of payments over ₹ 50,000 in aggregate made by the person carrying on production of cinematograph film or engaged in specified activity, or due from him to each person, with separate columns provided in Form 52A for payments made and amounts due.

2.6 Recovery at the Instance of Audit

ITD recovered ₹ 3,588.79 crore in the last three years (Chart 2.1) from the demands raised to rectify the errors in assessments that Audit pointed out. This includes ₹ 3,474.89 crore⁶⁷ recovered in FY 2022-23, which has increased significantly compared to previous years' recoveries.

⁶⁷ This recovery includes ₹ 3,141.00 crore and ₹ 247.51 crore relating to M/s S (AY 2018-19 and 2019-20) and M/s D (AYs 2015-16, 2016-17 and 2018-19) respectively, made at the instance of Audit observations raised during Performance Audit on 'Exemptions and Deductions to Banks and Non-Banking Finance Companies'.



2.7 Time-barred cases

2.7.1 As per the amended provision under Section 148 of the IT Act, the assessment can be reopened up to three years from the end of the relevant Assessment Year, which can be further extended up to 10 years if the Assessing Officer has in his possession, books of accounts or other documents or evidence which reveal that the income chargeable to tax, represented in the form of assets, which has escaped assessment amounts to or is likely to amount to 50 lakh rupees or more for that year.

2.7.2 Table 2.15 below shows the details of time-barred cases⁶⁸ during FY 2020-21 to FY 2022-23 (**Appendix 2.4**).

Table 2.15: Details of time-barred cases		
Year of Report	Audit observations	Tax effect (₹ in crore)
2020-21	3,754	6,189.11
2021-22	7,522	15,937.39
2022-23	3,170	5,015.33

2.7.3 During FY 2022-23, 3,170 Audit Observations with a tax effect of ₹ 5,015.33 crore became time-barred for remedial action, of which Maharashtra alone accounted for 42.12 *per cent*, followed by Chandigarh at 23.07 *per cent* of total tax effect. Though the cases becoming time-barred are reported every year, the loss to the exchequer continues. The Department needs to streamline the monitoring to ensure that cases do not become time-barred and cases of revenue leakage noticed are rectified *suo-moto*.

⁶⁸ As per the amended provisions of Section 148/149 vide Finance Act 2021.

Conclusion and Recommendation:

A delay in taking remedial action in a timely manner has a revenue implication to the exchequer, for which the Department needs to streamline and strengthen the existing system.

The Department may assess/review cases for which remedial action became time barred and consider issuing instructions/guidelines and, streamlining and strengthening the existing system to ensure that remedial action is taken in a timely manner so that such incidents of cases becoming time barred for remedial action, do not recur in the future.

2.8 Non-production of records

2.8.1 We scrutinise assessment records under Section 16 of the C&AG's (DPC) Act, 1971, to secure an effective check on the assessment and collection of taxes and examine whether regulations and procedures are being duly observed. It is also incumbent on ITD to expeditiously produce records and furnish relevant information to Audit.

2.8.2 ITD did not produce 13,233 records (4.73 *per cent*) out of 2,79,516⁶⁹ Records requisitioned during FY 2022-23. Non-production of records has increased majorly in Delhi during FY 2022-23 (from 7.06 *per cent* to 10.65 *per cent*) and in Madhya Pradesh (from 4.54 *per cent* to 6.46 *per cent*) over the previous year. **Appendix 2.5** shows the details of the non-production of records from FY 2020-21 to FY 2022-23.

⁶⁹ This includes 10,083 records that were not produced in earlier years and that were requisitioned again during the current audit cycle.

Chapter III: Corporation Tax

3.1 Introduction

3.1.1 This chapter discusses 287 high-value corporate cases (refer para 2.4.4) involving 282 assessments and a total tax impact of ₹ 6,252.06 crore⁷⁰ which were referred to the Ministry from August 2024 to March 2025. Out of these 287 cases, the Ministry has replied only in eight cases till March 2025 and accepted all the eight cases. However, the ITD accepted 165 cases involving a tax effect of ₹ 3,120.98 crore and did not accept four cases involving a tax effect of ₹ 590.00 crore. Further, out of 287 cases, the ITD has completed remedial action in 197 cases involving a tax effect of ₹ 4,071.99 crore and initiated remedial action in 27 cases involving a tax effect of ₹ 720.15 crore. In the remaining 63 cases, the ITD has not taken/initiated any action till March 2025.

3.1.2 The categories of errors can be broadly classified as follows:

- Quality of assessments (124 cases)
- Administration of tax concessions/exemptions/deductions (85 cases)
- Income escaping assessments due to omissions (38 cases)
- Others – Overcharge of Tax/Interest etc. (40 cases)

The subsequent paragraphs illustrate each category of the above-mentioned errors. The illustrative cases are identified based on their significance and the tax effect involved. Further, cases from across the ITD field formation have been considered for illustration to provide broad coverage of the issues noticed by Audit.

3.2 Quality of assessments

3.2.1 In some of cases test checked by Audit, the Assessing Officers (AOs) committed errors in the assessments, ignoring clear provisions of the Act. These cases of incorrect assessments point to continuing weaknesses in the internal controls on the part of the ITD, which need to be addressed on priority. In the era of Information Technology Systems, cases of incorrect assessments involving arithmetical errors in the computation of income and tax are difficult to accept as mere errors. Further, the application of incorrect rates of tax and surcharge, mistakes in levy of interest under Sections 220(2), 234A, 234B, 234C, and 234D, excess or irregular refunds, etc., point to significant deficiencies in the performance of the Assessing Officers, as well as weaknesses in the internal controls and IT Systems in the ITD which need to be addressed. The ITD may ascertain whether the instances of irregularities noticed are errors of omission or commission while ensuring necessary action

⁷⁰ Including cases where the overcharge of tax was ₹ 1,204.48 crore.

as per law in cases involving errors of commission. Table 3.1 below shows the details of sub-categories of mistakes (refer para 2.4.4) which impacted the quality of assessments.

Table 3.1: Sub-categories of mistakes under Quality of assessments			
Sub-categories	Cases	Tax effect	States
(₹ in crore)			
a. Arithmetical errors in the computation of income and tax	48	2,036.72	Delhi, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal.
b. Application of incorrect rate of tax and surcharge	12	92.42	Bihar, Delhi, Gujarat, Maharashtra, Punjab, Tamil Nadu, Telangana and West Bengal.
c. Errors in levy of interest	57	360.27	Delhi, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Odisha, Tamil Nadu, Telangana, Uttar Pradesh and West Bengal.
d. Excess or irregular refunds/interest on refunds	6	17.14	Delhi, Maharashtra and Tamil Nadu
e. Errors in assessment while giving effect to appellate order	1	1.13	Karnataka
Total	124	2,507.68	

3.2.2 Arithmetical errors in the computation of income and tax

We noticed arithmetical errors in the computation of income and tax in 48 cases involving a tax effect of ₹ 2,036.72 crore in 10 States. Five such cases are illustrated below:

As per Section 143(3) of the Act, AOs are required to make the correct assessment of the total income or loss of the assessee and determine the correct amount of tax payable by the assessee. Further, the Board has issued instructions from time to time that mistakes in the computation of taxable income and tax should not occur. Further, The Income Tax Act of 1961 provides for the levy of interest for omissions on the part of the assessee at the rates prescribed by the Government from time to time. Section 234A provides for a levy of interest on account of default in furnishing return of income at specified rates and for the specified time period(s). Section 234B provides for the levy of interest on account of default in payment of advance tax at specified rates and for the specified time period.

Case I CIT Charge : Pr. CIT-3, Mumbai
Assessee Name : M/s B1
Assessment Year : 2018-19 and 2019-20

The AO, while finalizing the assessment under Section 143(3) of the Act in February 2020 and September 2021 for the aforesaid AYs, decided to tax the

distribution of surplus to Government of India amounting to ₹ 2,421.82 crore and ₹ 2,660.60 crore as dividend under Section 115O of the Act and worked out dividend distribution tax at the rate of 20.36 *per cent* amounting to ₹ 493.03 crore and ₹ 541.63 crore respectively. However, while computing the assessee's tax liability in both the AYs, these additional taxes were not levied in the income tax computation sheet. These errors resulted in the non-levy of Dividend Distribution Tax (DDT) of ₹ 1,034.66 crore in both the AYs. *The Department rectified the error while giving effect to the CIT(A)'s order in June 2022 by charging DDT of ₹ 611.35 crore for AY 2018-19 and ₹ 709.54 crore for AY 2019-20, including interest under Section 115P.* Further, status of recovery is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Case II **CIT Charge** : **Pr. CIT-3, Mumbai**
 Assessee Name : **M/s R3 Pvt. Ltd.**
 Assessment Year : **2019-20**

The AO, while finalizing the assessment under Section 143(3) of the Act in March 2022, determined income of ₹ 1,595.55 crore under normal provision and Book Profit of ₹ 3,230.09 crore under special provision of Section 115JB of the Act. However, while computing the tax liability of the assessee, incorrectly adopted ₹ 1346.26 crore as book profit in the tax computation sheet, and tax was levied under normal provisions at the income of ₹ 1,595.55 crore instead of leviable on the book profit of ₹ 3,230.09 crore under the special provision. The error resulted in a short levy of tax of ₹ 399.85 crore, including interest under Section 234B of ₹ 88.61 crore and excess refund of 172.74 crore. *The Department, while accepting the audit observation intimated (October 2023) that the error was rectified under Section 154 of the Act in September 2023.* Further, status of recovery is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Case III **CIT Charge** : **CIT (Central)-3, Delhi**
 Assessee Name : **M/s A1 Pvt. Ltd**
 Assessment Year : **2018-19**

The AO, while computing the tax liability of ₹ 613.71 crore including interest of the assessee after assessment under Section 143(3) read with Section 153A of the Act in March 2022, levied a surcharge of ₹ 4.64 lakh at the rate of 7 *per cent* instead of ₹ 7.96 lakh at the applicable rate of 12 *per cent* on normal income. The AO did not levy interest of ₹ 3.74 crore and ₹ 0.04 crore under Sections 234A and 234C of the Act respectively and erroneously levied interest under

Section 234B at ₹ 239.53 crore as against the leviable amount of ₹ 179.66 crore also. Further, the AO wrongly issued a demand of ₹ 374.19 crore instead of ₹ 613.71 crore (₹ 374.19 crore as tax and ₹ 239.53 crore as interest) in the demand notice under Section 156 of the Act. These errors resulted in a short levy of tax and interest of ₹ 183.51 crore. *The Department rectified the errors under Section 154 of the Act in August 2023.* Further, status of recovery is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Case IV CIT Charge : Pr. CIT-1, Kanpur
Assessee Name : M/s M2 Ltd,
Assessment Year : 2018-19

The AO, while computing the assessee's tax liability in August 2021 after assessment under Section 143(3) of the Act, adopted an income of ₹ 4.32 crore instead of ₹ 66.96 crore. The error resulted in an under-assessment of income of ₹ 62.64 crore involving a tax effect of ₹ 31.95 crore, including interest. *The Department rectified the error under Section 154 of the Act in May 2023.* Further, status of recovery is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Case V CIT Charge : Pr. CIT-8, Mumbai
Assessee Name : M/s S3 Ltd.
Assessment Year : 2017-18

The AO, while finalising the assessment under Section 143(3) of the Act in January 2022, made the addition of ₹ 140.75 crore on account of adjustment in transfer pricing with the returned income of ₹ 86.60 crore. However, while computing the assessee's tax liability, the addition of ₹ 140.75 crore was not considered for tax in the tax computation sheet. The omission resulted in a short levy of tax of ₹ 54.91 crore, including interest. Further, the discrepancy also resulted in an irregular allowance of refunds of ₹ 15.72 crore, including interest on refunds under Section 244A of the Act. Thus, the total tax effect worked out to ₹ 70.63 crore. *The Department while accepting the audit observation, intimated (July 2023) that the error was rectified under Section 154 of the Act in June 2023.* Further, status of recovery is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

3.2.3 Application of incorrect rates of tax and surcharge

The AO, while computing the tax liability of the assessee, applied incorrect rates of tax and surcharge in 12 such cases involving a tax effect of ₹ 92.42 crore in seven States. Three such cases are illustrated below:

As per Section 143(3) of the Act, AOs are required to make correct assessment of the total income or loss of the assessee and determine the correct amount of tax payable by the assessee. Further, the Board has issued instructions from time to time that mistakes in computation of taxable income and tax should not occur.

Case I **CIT Charge** : **Pr. CIT-2, Mumbai**
 Assessee Name : **M/s. D1 Pvt. Ltd.**
 Assessment Year : **2016-17**

The AO, while computing the tax liability after re-assessment under Section 147 read with Section 144 B of the Act in March 2022 on the assessed income of ₹ 592.65 crore, levied tax at the special rate of 20 *per cent* on ₹ 542.98 crore and at the normal rate of 30 *per cent* on the remaining amount of ₹ 49.66 crore without considering the fact that the entire assessed income of ₹ 592.65 crore was chargeable to tax at the normal rate of 30 *per cent* as determined during the assessment Section 143(3) in December 2018. The error resulted in a short levy of tax of ₹ 62.64 crore. *The Department rectified the error by passing an order under Section 154 of the Act in July 2023.* Further, status of recovery is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Section 4(1) of the Income Tax Act, 1961, provides that for every assessment year, income tax is chargeable for the total income of the previous year of an assessee, according to the rates prescribed under the relevant Finance Act. The Finance Act relevant to AY 2018-19 provides for the levy of tax at the rate of 25 per cent only in the case of domestic companies where its total turnover or gross receipt during the previous year, 2015-16, does not exceed Rs. 50 crore otherwise tax at the flat rate of 30 per cent was leviable.

Case II **CIT Charge** : **Pr. CIT-1, Chandigarh**
 Assessee Name : **M/s H1 Ltd.**
 Assessment Year : **2018-19**

The AO, while computing the tax liability of the assessee after assessment under Section 144 of the Act in April 2021, applied a rate of tax at 25 *per cent*. However, the assessee company was incorporated in FY 2016-17 and, as such, was not eligible for the application of reduced tax rates applicable for corporate assessee having prescribed turnover during FY 2015-16. The omission resulted in a short levy of tax of ₹ 4.22 crore, including interest. *The Department, while accepting the audit observation, intimated (May 2023) that*

the remedial action was taken under Section 154 of the Act in May 2023. Further, status of recovery is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

As per Finance Act 2020, in the case of domestic companies with total turnover or gross receipts below Rs.400 crore for the financial year 2017-18, tax on income for the AY 2020-21 shall be leviable at 25 per cent. Section 115BAA(1) of the Act provides an option to an assessee, being a domestic company, to pay tax for the AY 2020-21 and onwards at 22 per cent if the conditions contained in sub-section (2) are satisfied. Sub-section (5) thereof provides that the lower rate of tax shall be applicable only if the option is exercised by the person in the prescribed manner on or before the due date under Section 139(1) for filing the returns of income for any assessment year commencing on or after 1st April 2020.

Case III CIT Charge : Pr. CIT- Central, Hyderabad
Assessee Name : M/s C1 Pvt. Ltd.
Assessment Year : 2020-21

While computing the tax liability of the assessee in March 2022 after assessment under Section 143(3) read with Section 153A of the Act, the AO applied a rate of 22 *per cent* instead of 25 per cent. However, the assessee did not exercise the option of a lower tax rate on or before the due date for filing a return of income as stipulated under sub-section (5) of Section 115BAA. The incorrect computation of tax at a lower rate resulted in a short demand of tax by ₹ 4.14 crore, including interest under Sections 234A and 234B. *The Department took remedial action by passing an order under Section 154 in February 2024. Further, status of recovery is awaited (March 2025).*

Reply of the Ministry is awaited (March 2025).

3.2.4 Errors in levy of interest

We noticed errors in levy of interest in 57 cases involving the tax effect of ₹ 360.27 crore in 10 States. Five such cases are illustrated below:

The Income Tax Act of 1961 provides for the levy of interest for omissions on the part of the assessee at the rates prescribed by the Government from time to time. Section 234A provides for a levy of interest on account of default in furnishing return of income at specified rates and for the specified time period(s).

Case I CIT Charge : Pr. CIT (Central) -1, Mumbai
Assessee Name : M/s P2 Pvt. Ltd.
Assessment Year : 2016-17 and 2017-18

The AO, while computing the tax liability of the assessee in April 2021 for the AYs 2016-17 and 2017-18, respectively, after assessment under Section 153A read with Section 144 of the Act, did not levy interest of ₹ 47.84 crore and

₹ 9.64 crore for the aforementioned AYs respectively under Section 234A(3) of the Act for delayed response to the notices. These errors resulted in a short levy of interest of ₹ 57.48 crore in both the AYs. *The Department rectified the mistakes by passing an order under Section 154 of the Act in February 2024 for both the AYs. Further, status of recovery is awaited (March 2025).*

Reply of the Ministry is awaited (March 2025).

As per provision of Section 234D of the Act, where any refund granted to the assessee under sub-section (1) of Section 143 and subsequently no refund is found due on regular assessment or refund already granted is in excess, the assessee is liable to pay interest at the rate of one half per cent on the excess amount so refunded for the period from the date of grant of refund to the date of regular assessment. Further, as per sub-section (2), where as a result of an order under Section 154 or Section 263, the amount of refund grant under sub-section (1) of Section 143 is held to be correctly allowed, either in whole or in part, as the case may be, then the interest chargeable, if any, under sub-section (1) shall be reduced accordingly.

Case II CIT Charge : Pr. CIT-3, Bengaluru
Assessee Name : M/s. I1 Ltd.
Assessment Year : 2018-19

The AO, while computing the tax liability of the assessee after assessment under Section 143(3) read with Section 144B in September 2021, did not levy interest under Section 234D for 12 months on withdrawal of refund of ₹ 570.35 crore. The error resulted in a non-levy of interest of ₹ 34.22 crore. *The Department while accepting the audit observation, intimated (March 2024) that the error was rectified in December 2023. Further, status of recovery is awaited (March 2025).*

Reply of the Ministry is awaited (March 2025).

The Income Tax Act of 1961 provides for the levy of interest for omissions on the part of the assessee at the rates prescribed by the Government from time to time. Section 234A provides for a levy of interest on account of default in furnishing return of income at specified rates and for the specified time period(s). Section 234B provides for the levy of interest on account of default in payment of advance tax at specified rates and for the specified time period.

Case III CIT Charge : Pr. CIT-4, Mumbai
Assessee Name : M/s A2 Ltd.
Assessment Year : 2017-18

The AO, while concluding the assessment under Section 144 in December 2019, accepted the ITR filed by the assessee and processed. However, no requisite details viz. balance sheet items and Profit and Loss accounts were available. Thus, the ITR should have been treated as invalid, and accordingly, interest under Section 234A should have been levied, which was not levied. The error resulted in a short levy of interest of ₹ 27.56 crore under Section

234A. *The Department rectified the error under Section 154 of the Act in November 2022. Further, status of recovery is awaited (March 2025).*

Reply of the Ministry is awaited (March 2025).

Case IV CIT Charge : Pr. CIT-4, Chennai
Assessee Name : M/s K2 Pvt. Ltd.
Assessment Year : 2017-18

The AO, while computing the assessee's tax liability after assessment under Section 143(3) of the Act in March 2022, did not levy interest of ₹ 14.48 crore under Section 234B as the TDS and advance tax paid was less than ninety *per cent* of the total assessed tax. The error resulted in the non-levy of interest of ₹ 14.48 crore under Section 234B. *The Department prima-facie accepted the audit observation (December 2022).* Details of remedial action taken are awaited from the Department for more than two years (March 2025).

Reply of the Ministry is awaited (March 2025).

Case V CIT Charge : Pr. CIT- Central 1, Chennai
Assessee Name : M/s R1 Pvt. Ltd.
Assessment Year : 2018-19

The AO, while computing the tax liability of the assessee after assessment under Section 144 read with Section 153C of the Act in September 2021 levied interest of ₹ 5.56 crore under Section 234B but omitted to include in the total demand of the assessee. However, the total interest leviable under Section 234B was ₹ 12.92 crore. Further, the AO did not levy interest of ₹ 0.92 crore under Section 234A for three months for late filing of return also. Thus, the total non-levy of interest aggregated to ₹ 13.69 crore. *The Department stated that suitable action would be initiated (January 2023).* Further, details of action taken are awaited from the Department for more than two years (March 2025).

Reply of the Ministry is awaited (March 2025).

3.2.5 Excess or irregular refunds/interest on refunds

We noticed six cases relating to excess or irregular refunds/interest on refunds involving tax effect of ₹ 17.14 crore in three States. Two such cases are illustrated below:

Section 244A of the Act provides that where a refund of any amount becomes due to the assessee, he shall, subject to the provisions of this Section, be entitled to receive, in addition to the said amount, simple interest thereon. Such interest shall be calculated at the rate of one-half per cent for every month or part of a month comprised in the period (i) from the 1st day of April of the assessment year to the date on which the refund is granted if the return

of income has been furnished on or before the due date specified under sub-section (I) of Section 139; or (ii) from the date of furnishing of return of income to the date on which the refund is granted.

Case I **CIT Charge** : **Pr. CIT-1, Delhi**
Assessee : **M/s F1 Pvt. Ltd.**
Assessment Year : **2018-19**

The AO, while computing the tax liability of the assessee after the rectification order passed under Section 154 of the Act in May 2021, issued an interest of ₹ 21.52 crore under Section 244A for 68 months instead of the admissible amount of ₹ 12.04 crore payable for 38 months. The error resulted in excess payment of interest of ₹ 9.48 crore under Section 244A of the Act. Audit observation was communicated to the Department in April 2022, but no reply was received despite several reminders (March 2025).

Reply of the Ministry is awaited (March 2025).

Case II **CIT Charge** : **Pr. CIT-1, Chennai**
Assessee Name : **M/s F2 Pvt. Ltd.**
Assessment Year : **2017-18**

The AO, while computing the tax liability of the assessee after assessment under Section 143(3) of the Act in June 2021, granted interest of ₹ 4.14 crore on refund under Section 244A instead of ₹ 1.68 crore for a period of 51 months. This resulted in grant of excess interest of ₹ 2.46 crore on refund under Section 244A. *The Department stated (December 2022) that the audit observation would be looked into.* Further, details of action taken are awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

3.2.6 Errors in assessment while giving effect to appellate orders

We noticed error in assessment while giving effect to appellate orders in one case involving tax effect of ₹ 1.13 crore in Karnataka state. The case is illustrated below:

Section 254 of the Act provides that the Appellate Tribunal shall send a copy of any orders passed under this Section to the assessee and to the Principal Commissioner. Further, para 24.1 of Chapter 18 of Manual of Office Procedure (Volume II, Technical) of the Income Tax Department provides that on receipt of the appellate order in the Assessing Officer's office, immediate steps should be taken to revise the assessment in light of the order.

Case I **CIT Charge** : **Pr. CIT-Central, Bengaluru**
Assessee Name : **M/s E2 Ltd.**
Assessment Year : **2010-11**

The AO, while computing the net tax payable of the assessee after order giving effect (OGE) under Section 254 in June 2021, omitted to add an amount of ₹ 1.14 crore which was the balance of gross tax payable of ₹ 14.05 crore over and above the regular assessment tax of ₹ 12.91 crore paid by the assessee on several dates between March and October 2013. The omission resulted in a short levy of tax to the tune of ₹ 1.13 crore. *The Department took remedial action under Section 154 in May 2023.* Further, status of recovery is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

3.3 Administration of tax concessions/exemptions/deductions

3.3.1 The Act allows concessions/exemptions/deductions to the assessee in computing total income under Chapter VI-A and certain categories of expenditure under its relevant provisions. We observed that the AO had irregularly extended benefits of tax concessions/exemptions/deductions to beneficiaries who were not entitled to the same. These irregularities point out weaknesses in the administration of tax concessions/deductions/ exemptions on the part of the ITD, which need to be addressed. Table 3.2 below shows the details of sub-categories that have impacted the administration of tax concessions/exemptions/deductions.

Table 3.2: Sub-categories of mistakes under Administration of tax concessions/exemptions/deductions			
Sub-categories	Nos.	TE (₹ in crore)	States
a. Irregularities in allowing depreciation/ business losses/ capital losses	41	1,061.86	Delhi, Gujarat, Karnataka, Maharashtra, Odisha, Tamil Nadu, Telangana, Uttar Pradesh and West Bengal.
b. Irregular exemptions/ deductions/ rebates/ relief/MAT credit	28	310.48	Delhi, Gujarat, Karnataka, Maharashtra, Rajasthan, Tamil Nadu, Telangana and West Bengal.
c. Incorrect allowance of business expenditure	16	118.29	Delhi, Gujarat, Karnataka, Kerala, Maharashtra, Odisha, Rajasthan, and Tamil Nadu.
Total	85	1,490.63	

3.3.2 Irregularities in allowing depreciation and set off and carry forward of business/capital losses

We noticed irregularities in allowing depreciation and set off and carry forward of business/capital losses in 41 cases involving tax effect of ₹ 1,061.86 crore in nine States. Nine such cases are illustrated below:

Section 72 of the Act provides that if the current year's loss, including depreciation, cannot be wholly set off against income under any head of a relevant year, such loss shall be carried forward to the following assessment year(s) for set off against the 'Profits and gains of the business or profession.' As per the CBDT's instruction no. 09/2007, dated 11th September 2007, the AO should carry out necessary verifications at the time of undertaking scrutiny assessments with reference to physical records, and the claims related to losses, including unabsorbed depreciation, should be linked with the assessment records to ensure the correctness of the allowance of claims of brought forward losses and depreciation. Remedial action for earlier years, wherever necessary, should also be initiated.

Case I CIT Charge : Pr. CIT (Central)-1, Mumbai
Assessee Name : M/s A5 Ltd.
Assessment Year : 2016-17

The AO, while computing the tax liability of the assessee after re-assessment under Section 147 of the Act in March 2022, incorrectly allowed to carry forward a current-year loss of ₹ 6,626.85 crore in the tax computation sheet instead of ₹ 6,086.88 crore as determined during assessment. The error resulted in an excess carry-forward loss of ₹ 539.97 crore with a potential tax effect of ₹ 186.87 crore. *The Department while accepting the audit observation, intimated (July 2023) that the error was rectified under Section 154 of the Act in February 2023.*

Reply of the Ministry is awaited (March 2025).

Sub-section 2 of Section 32 of the Income Tax Act 1961(the Act) stipulates that when the depreciation under Section 32(1) of the Act cannot be given full effect during the year due to no profit or profit being less than the depreciation, the unabsorbed depreciation of that year can be carried forward to future assessment years for set off.

Case II CIT Charge : Pr. CIT-2, Bengaluru
Assessee Name : M/s. V2 Pvt. Ltd.
Assessment Year : 2018-19

The AO, while finalising the assessment under Section 143(3) read with Sections 144C(3) and 144B of the Act in November 2021, allowed set off of brought forward business loss of ₹ 116.70 crore pertaining to AY 2016-17 and brought forward unabsorbed depreciation of ₹ 80.26 crore pertaining to AYs 2013-14, 2014-15 and 2016-17 as claimed by the assessee. However, the assessee company did not have any brought forward business loss and unabsorbed depreciation as the assessments for the aforesaid AYs were completed at positive incomes. The mistake resulted in a short levy of tax of ₹ 100.16 crore, including interest under Section 234B of the Act. The audit observation was communicated to the Department in February 2023 but no reply was received from the Department (March 2025).

Reply of the Ministry is awaited (March 2025).

Section 32(1) of the Income Tax Act, 1961 (Act) stipulates that deduction on account of depreciation allowance is available on tangible and intangible assets while computing income under the head 'profit and gains of business and profession.' As per this Section and Explanation 3 of this Section, intangible assets eligible for depreciation are know-how, patents, copyrights, trademarks, licenses, franchises, or any other business or commercial rights of similar nature acquired on or after 1st April 1998. Thus, intangible assets that are not acquired, such as self-generated Goodwill, are not eligible for depreciation.

Case III CIT Charge : Pr. CIT-8, Mumbai
Assessee Name : M/s D2 Pvt. Ltd.
Assessment Year : 2017-18

The AO, while finalizing the assessment under Section 143(3) in March 2021 at an income of ₹ 'Nil', allowed claims of ₹ 55.08 crore and ₹ 165.27 crore to the assessee on account of depreciation on Goodwill and carry forward of written down value (WDV) of intangible assets respectively which were created due to amalgamation. This Goodwill and WDV of intangible assets were created by the assessee from the excess amount of fair value of consideration over the fair value of overall net assets of the amalgamating company. Audit noticed from the assessment order for the AY 2016-17 passed under Section 143(3) in December 2019 that the AO had disallowed the assessee's similar claims of depreciation on Goodwill created due to amalgamation as per the 6th proviso to Section 32(1) of the Act and the decision of Income Tax Appellate Tribunal (ITAT) Bengaluru in ITA No.722/Bang/2014. Thus, allowance of depreciation on Goodwill of ₹ 55.08 crore and carry forward of WDV of intangible assets of ₹ 165.27 crore were erroneous in AY 2017-18. These errors resulted in an underassessment of income of ₹ 220.35 crore involving a potential tax effect of ₹ 76.26 crore. *The Department accepted the audit observation and intimated (July 2023) that proceedings under Section 263 had been initiated in March 2023.* The details of the revision order under Section 143(3), read with Section 263 of the Act, are awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Section 72 of the Act provides that if the current year's loss, including depreciation, cannot be wholly set off against income under any head of a relevant year, such loss shall be carried forward to the following assessment year(s) for set off against the 'Profits and gains of the business or profession.' As per the CBDT's instruction no. 09/2007, dated 11th September 2007, the AO should carry out necessary verifications at the time of undertaking scrutiny assessments with reference to physical records, and the claims related to losses, including unabsorbed depreciation, should be linked with the assessment records to ensure the correctness of the allowance of claims of brought forward losses and depreciation. Remedial action for earlier years, wherever necessary, should also be initiated.

Case IV **CIT Charge** : Pr. CIT-1, Chennai
Assessee Name : M/s H2 Pvt. Ltd.
Assessment Year : 2017-18

The AO, while finalising the assessment under Section 143(3) read with Section 144B of the Act in April 2021 at an income of ₹ 'Nil' allowed set off of brought forward business loss of ₹ 27.84 crore and further allowed carry forward of business loss of ₹ 361.94 crore pertaining to AYs 2012-13, 2013-14, 2014-15, 2015-16 and 2016-17 to be set off in subsequent years. Audit observed that out of the total brought forward loss of ₹ 143.64 crore available for set off, ₹ 27.84 crore was set off in AY 2017-18, and the balance loss of ₹ 115.80 crore was to be carried forward in subsequent years. The mistake resulted in an excess carry forward of loss of ₹ 246.14 crore, having a potential tax effect of ₹ 73.84 crore. *The Department rectified the errors under Section 154 of the Act in May 2023.*

Reply of the Ministry is awaited (March 2025).

Section 139(3) of the IT Act provides that for carry forward of losses under the head 'Profits and gains of Business or Profession,' the assessee shall furnish the return of loss within the time allowed under Section 139(1) of the Act. Section 80 of the Act stipulates that no loss which has not been determined in pursuance of a return filed as per sub-Section (3) of Section 139 shall be carried forward and set off under sub-Section (1) of Section 72, which provides for carry forward and set off of business losses. Further, Section 143(3) requires verification of claims together with accounts, records, and documents enclosed with the return by the assessing officer in detail in scrutiny assessments.

Case V **CIT Charge** : Pr. CIT-I, Visakhapatnam
Assessee Name : M/s. S5 Pvt. Ltd.
Assessment Year : 2017-18

The AO, while finalizing the re-assessment under Section 147 read with Section 144 of the Act in March 2022, allowed carry forward of the entire assessed loss of ₹ 169.01 crore for set off in subsequent years in the Tax Computation sheet. However, such loss of ₹ 169.01 crore comprised a business loss of ₹ 168.92 crore and unabsorbed depreciation of ₹ 8.71 lakh, and the assessee had filed the original return of income belatedly in March 2018 as against the due date of November 2017. The error resulted in an incorrect carry forward of business loss of ₹ 168.92 crore involving a potential tax effect of ₹ 58.46 crore. *The Department, while accepting the audit observation, intimated (March 2024) that the error was rectified under Section 154 of the Act in February 2024.*

Reply of the Ministry is awaited (March 2025).

Case VI CIT Charge : Pr. CIT-2, Delhi
Assessee Name : M/s C3 Ltd.
Assessment Year : 2017-18

The AO, while computing the tax liability of the assessee after assessment under Section 144 read with Section 144B of the Act in March 2021, allowed carry forward of the entire assessed loss of ₹ 162.54 crore for set off in subsequent years in the Tax Computation sheet. However, such loss of ₹ 162.54 crore comprised a business loss of ₹ 155.16 crore and unabsorbed depreciation of ₹ 7.38 crore, and the assessee had filed the original return of income belatedly in November 2018 as against the due date of October 2018. The error resulted in an incorrect carry forward of business loss of ₹ 155.16 crore involving a potential tax effect of ₹ 53.70 crore. *The Department rectified the error while passing an order under Section 147 read with Section 144 of the Act in February 2023.*

Reply of the Ministry is awaited (March 2025).

Sub-Section 2 of Section 32 of the Income Tax Act 1961(the Act) stipulates that when the depreciation under Section 32(1) of the Act cannot be given full effect during the year due to no profit or profit being less than the depreciation, the unabsorbed depreciation of that year can be carried forward to future assessment years for set off.

Case VII CIT Charge : Pr. CIT-7, Bengaluru
Assessee Name : M/s U1 Ltd.
Assessment Year : 2017-18

The AO, while computing the tax liability of the assessee in February 2022 after assessment under Section 143(3) of the Act, had allowed set off of brought forward unabsorbed depreciation of ₹ 95.27 crore pertaining to AY 2016-17 as claimed by the assessee. However, the assessee company did not have any brought forward unabsorbed depreciation for the AY 2016-17 as the assessment of AY 2016-17 was completed at positive income. The mistake resulted in a short levy of tax of ₹ 52.42 crore. *The Department accepted the audit observation and stated (October 2023) that the mistake required rectification.* Further, details of remedial action taken are awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Sub-section 2 of Section 32 of the Income Tax Act 1961(the Act) stipulates that when the depreciation under Section 32(1) of the Act cannot be given full effect during the year due to no profit or profit being less than the depreciation, the unabsorbed depreciation of that year can be carried forward to future assessment years for set off.

Case VIII CIT Charge : Pr. CIT-4, Chennai
Assessee Name : M/s S4 Ltd.
Assessment Year : 2018-19

The AO, while finalising the assessment under Section 143(3) in April 2021 at an income of ₹ 139.58 crore, allowed set off of brought forward unabsorbed depreciation of ₹ 103.95 crore and further allowed unabsorbed depreciation of ₹ 147.85 crore of earlier years to be set off in subsequent years. Audit observed that no such unabsorbed depreciation for set off and carry forward was available to the assessee. These errors resulted in a short levy of tax of ₹ 35.97 crore and a potential tax effect of ₹ 44.36 crore. *The Department stated that remedial action was initiated by issuing notice under Section 154 of the Act (November 2024).* Further, details of remedial action taken are awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

As per Section 143(3) of the Act, AOs are required to make a correct assessment of the total income or loss of the assessee and determine the correct amount of tax payable by the assessee. Further, the Board has issued instructions from time to time that mistakes in the computation of taxable income and tax should not occur.

Case IX CIT Charge : Pr. CIT-8, Mumbai
Assessee Name : M/s. V1 Pvt. Ltd
Assessment Year : 2018-19

The AO, while finalising the assessment under Section 143(3) read with Section 144B in September 2021, allowed depreciation of ₹ 250.36 crore on Goodwill of ₹ 1,001.42 crore. Audit observed that the said 'Goodwill' was created in AY 2016-17 consequent on the acquisition of PTP Ltd. by the assessee company, and the claim of depreciation was disallowed by the Department in AYs 2016-17 and 2017-18 on the ground that the said goodwill was created under the scheme of amalgamation. Thus, the same should also have been disallowed in the AY 2018-19. The omission resulted in an under-assessment of income of ₹ 250.36 crore involving a positive tax effect of ₹ 39.29 crore and a potential tax effect of ₹ 21.78 crore. The error also resulted in an incorrect allowance of MAT credit of ₹ 25.57 crore. *The Department intimated Audit (October 2024) that the remedial action was initiated in August 2024.* Details of further action taken are awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

3.3.3 Irregular exemptions/deductions/rebate/relief/MAT credit

We noticed 28 cases relating to irregular exemptions/deductions/rebate/relief/MAT credits involving tax effect of ₹ 310.48 crore in eight States. Three such cases are illustrated below:

Section 115JAA(1A) of the Act provides that where any amount of tax is paid under Section 115JB(1) by an assessee, being a company, for the assessment year commencing on 01/04/2006 and any subsequent assessment year, then credit, in respect of the tax so paid, shall be allowed to him. Section 115JAA (2A) of the Income Tax Act provides that the tax credit to be allowed under sub-Section (1A) shall be the difference of the tax paid for any assessment year under Section 115JB (1) and the amount of tax payable by the assessee on his total income, computed in accordance with the other provisions of this Act, provided that no interest shall be payable on the tax credit allowed under sub-Section (1A).

Case I **CIT Charge** : **Pr. CIT-4, Chennai**
 Assessee Name : **M/s S1 Ltd.**
 Assessment Year : **2017-18 and 2018-19**

The AO, while computing the tax liability of the assessee in May 2021 and September 2021 for the AYs 2017-18 and 2018-19, respectively, after assessment under Section 143(3) of the Act, had allowed set off of MAT credit of ₹ 11.72 crore and ₹ 30.78 crore respectively pertaining to AY 2015-16. However, the assessee company did not have any brought forward MAT credit for the AY 2015-16 as tax was levied under the normal provision of the Act in AY 2015-16. The error resulted in a short levy of tax of ₹ 57.94 crore in both the AYs, including withdrawal of interest under Section 244A of the Act of ₹ 15.43 crore. *The Department accepted the audit observation and stated that remedial action under Section 154 of the Act was initiated in the case (August 2023).* Further, status of completion of remedial action taken is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Case II **CIT Charge** : **Pr. CIT (Central), Hyderabad**
 Assessee Name : **M/s P1 Ltd.**
 Assessment Year : **2018-19, 2019-20 and 2020-21**

The AO, while finalising the assessment under Section 143(3) read with Section 153A in March 2022 for the AYs 2018-19, 2019-20 and 2020-21, allowed setting off of MAT credit of ₹ 3.76 crore, ₹ 7.01 crore, and ₹ 9.63 crore, respectively, pertaining to AYs 2016-17 and 2017-18. However, Audit examination revealed that the tax was levied under normal provisions for both the AYs. Consequently, there was no MAT Credit available for carry forward for set-off in subsequent AYs. Incorrect allowance of set off of MAT credit resulted in

aggregate short levy of tax of ₹ 27.92 crore (₹ 5.72 crore, ₹ 9.80 crore and ₹ 12.40 crore for AYs 2018-19, 2019-20 and 2020-21 respectively). *The Department, while accepting the audit observation, took remedial action by passing an order under Section 154 for the AYs 2019-20 and 2020-21 in July 2023.* Further, details of recovery of demand for AYs 2019-20 and 2020-21; and details of remedial action taken for AY 2018-19 are awaited (March 2025). Reply of the Ministry is awaited (March 2025).

Case III CIT Charge : Pr.CIT-1, Vadodara
Assessee Name : M/s G2 Ltd.
Assessment Year : 2017-18

The AO, while finalizing the assessment under Section 143(3) in December 2019, allowed carry forward of MAT credit of ₹ 49.85 crore (₹ 71.70 crore minus ₹ 21.85 crore) difference of tax paid under MAT and normal provisions. However, Audit examination revealed that income was incorrectly assessed at ₹ 13.93 crore instead of ₹ 139.33 crore. Consequently, MAT credit of ₹ 23.48 crore (₹ 71.70 crore minus ₹ 48.22 crore) should have been allowed to be carried forward to the assessee. The error resulted in an excess allowance of carry forward of MAT credit of ₹ 26.37 crore (₹ 49.85 crore minus ₹ 23.48 crore). *The Department intimated Audit (February 2023) that the error was rectified under Section 154 of the Act in December 2022.*

Reply of the Ministry is awaited (March 2025).

3.3.4 Incorrect allowance of business expenditure

We noticed 16 cases relating to incorrect allowance of business expenditure involving tax effect of ₹ 118.29 crore in eight States. Three such cases are illustrated below:

Section 11 of the Income Tax Act, 1961 (Act) allowed the exemption to a registered trust on its income applied for charitable or religious purposes. Section 2(15) provides the definition of the charitable purpose. Further, Section 13(8) of the Act stipulates that if the provisions of Section 2(15) become applicable in the case of any trust, such trust shall not be eligible for exemptions under Sections 11 and 12.

Case I CIT Charge : CIT-Exemptions, Mumbai
Assessee Name : M/s N2 Ltd.
Assessment Year : 2017-18

The AO, while concluding the assessment under Section 143(3) of the Act in December 2019, established the activities of the assessee as non-charitable and denied the exemption under Section 11 of the IT Act. However, the capital expenditure claimed by the assessee of ₹ 76.60 crore was allowed. The mistake

resulted in an under-assessment of income of ₹ 76.60 crore with consequent short levy of tax of ₹ 36.20 crore, including interest under Section 234B of the Act. *The Department rectified the error under Section 263 of the Act in March 2022.* Further, details of recovery of demand are awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

As per Section 43B, any sum payable by the assessee as an employer by way of contribution to any provident fund or superannuation fund or gratuity fund or any other fund for the welfare of employees is allowable only if it is paid on or before the due date of filing of income tax return prescribed under Section 139(1).

Case II CIT Charge : Pr. CIT-2, Bengaluru
Assessee Name : M/s K1 Ltd.
Assessment Year : 2019-20

The AO, while finalising the assessment under Section 143(3) read with 144B of the Act in September 2021, did not add back disallowances of ₹ 34.78 crore (₹ 8.04 crore under Section 43B towards non-remittance of gratuity and ₹ 26.74 crore under Section 36(1)(va)⁷¹) made during the processing of return under Section 143(1) of the Act, to the total income of ₹ 202.79 crore. The omission resulted in an under assessment of income of ₹ 34.78 crore with a consequential short levy of tax of ₹ 15.92 crore. *The Department while accepting the observation, intimated (April 2024) that rectification order was passed under Section 154 of the Act for one of the omissions of ₹ 8.04 crore in January 2023.* However, rectification regarding the omission of ₹ 26.74 crore is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

The Tax Audit Report/Certificates under Section 44AB of the Act assumes great importance on the completion of scrutiny assessment. The importance of the Reports/Certificates by the Accountant has been highlighted in the CBDT circular no. 387 dated 6th July 1984. As per Section 43B(b), any sum payable by the assessee as an employer by way of contribution to any provident fund or superannuation fund or gratuity fund, or any other fund for the welfare of employees is allowable only if it is paid on or before the due date of filing of income tax return prescribed under Section 139(1). A similar provision is there under Section 43B(f) in respect of the allowability of leave encashment expense of employees payable by the assessee employer.

Case III CIT Charge : Pr. CIT-I, Bhubaneswar
Assessee Name : M/s N1 Ltd.
Assessment Year : 2019-20

⁷¹ Any sum received by the assessee from any of his employees to which the provisions of sub-clause (x) of clause (24) of Section 2 apply, if such sum is credited by the assessee to the employee's account in the relevant fund or funds on or before the due date.

The AO, while finalising the assessment under Section 143(3) in September 2021, did not disallow the expenses towards leave encashment, as the same was not paid on or before the filing of the return of income. Further, the AO, while computing the tax liability of the assessee, adopted an assessed income of ₹ 2,816.56 crore instead of ₹ 2,786.02 crore. The omission resulted in the net under-assessment of income of ₹ 44.06 crore, having a tax effect of ₹ 15.40 crore. *The Department prima-facie accepted the audit observation (April 2023) and subsequently, while passing order under Section 263 of the Act, directed (March 2024) the AO to make necessary additions after giving an opportunity to the assessee to be heard.* Details of final action taken and status of recovery of demand are awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

3.4 Income escaping assessment due to errors

3.4.1 The Act provides that the total income of a person for any previous year shall include all incomes from whatever source derived, actually received or accrued, or deemed to be received or accrued. We observed that the AOs either did not assess or under-assessed the total income that was required to be offered to tax. Table 3.3 below shows the sub-categories that have resulted in income escaping assessments due to errors.

Sub-categories	Nos.	TE (₹ in crore)	States
Income not assessed/under-assessed under special provisions	5	605.36	Maharashtra, Punjab and Tamil Nadu.
Income not assessed/under-assessed under normal provisions	16	269.80	Bihar, Delhi, Jharkhand, Karnataka, Maharashtra, Odisha, Punjab, Rajasthan, Tamil Nadu Telangana and Uttar Pradesh.
Incorrect classification and computation of capital gains	2	2.95	Delhi and Maharashtra.
Incorrect estimation of Arm's Length Price	8	22.49	Delhi and Kerala.
Unexplained Investment/Cash Credits	3	44.23	Maharashtra and Punjab
Omission in implementing provisions of TDS/TCS	4	104.44	Delhi Haryana, Odisha and West Bengal
Total	38	1,049.27	

3.4.2 Income not assessed/under-assessed under special provisions

We noticed that the AO either did not assess income or under-assessed income under special provisions in five cases involving a tax effect of ₹ 605.36 crore in three States. Two such cases are illustrated below:

Hon'ble Supreme Court, in the case of Mc Dowell & Co. Ltd. vs. CTO (1985) 154 ITR 148 (SC), held that tax planning may be legitimate provided it is within the framework of the law. Colourable devices cannot be part of tax planning, and it is wrong to encourage or entertain the belief that it is honourable to avoid the payment of tax by resorting to dubious methods. It is the obligation of every citizen to pay taxes honestly without resorting to subterfuges. Further, Section 115JB of the Income Tax Act 1961 provides the manner for the computation of book profits for the purpose of Minimum Alternate Tax (MAT). Section 115JB is a deeming provision, and the addition or deletions to be made from the profit; thus, an adjustment that is prescribed by Explanation 1 is made for the computation of book profits.

Case I **CIT Charge** : **Pr. CIT-8, Mumbai**
 Assessee Name : **M/s R2 Ltd.**
 Assessment Year : **2015-16 and 2016-17**

The AO concluded scrutiny assessments in December 2018 and January 2020 for the AYs 2015-16 and 2016-17, respectively, determining nil income for both the AYs after allowing set off of brought forward losses. Audit observed that the assessment for the AY 2015-16 was finalised without considering the fact that the assessee had created artificial book losses of ₹ 860 crore by giving debts and advances of ₹ 980 crore to its group companies in earlier years and assigning such debts and advances at a consideration of ₹ 120 crore to another company which is its wholly owned subsidiary. The company's statutory Auditor flagged the transaction as a transaction done below the arm's length price. Similarly, the assessment for the AY 2016-17 was finalised without considering the fact that the assessee had booked an artificial loss of ₹ 1,350 crore by giving capital advance of ₹ 1,450 crore to its group company in earlier years and assigning such capital advance at a steep discount of ₹ 100 crore to another company which is its wholly owned subsidiary. These artificial losses should have been added to compute the book profit under a special provision of Section 115JB of the Act. Omission to do so resulted in under assessment of book profits of ₹ 826.86 crore and ₹ 1,350 crore for AYs 2015-16 and 2016-17, respectively, involving short levy of tax of ₹ 176.46 crore and ₹ 288.11 crore for AYs 2015-16 and 2016-17 respectively. *The Department, while accepting the audit observations, intimated (December 2022) that proceedings for de-novo assessment were pending with NaFAC.* Details of further action taken by the Department are awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Section 115JB of the Income Tax Act, 1961 envisages that where in the case of an assessee, being a company, the income tax payable on the total income as computed under the Act in respect of any previous year is less than eighteen and one-half per cent of its book profit, such book profit shall be deemed to be the total income of the assessee and the tax payable by the assessee on such total income shall be the amount of income-tax at the rate of eighteen and one-half per cent. "Book profit" means the profit as shown in the statement of profit and loss for the relevant previous year, as increased/decreased by prescribed adjustments. As per Explanation 1 under Section 115JB(1), 'any amounts carried to any reserves, by whatever name called other than a reserve specified under Section 33AC' shall be added to the profit/loss for the relevant previous year.

Case II CIT Charge : Pr. CIT-3, Chennai
Assessee Name : M/s S6 Ltd.
Assessment Year : 2018-19

The AO, while finalising the assessments under Section 143(3) of the Act in September 2021 for AY 2018-19, determined the income at 'Nil' under the normal provision and book profit at ₹ 171.71 crore under the special provision of Section 115JB of the Act. Audit observed that the assessee while computing the book profit, did not add back ₹ 456.44 crore on account of 'Reserve for unexpired risks' debited in the Profit & Loss account, and the same was allowed by the AO. As any amounts carried to any reserves, other than a reserve specified under Section 33AC of the Act, is a part of book profit as per the adjustments prescribed for computation of book profit, the AO should have added back ₹ 456.44 crore with the book profit of the assessee. The omission resulted in an underassessment of book profit of ₹ 456.44 crore with a consequent undercharge of tax under MAT of ₹ 97.41 crore. *The Department took remedial action by passing a revision order under Section of the Act in March 2024, directing the AO to pass a fresh order on the issue.* The status of giving effect to the order under Section 263 of the Act is awaited (March 2025). Reply of the Ministry is awaited (March 2025).

3.4.3 Income not assessed/under-assessed under normal provisions

We noticed that the AO either did not assess income or under-assessed income under normal provisions in 16 cases involving a tax effect of ₹ 269.80 crore in 11 States. Three such cases are illustrated below:

Section 143(3) of the Act provides that in a scrutiny assessment, the Assessing Officer (AO) is required to make a correct assessment of the total income or loss of the assessee and determine the correct sum payable by him or refundable to him on the basis of such assessment

Case I CIT Charge : Pr. CIT-5, Mumbai
Assessee Name : M/s I2 Pvt. Ltd.
Assessment Year : 2014-15

The AO, while finalizing the revision order under Section 143(3) read with Sections 263 and 144B in March 2022, did not consider the earlier assessed income of ₹ 87.68 crore determined in scrutiny assessment under Section 143(3) in January 2018. Consequently, the assessed income was arrived at ₹ 338.61 crore as against the correct assessed income of ₹ 426.29 crore. Further, in the income tax computation sheet, brought forward losses of ₹ 68.89 crore were incorrectly set off, and the total income was arrived at ₹ 290.51 crore. These errors resulted in an under assessment of income of ₹ 135.78 crore, involving a short levy of tax of ₹ 132.29 crore, including interest and excess refund. The audit observation was communicated to the Department in November 2022 but no reply was received from the Department (March 2025)

Reply of the Ministry is awaited (March 2025).

Section 56 of the Income Tax Act, 1961 (Act) deals with taxation under the head "Income from other sources" of those incomes that are not chargeable under other heads of income, and sub-Section (2) thereunder specifies different types of incomes. Sub-clause (x) thereunder prescribes that "where any person receives, in any previous year, from any person or persons on or after the 1st day of April 2017, – (b) any immovable property, – (A) without consideration, the stamp duty value of which exceeds fifty thousand rupees, the stamp duty value of such property" is chargeable to income-tax.

Case II CIT Charge : Pr. CIT (Central), Bengaluru
Assessee Name : M/s T1 Ltd.
Assessment Year : 2019-20

The AO concluded the assessment under Section 143(3) in September 2021 at an income of ₹ 13.96 crore, accepting the returned income of the assessee. Audit observed that the assessee had entered (October 2010) into a Joint Development Agreement (JDA), as per which the possession of its land was handed over (October 2010) to the Developer (RMZ Group) for commercial development and ₹ 57.29 crore was assessed to tax under Section 45 of the Act as long-term capital gains (LTCG) in AY 2011-12, for the developer's share of the land. On completion of construction, the assessee in FY 2018-19 received its share (38 per cent) of the developed property (4.98 lakh sq. ft.) valued at ₹ 242.09 crore. As the assessee received immovable property i.e. developed property from the developer without any consideration, the current value of the property ₹ 242.09 crore, as shown in the notice issued by the AO under Section 142(1) of the Act, was chargeable to tax in AY 2019-20

as per Section 56(2)(x) of the Act. However, the scrutiny assessment was concluded without taking cognizance of this issue. The omission resulted in under-assessment of income of ₹ 184.75 crore (₹ 242.09 crore - ₹ 57.29 crore offered in AY 2011-12) and consequential non-levy of tax of ₹ 69.61 crore, including interest under Sections 234A and 234B. *The Department initiated remedial measures by passing an order under Section 263 of the Act in April 2024.* Details of further action taken by the Department are awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

As per Section 143(3) of the Act, AOs are required to make a correct assessment of the total income or loss of the assessee and determine the correct amount of tax payable by the assessee. Further, Section 147 of the Act states that if any income chargeable to tax, in the case of an assessee, has escaped assessment for any assessment year, the AO may subject to the provisions of Sections 148 to 153, assess or reassess such income or re-compute the loss or the depreciation allowance or any other allowance or deduction for such assessment year.

Case III CIT Charge : Pr. CIT-1, Bhubaneswar
Assessee Name : M/s G1 Pvt. Ltd.
Assessment Year : 2013-14

The AO, while finalising the re-assessment under Section 147 of the Act in March 2022, did not take cognizance of the income of ₹ 22.45 crore as determined under Section 153A/144 of the Act in March 2015. The omission resulted in an under assessment of income of ₹ 22.45 crore involving a tax effect of ₹ 9.80 crore. *The Department intimated (February 2024) that remedial action was taken under Section 154 of the Act in January 2024.* Further, status of recovery of demand is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

3.4.4 Incorrect computation/ classification of capital gains

We noticed two cases relating to incorrect computation/classification of capital gains involving a tax effect of ₹ 2.95 crore in two States. One such case is illustrated below:

Section 143(3) of the Act provides that in a scrutiny assessment, the Assessing Officer (AO) is required to make a correct assessment of the total income or loss of the assessee and determine the correct sum payable by him or refundable to him based on such assessment.

Case I **CIT Charge** : **CIT-7, Delhi**
 Assessee Name : **M/s S7 Pvt. Ltd.**
 Assessment Year : **2015-16**

The AO, while finalising the assessment under Section 147 read with Sections 144 and 144B of the Act in March 2022, added back ₹ 6.10 crore pertaining to the total sale consideration of immovable property, to the income of the assessee as a long-term capital gain. However, in the absence of any response/submission from the assessee, it should have been treated as short-term capital gains in the interest of revenue and, accordingly, should have been charged the tax. The error resulted in a short levy of tax of ₹ 1.72 crore, including consequential interest. *The Department passed a rectification order under Section 154, read with Section 147 of the Act, in August 2023.* Further, status of recovery of demand is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

3.4.5 Incorrect estimation of Arm's Length Price

We noticed eight cases relating to incorrect estimation of Arm's Length Price (ALP) involving tax effect of ₹ 22.49 crore in two States. Two such cases are illustrated below:

Section 92CA of the Income Tax Act, 1961 provides that where any person, being the assessee, has entered into an international transaction in any previous year, and the Assessing Officer considers it necessary or expedient so to do, he may, with the approval of the Principal Commissioner, refer the computation of the arm's length price (ALP) in relation to the said international transaction under Section 92C to the Transfer Pricing Officer (TPO). Further, Section 92C provides that the arm's length price in relation to an international transaction shall be determined by any of the methods, being the most appropriate method, having regard to the nature of transaction or class of transaction or class of associated persons or functions performed by such persons or such other relevant factors as the Board may prescribe.

Case I **CIT Charge** : **CIT (TP)-2 Bengaluru at Kochi**
 Assessee Name : **M/s C2 Ltd.**
 Assessment Years : **2018-19**

The TPO, while finalising the transfer pricing order under Section 92CA(3) in July 2021, determined profit level indicators (PLIs) through the Transactional Net Margin Method (TNMM) of comparable companies and arrived at Median PLIs of 5.79 *per cent*. However, the TPO, while computing ALP (Arm's Length Price), took PLI as 2.94 *per cent* instead of median PLI of 5.79 *per cent* and worked out operating revenue at ₹ 492.58 crore as against ₹ 506.17 crore. This resulted in shortfall in transfer pricing adjustment of ₹ 13.59 crore, having a

tax effect of ₹ 6.78 crore. *The Department replied (July 2023) that remedial action was completed under Section 154 read with Section 92CA(5) of the Act in May 2023.* However, order giving effect to the order passed by the TPO, by the assessment charge is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Case II CIT Charge : CIT(TP)-3, Delhi
Assessee Name : M/s M1 Ltd.
Assessment Years : 2017-18

The TPO while computing ALP of the eligible unit, took difference of arm's length price and operating revenue as ₹ 3.33 crore instead of correct amount of ₹ 8.58 crore. Thus, upward transfer pricing adjustment was worked out as ₹ 3.15 crore as against ₹ 8.11 crore. This discrepancy resulted in short adjustment of ₹ 4.96 crore involving short levy of tax of ₹ 1.64 crore. *The Department completed remedial action under Section 154 read with Section 92CA(5) of the Act in March 2022.* However, order giving effect to the order passed by the TPO, by the assessment charge is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

3.4.6 Unexplained Investment/ Cash Credit

We noticed three cases relating to unexplained investment/cash credit involving a tax effect of ₹ 44.23 crore in two States. One such case is illustrated below:

As per Section 143(3) of the Act, AOs are required to make a correct assessment of the total income or loss of the assessee and determine the correct amount of tax payable by the assessee. Further, the Board has issued instructions from time to time that mistakes in the computation of taxable income and tax should not occur.

Case I CIT Charge : Pr. CIT-6 Mumbai
Assessee Name : M/s E1 Pvt. Ltd.
Assessment Year : 2016-17

The AO, while finalizing the assessment under section 144 of the Act in December 2018, made addition on account of unexplained unsecured loan leaving the sundry creditors. However, Audit examination revealed that case was selected for scrutiny under CASS to verify the genuineness of unsecured loans of ₹ 4.43 crore and sundry creditors of ₹ 8.14 crore. Since the details regarding sundry creditors and other payables also remained unexplained, the same was required to be added back. The omission resulted in under-assessment of income of ₹ 8.14 crore with a consequent short levy of tax of ₹ 2.69 crore. *The Department intimated Audit (October 2023) that the*

remedial action was taken by passing order under Section 144 read with Section 147 in May 2023. Further, status of recovery of demand is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

3.4.7 Omission in implementing provisions of TDS/TCS

We noticed four cases relating to omission in implementing provisions of TDS/TCS involving tax effect of ₹ 104.44 crore in four States. Three such cases are illustrated below:

Section 40a(ia) of the Act provides that any interest, commission or brokerage, rent, royalty, fees for professional services, or fee for technical services payable to a resident or amounts payable to a contractor or sub-contractor, being resident, for carrying out any work (including supply of labour for carrying out any work), on which tax is deductible at source under chapter XVII-B and such tax has not been deducted or after deduction, has not been paid on or before the due date specified in sub-Section(1) of Section 139 of the Act, thirty per cent of the sum so paid shall not be allowed as deduction.

Case I CIT Charge : CIT, Hisar
Assessee Name : M/s J2 Ltd.
Assessment Year : 2018-19

The AO, while finalizing the assessment under Section 143(3) at assessed income of ₹ 619.61 crore in February 2021, allowed expenditure of ₹ 395.45 crore towards interest paid to others. However, Audit observed from Tax Audit Report (TAR) (Form 3CD) that tax was deducted at source on payment of interest other than interest on securities of ₹ 35.20 crore under Section 194A as against interest payment of ₹ 395.45 crore as per Profit and Loss Account in the ITR filed by the assessee. Thus, 30 *per cent* of balance interest payment of ₹ 360.25 crore on which tax was not deducted at source was required to be disallowed. The omission resulted in underassessment of income by ₹ 108.08 crore involving tax effect of ₹ 50.47 crore. Further, it was also observed from TAR that tax was deducted at source under Section 194J on payment of Professional/Consultancy services of ₹ 83.23 crore. However, as per ITR, payment of Professional/Consultancy fee for technical services was ₹ 45.62 crore. Thus, difference of expenditure of ₹ 37.61 crore, being unexplained, was required to be added back to income. The omission resulted in underassessment of income by ₹ 37.61 crore involving tax effect of ₹ 39.20 crore. Thus, the total short levy of tax of ₹ 89.67 crore. The Department's reply is awaited, however, Audit noted that the Department initiated remedial action vide issue of Notice under Section 148 of the Act in August 2024 (March 2025).

Reply of the Ministry is awaited (March 2025).

Section 40(a)(i) of the Income Tax Act, 1961 provides that any sum (other than salary) payable outside India or to a non-resident, which is chargeable to tax in India in the hands of the recipient, shall not be allowed to be deducted if it is paid without deduction of tax at source or if tax is deducted but is not deposited with the Central Government till the due date of filing of return. Further, the Income Tax Act of 1961 provides for the levy of interest for omissions on the part of the assessee at the rates prescribed by the Government from time to time. Section 234A of the Act provides for the levy of interest on account of default in furnishing return of income at specified rates and for the specified time period. Further, Explanation-3 provides that where an assessment is made for the first time under Section 147 or 153A, the assessment so made shall be regarded as a regular assessment for the purpose of this Section. Section 234C of the Act provides for the levy of interest on account of default in payment of installments of advance tax at specified rates and for the specified time periods. Further, Section 143(3) of the Income Tax Act, 1961 provides that in a scrutiny assessment, the Assessing Officer is required to make a correct assessment of the total income or loss of the assessee and determine the correct sum payable by him or refundable to him on the basis of such assessment.

Case II CIT Charge : CIT(Central)-1, Delhi
Assessee Name : M/s S2 Ltd.
Assessment Year : 2016-17

The AO, while finalizing the assessment under Section 147 of the Act in March 2022, disallowed 30 *per cent* of foreign remittance of ₹ 11.75 crore paid to a foreign company without deducting tax at source. However, the AO should have disallowed 100 *per cent* of foreign remittances of ₹ 11.75 crore instead of ₹ 3.52 crore (30 *per cent* of ₹ 11.75 crore). This discrepancy resulted in under assessment of income by ₹ 8.22 crore (₹ 11.75 crore *minus* ₹ 3.52 crore). Further, the Department charged the interest under Section 234A for a delay of 12 months after the expiry of the notice period only. However, the assessee, being a non-filer, was liable to pay interest under Section 234A for 66 months from October 2016, i.e., the day immediately after the due date, till the completion of the assessment in March 2022. Audit further noted that the Department levied interest of ₹ 31.09 lakh under Section 234C, though the assessee, a non-filer, was not liable to pay the interest under Section 234C. These errors resulted in a net short levy of tax of ₹ 10.61 crore, including interest. Audit observation was communicated to the Department in June 2022, but no reply was received despite several reminders (March 2025).

Reply of the Ministry is awaited (March 2025).

Section 40a(ia) of the Act provides that any interest, commission or brokerage, rent, royalty, fees for professional services, or fee for technical services payable to a resident or amounts payable to a contractor or sub-contractor, being resident, for carrying out any work (including supply of labour for carrying out any work), on which tax is deductible at source under chapter XVII-B and such tax has not been deducted or after deduction, has not been paid on or before the due date specified in sub-Section(1) of Section 139 of the Act, thirty per cent of the sum so paid shall not be allowed as deduction.

Case III CIT Charge : Pr. CIT-2, Kolkata
Assessee Name : M/s A3 Pvt. Ltd.
Assessment Year : 2016-17

The AO, while finalising the assessment under Section 144/147 in March 2022, proposed an addition of ₹ 6.77 crore, being 30 *per cent* of the expenditure of ₹ 22.55 crore on which tax was deducted at source by the assessee but not deposited into the Government treasury. Audit observed from Para 10.2 of the assessment order that the AO added 30 *per cent* of ₹ 6.77 crore, i.e., ₹ 2.03 crore, instead of ₹ 6.77 crore. The error resulted in an under-assessment of income by ₹ 4.74 crore, having a tax effect of ₹ 3.73 crore. *The Department passed an order (March 2024) under Section 263 and subsequently the AO passed order giving effect to this order in December 2024.* Further, status of recovery is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

3.5 Over-charge of tax/Interest

3.5.1 Over-assessment of income overcharge of tax/interest not only points to a lack of due diligence on the part of AOs while making assessments/weaknesses of the ITD systems while computing tax payable but also can potentially cause avoidable hardship to the genuine taxpayer. We noticed that AOs over-assessed income in 40 cases involving over-charge of tax and interest of ₹ 1,204.48 crore in Delhi, Gujarat, Madhya Pradesh, Maharashtra, Rajasthan, Telangana and West Bengal. Three such cases are illustrated below:

Section 234B of the Income Tax Act 1961 provides that if an assessee who is liable to pay advance tax under Section 208 has failed to pay such tax or where the advance tax paid by such assessee under the provisions of Section 210 is less than ninety per cent of the assessed tax, the assessee shall be liable to pay simple interest at the rate of one per cent for every month or part of a month comprised in the period from the 1st day of April next following such financial year to the date of determination of total income under regular assessment.

Case I CIT Charge : Pr. CIT (Central)-3, Mumbai
Assessee Name : M/s A4 Ltd.
Assessment Year : 2014-15

The AO, while finalizing the assessment under Section 144 read with Section 147 of the Act in February 2022 at an income of ₹ 2,326.17 crore, erroneously levied interest under Section 234B at ₹ 1,385.09 crore against the leviable amount of ₹ 692.32 crore in the tax computation sheet. This resulted in excess levy of interest of ₹ 692.77 crore under Section 234B of the Act. *The Department while accepting the audit observation, intimated (January 2023) that the error was rectified under Section 154 of the Act in January 2023.*

Reply of the Ministry is awaited (March 2025).

Section 234A of the Income Tax Act 1961 provided that if a return of income is furnished after the due date, the assessee is liable to pay interest at the rate of one per cent per month commencing on the date immediately following the due date for filing the return of income and ending on the date of furnishing the return.

Case II **CIT Charge** : **Pr. CIT-3, Mumbai**
 Assessee Name : **M/s B1**
 Assessment Year : **2018-19**

The AO, while computing tax liability of the assessee in February 2020 after assessment under Section 143(3) of the Act at an income of ₹ 67,699.22 crore, had levied interest of ₹ 167.34 crore under Section 234A of the Act although no such interest was leviable. The error resulted in excess levy of interest of ₹ 167.34 crore. *On being pointed out by Audit, the Department rectified the error in June 2022.*

Reply of the Ministry is awaited (March 2025).

Case III **CIT Charge** : **Pr. CIT-4, Mumbai**
 Assessee Name : **M/s J1 Ltd.**
 Assessment Year : **2017-18**

The AO, while finalising the re-assessment under Section 147 read with Section 144 of the Act in March 2022 at an income of ₹ 368.32 crore, made an addition of ₹ 218.85 crore towards undisclosed income under Section 68 of the Act chargeable to tax and surcharge at special rate of 60 *per cent* and 25 *per cent* respectively and the remaining amount of ₹ 149.47 crore chargeable to tax and surcharge at normal rate of 30 *per cent* and 12 *per cent* respectively. However, while computing the tax liability of the assessee, adopted ₹ 368.18 crore chargeable to tax and surcharge at the normal rate instead of the correct figure of ₹ 149.47 crore in the tax computation sheet. The error resulted in an excess levy of tax and interest of ₹ 83.50 crore. *The Department accepted (February 2023) the audit observation and rectified the error under Section 154 of the Act in November 2022.* On verification of the rectification order, it was noticed that the AO levied tax on normal income at the rate of 29 *per cent* instead of the correct rate of 30 *per cent*, resulting in a short levy of tax of ₹ 1.72 crore. Further status of completion of remedial action are awaited (March 2025).

Reply from the Ministry is awaited (March 2025).

Recommendations

- (i)** *Application of incorrect rates of tax and surcharge, errors in levy of interest, excess or irregular refunds, etc., point to weaknesses in the internal controls of the ITD, which need to be addressed through ITBA system prompts that will cause the Assessing officer to verify calculations before finalization of the case.*
- (ii)** *While the Department has taken action to initiate a correction in the cases pointed out by the Audit, it may be mentioned that these are only a few illustrative cases, test checked in the audit. In the entire universe of all assessments, including non-scrutiny assessments, probability of occurrence of such errors of omission or commission cannot be ruled out. The CBDT not only needs to revisit the assessments completed during the year but also put in place a foolproof IT system and internal control mechanism to avoid the recurrence of such errors in the future.*
- (iii)** *The CBDT may examine whether the instances of "errors" noticed are errors of omission or commission, and if these are errors of commission, the ITD should ensure necessary action, including fixing responsibility as per law.*

Chapter IV: Income Tax

4.1 Introduction

4.1.1 This chapter discusses 194 high-value non-corporate cases (refer Para 2.4.4 of this Report) involving 211 assessments and a total tax impact of ₹ 1,677.15 crore⁷² which were referred to the Ministry from August 2024 to March 2025. Out of these 194 cases, the Ministry has replied only in six cases till March 2025. The ITD accepted 73 cases involving tax effect (TE) of ₹ 1,150.96 crores, whereas ITD has not accepted audit observation in two cases involving tax effect of ₹ 2.63 crore. Further, out of 194 cases, the ITD has completed remedial action in 175 cases involving tax effect of ₹ 1,589.65 crore, initiated remedial action in 11 cases involving tax effect of ₹ 36.17 crore, took partial remedial action in one case involving tax effect of ₹ 1.47 crore and in the remaining seven cases involving tax effect of ₹ 49.86 crore, the ITD has not taken/ initiated any action till March 2025.

4.1.2 The categories of errors can be broadly classified as follows:

- Quality of assessments (106 cases)
- Administration of tax concessions/exemptions/deductions (29 cases)
- Income escaping assessments due to omissions (21 cases)
- Others - Overcharge of tax/interest etc. (38 cases)

The subsequent paragraphs give a few illustrations of each category of the above-mentioned errors. The illustrative cases are identified based on the significance of issues and the tax effect involved. Further, for broad coverage of the issues noticed by Audit, cases from across the ITD field formation have been considered for illustration.

4.2 Quality of assessments

4.2.1 In some instances, the AOs committed errors in the assessments, ignoring clear provisions of the Act. These cases of incorrect assessments point to continuing weaknesses in the internal controls on the part of the ITD, which need to be addressed.

Table 4.1 below shows the sub-categories of errors that impacted assessment quality.

⁷² Includes overcharge of ₹ 400.73 crore

Table 4.1: Details of errors in quality of assessment			
Sub-categories	Cases	TE (₹ in crore)	States
a. Arithmetical errors in the computation of income and tax	42	141.31	Bihar, Gujarat, Jharkhand, Madhya Pradesh, Maharashtra, New Delhi, Tamil Nadu and West Bengal
b. Incorrect application of rates of tax, surcharge etc.	7	598.12	Gujarat, Maharashtra, New Delhi, and West Bengal
c. Errors in levy of interest	56	355.63	Andhra Pradesh, Assam, Bihar, Chhattisgarh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, New Delhi, Tamil Nadu, Telangana, Uttar Pradesh, Uttarakhand and West Bengal
d. Excess or Irregular Refunds/Interest on Refunds	1	41.11	Odisha
Total	106	1,136.17	

4.2.2 Arithmetical errors in the computation of income and tax

We noticed arithmetical errors in the computation of income and tax in 42 cases involving tax effect of ₹ 141.31 crore in eight States. Three such cases are illustrated below:

Section 143(3) of the Income Tax Act, 1961 provides that the Assessing Officer is required to make a correct assessment of the total income or loss of the assessee and determine the correct amount of tax or refund, as the case may be. Section 143(3A) / (3B) / (3C) of the Income Tax Act, 1961 vest power in Central Government to make a scheme by notification to assess to impart greater efficiency, transparency and accountability. Section 143(3A) of the said Act authorises to frame a scheme, for the purposes of making assessment of total income or loss of the assessee under Section 143(3) or Section 144 of the Act, through the following: by eliminating the interface between assessing officer and assessee to the extent technologically feasible, optimising utilisation of the resources through the economies of scale and functional specialisation and introducing a team-based assessment with the dynamic jurisdiction. Section 154 of the Act provides for rectification of mistakes in the income tax records or an order passed by the Assessing Officer.

Case I CIT Charge : Pr. CIT (Exemption), Bhopal
Assessee : BV
Status : Artificial Juridical Person
Assessment Year : 2018-19

The AO, while finalising the assessment under Section 143(3) read with Sections 143(3A) and 143(3B) of the Income Tax Act 1961, in March 2021, erroneously computed assessed income as Nil instead of correct assessed income of ₹ 38.98 crore. This mistake resulted in a short levy of tax of ₹ 18.55 crore, including interest. *The Department replied (January 2022) that remedial action had been taken under Section 154 of the Act (January 2022)*

and rectified again under Section 154 in February 2023. Further, the status of the recovery of demand is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Case II **CIT Charge** : **Pr. CIT (Central)-I, Mumbai**
Assessee : **FAC**
Status : **Firm**
Assessment Year : **2014-15**

The AO concluded the assessment under Section 143(3) of the Income Tax Act, 1961, in January 2018 at an income of ₹ 28.35 crore. The case was subsequently reopened under Section 148 of the Act in March 2022, and while re-assessing the income, the AO, inter alia, made an addition of ₹ 35.87 crore under Section 69A⁷³ of the Act. Audit observed that while concluding the re-assessment in March 2022, the AO omitted to consider the additions of ₹ 15.47 crore made during the original scrutiny assessment. Further, the addition of ₹ 35.87 crore made under Section 69A in the re-assessment order was omitted to be taxed in the tax computation sheet. The mistake resulted in an under-assessment of income of ₹ 51.34 crore, resulting in a short tax levy of ₹ 17.45 crore. *The Department while accepting the audit observation (August 2023) intimated that the mistake had been rectified under Section 154 of the Act (June 2023).* Further, the status of the recovery of demand is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Case III **CIT Charge** : **Pr. CIT-13, Kolkata**
Assessee : **AS**
Status : **Individual**
Assessment Year : **2014-15**

The AO concluded the assessment under Section 144, read with Section 147 of the Income Tax Act, 1961, in March 2022 at an income of ₹ 12.39 crore. The assessee had not filed a return of income for the AY 2014-15. Having reasons to believe that income had escaped assessment, the Department reopened the case and served notice to the assessee under Section 148⁷⁴ in March 2021. The assessee did not comply with any of the notices issued or file any income return pursuant to the notices. While computing tax demand, the AO

⁷³ Section 69A of the Income Tax Act provides for assessment of unexplained money. As per this provision, where in any financial year the assessee is found to be the owner of any money, bullion, jewellery or other valuable article and such money, bullion, jewellery or valuable article is not recorded in the books of account, if any, maintained by him for any source of income, and the assessee offers no explanation about the nature and source of acquisition of the money, bullion, jewellery or other valuable article, or the explanation offered by him is not, in the opinion of the Assessing Officer, satisfactory, the money and the value of the bullion, jewellery or other valuable article may be deemed to be the income of the assessee for such financial year.

⁷⁴ Section 148 of the Income Tax Act provides that if the Assessing Officer has a reason to believe that some income has escaped assessment, he/she can send a notice under Section 148 to the taxpayer.

erroneously considered the assessed income as ₹ 1.24 crore instead of the correct income of ₹ 12.39 crore. This mistake resulted in an under-assessment of income of ₹ 11.15 crore involving a short levy of tax of ₹ 7.54 crore, including interest. *The Department in its reply stated (September 2023) that remedial action had been taken under Section 154, read with Section 147 of the Act (May 2023).* Further, the status of the recovery of demand is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

4.2.3 Incorrect application of rates of tax and surcharge, etc.

The Finance Act of the respective Assessment Year lays down tax slabs applicable to different categories of taxpayers. The Schedule in any Finance Act gives details on rates of Income tax, surcharge on Income tax, and rates for deduction of tax at source, details of advance tax. The Assessing Officer has the authority to examine the returns, re-compute taxable income, and issue assessment orders and tax demands. Audit noticed instances where, the AO, while computing tax liability of the assessee, applied incorrect rates of tax and surcharge on additions made during assessments across various charges. We noticed seven cases involving tax effect of ₹ 598.12 crore in four States. Two such cases are illustrated below:

Section 4(1) of the Income Tax Act, 1961 provides for the charge of income tax on the total income of the previous year of an assessee, according to the rates prescribed under the relevant Finance Act. The Finance Act relevant to assessment year 2020-21 provides for levy of income tax at specified slab rates⁷⁵ and surcharge at 37 per cent of income tax for taxpayers with net income range above rupees five crore.

Case I	CIT Charge	:	Pr. CIT (Central)-3, Mumbai
	Assessee	:	M/s BCC
	Status	:	Trust
	Assessment Year	:	2020-21

The AO concluded the scrutiny assessment under Section 143(3) of the Act in March 2022 at an income of ₹ 3,213.71 crore. Audit noted that, while finalising assessment, the AO, in the absence of valid registration, denied exemption under Section 11 and the assessee was treated as AOP for tax purpose. Further, tax payable was worked out by the system at ₹ 919.12 crore instead of correct tax leviable of ₹ 1,373.67 crore due to incorrect application of tax rate of 25 per cent and surcharge of 10 per cent as against applicable rate of 30 per cent and surcharge of 37 per cent relevant to AOPs. The mistake resulted in short levy of tax of ₹ 571.71 crore including interest under Section

⁷⁵ Income tax rate applicable for net income range above rupees five crore is ₹ 1.48 crore plus 30 per cent of total income exceeding rupees five crore.

234B. The Department while accepting (March 2024) the audit observation intimated that the mistake had been rectified under Section 154 of the Act (March 2022). Further, the status of recovery of demand is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Section 115BBE of the Income Tax Act provides that where the total income of an assessee includes any income determined by the Assessing Officer referred to in Section 68/69/69A/69B/69C/69D, the income-tax payable shall be the aggregate of the amount of income-tax calculated on the income referred to in Section 68/69/69A/69B/69C/69D at the rate of sixty per cent and the amount of income-tax with which the assessee would have been chargeable had his total income been reduced by the amount of income referred to in Section 68/69/69A/69B/69C/69D. Section 143(3) of the Income Tax Act provides that Assessing Officer is required to make a correct assessment of the total income or loss of the assessee and determine the correct amount of tax or refund, as the case may be.

Case II CIT Charge : Pr. CIT-13, Kolkata
Assessee : VKG
Status : Individual
Assessment Year : 2018-19

The AO, while finalizing the assessment in the best judgment manner under Section 144, read with Section 144B of the Act in April 2021 at an income of ₹ 31.56 crore, made an addition of ₹ 31.52 crore as unexplained expenditure under Section 69C to the returned income. However, tax was computed at normal rate instead of special rates applicable under Section 115BBE of the Act. The error resulted in short levy of tax of ₹ 18.40 crore including interest under Sections 234A and 234B. The Ministry accepted the audit objection and stated (March 2025) that remedial action was taken under Section 154 in December 2022. Further, the status of recovery of demand is awaited (March 2025).

4.2.4 Errors in levy of interest

We noticed errors in levy of interest in 56 cases involving tax effect of ₹ 355.63 crore in 14 States. We have consistently been highlighting such errors in our Compliance Audit Reports. As such, this is a recurrent and persistent error. Three such cases are illustrated below:

The Income Tax Act, 1961 provides for levy of interest for omissions on the part of the assessee at the rates prescribed by the Government from time to time. Section 234A provides that if a return of income is furnished after the due date or is not furnished, the assessee shall be liable to pay interest at the rate of one per cent for every month or part of a month comprised in the period commencing on the date immediately following the due date and ending on the date of furnishing of return or completion of assessment under Section 144 of the Act. Section 234C of the Act provides for levy of interest on account of default in payment of instalments of advance tax at specified rates and for specified time period.

Case I **CIT Charge** : **Pr. CIT(Central), Kanpur**
Assessee : **RS**
Status : **Individual**
Assessment Year : **2017-18 and 2018-19**

The AO, while finalising the assessment for AYs 2017-18 and 2018-19 under Section 153A read with Section 144 in September 2021 at an income of ₹ 161.68 crore and ₹ 183.99 crore respectively, did not levy interest for default in furnishing the return for AYs 2017-18 and 2018-19 and for non-compliance to the notice issued for filing return under Section 153A of the Act. No interest was levied under Section 234A for AY 2017-18 whereas ₹ 15.47 crore was levied under Section 234A for AY 2018-19 instead of leviable interest amount of ₹ 61.76 crore and ₹ 52.03 crore respectively. These mistakes resulted in short levy of interest of ₹ 98.32 crore (₹ 61.76 crore plus ₹ 36.56 crore). *The Department while accepting (February 2024) the audit observation intimated that the mistake had been rectified under Section 154 of the Act (July 2023).* Further, the status of recovery of demand is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Case II **CIT Charge** : **Pr. CIT(Central)-I, Delhi**
Assessee : **IW**
Status : **Individual**
Assessment Years : **2015-16 to 2017-18**

The AO concluded block assessments for the AYs 2015-16 to 2017-18 under Section 144 read with Section 147 in March 2022 at income of ₹ 36.76 crore, ₹ 42.82 crore and ₹ 178.32 crore respectively. As per the assessment order, total addition of ₹ 36.76 crore and ₹ 42.82 crore was made under Section 69A of the Act for the AY 2015-16 and AY 2016-17 respectively. Although the income covered under Section 115BBE was liable to be taxed at the rate of 30 *per cent*, the same was taxed at slab rates applicable to individuals. Thus, tax of ₹ 12.47 crore and ₹ 14.53 crore was levied instead of correct leviable amount of ₹ 12.49 crore and ₹ 14.82 crore respectively. Assessee had neither filed the original return of income for AYs 2015-16 to 2017-18 nor filed the return of income in response to notice issued under Section 148 in March 2021 and remained non-compliant for all the AYs. Accordingly the assessment was to be treated as regular assessment and interest of ₹ 9.80 crore, ₹ 10.08 crore and ₹ 77.14 crore was required to be levied under Section 234A for 79 months (September 2015 to March 2022), 68 months (August 2016 to March 2022) and 56 months (August 2017 to March 2022) for the respective AY. However, interest of ₹ 1.36 crore, ₹ 1.60 crore and ₹ 15.15 crore was actually levied for 11 months only, without any justification. These errors resulted in total short

instead of a demand of ₹ 6.75 crore for the AY 2013-14 and a demand of ₹ 30.82 crore instead of ₹ 49.72 crore for AY 2014-15. These errors in the computation resulted in an aggregate short demand of ₹ 41.11 crore (₹ 22.20 crore for AY 2013-14 plus ₹ 18.91 crore for AY 2014-15). The Department accepted (June 2023) the audit observation for both the AYs and took remedial action under Section 143(3) read with Section 264 of the Act (July 2024) for AY 2013-14 and under Section 154 in November 2023 for AY 2014-15. Further, the status of recovery of demand is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

4.3 Administration of tax concessions/exemptions/deductions

4.3.1 The Act allows concessions/exemptions/deductions to the assessee in computing total income under Chapter VI-A and for certain categories of expenditure under its relevant provisions. We observed that in certain cases, the AOs had irregularly extended benefits of tax concessions/exemptions/deductions to ineligible beneficiaries.

Table 4.2 below shows the sub-categories which have impacted the administration of tax concessions/ exemptions/deductions.

Table 4.2: Sub-categories of mistakes under the administration of tax concessions/exemptions/deductions			
Sub-categories	Nos.	TE (₹ in crore)	States
a. Irregular exemptions/ deductions/relief given to individuals	4	6.20	Gujarat, Maharashtra, Rajasthan
b. Irregular exemptions/ deductions/relief given to AOPs/Firms/AJP/Societies/Trusts	7	23.50	Gujarat, Maharashtra, Rajasthan, Uttarakhand and West Bengal
c. Incorrect allowance of Business Expenditure	9	14.08	Assam, Goa, Madhya Pradesh, Maharashtra, Odisha, Rajasthan and Uttar Pradesh
d. Irregularities in allowing depreciation/ business losses/ capital losses	9	18.64	Gujarat, Karnataka, Kerala, Maharashtra, Rajasthan and West Bengal
Total	29	62.42	

4.3.2 Irregular exemptions/deductions/relief given to Individuals

We noticed irregular deductions allowed to individuals in four cases involving tax effect of ₹ 6.20 crore in three States. One case is illustrated below:

Section 147 of the Income Tax Act, 1961 provides that if the Assessing Officer has reason to believe that any income chargeable to tax has escaped assessment for any assessment year, he may, subject to the provisions of sections 148 to 153, assess or reassess such income and also any other income chargeable to tax which has escaped assessment and which comes to his notice subsequently in the course of the proceedings under Section 147, or re-compute the loss or the depreciation allowance or any other allowance, as the case may be, for the assessment year concerned. Section 54F of the Act provides tax exemptions on capital gains earned from the sale of any long-term capital asset other than a residential property if the proceeds are reinvested in a residential property. Further, according to the Hon'ble Supreme Court's decision in the case of Goetze (India) Ltd. vs. CIT 2006 284 ITR 323 (SC), the assessee cannot claim any fresh claim without filing the revised return. Section 80P(2)(d) of the Income Tax Act provides that, where, in the case of an assessee being a co-operative society, the gross total income includes any income by way of interest or dividends derived by the co-operative society from its investments with any other co-operative society, the whole of such income shall be deducted in computing the total income of the assessee.

Case I CIT Charge : Pr. CIT, Valsad
Assessee : JDP
Status : Individual
Assessment Year : 2015-16

While finalizing the assessment under Section 147 read with Section 144 in March 2022, the AO assessed an income of ₹ 64.83 lakh as long-term capital gains after allowing the deduction of ₹ 3.67 crore under Section 54F of the Act. Audit observed that the assessee had sold two immovable properties for the consideration of ₹ 4.32 crore. However, the assessee had neither filed a return of income nor claimed a deduction under Section 54F of the Act during assessment proceedings. Hence, the deduction was not allowable. The error resulted in the underassessment of long-term capital gains of ₹ 3.67 crore involving a short levy of tax of ₹ 2.20 crore. *The Department accepted (February 2024) the audit observation and initiated remedial action under Section 263 in March 2024.* Further details of the remedial action taken are awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

4.3.3 Irregular exemptions/deductions/relief given to AOPs/Firms/AJP/Societies/Trusts

We noticed irregular exemptions/deductions/relief given to AOPs/firms/societies/trusts in seven cases involving a tax effect of ₹ 23.50 crore. Two such cases are illustrated below:

As per Section 36(1)(viiia) deduction for any provision for bad and doubtful debts made by a schedule bank or a non-schedule bank or a co-operative bank is allowed for an amount not exceeding eight and one-half per cent of the gross total income with effect from 01/04/2018.

Case I **CIT Charge** : **Pr. CIT-I, Mumbai**
Assessee : **JSB Ltd.**
Status : **Firm**
Assessment Year : **2018-19**

The AO while completing the scrutiny assessment in October 2018 at a loss of ₹ 4.12 crore allowed deduction for Provision for Bad and Doubtful Debts of ₹ 10.69 crore under Section 36(1)(viiia) of the Act. However, as the total income of assessee was ₹ 10.47 crore, the deduction under Section 36(1)(viiia) was required to be restricted to ₹ 89.03 lakh. The mistake resulted in under assessment of income of ₹ 9.80 crore involving short levy of tax of ₹ 3.46 crore. *The Department completed the remedial action by passing order under Section 147 read with Section 144B in February 2023.* Further, the status of recovery of demand is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Section 80P of the Income Tax Act provides for tax deductions to co-operative societies on incomes earned from specific activities which inter alia, include income by way of interest and dividend derived by a co-operative society from its investments with any other co-operative society.

Case II **CIT Charge** : **Pr. CIT, Siliguri**
Assessee : **DACS Ltd.**
Status : **AOP**
Assessment Year : **2017-18**

The AO, while finalizing assessment under Section 143(3) of the Act in November 2019 at an income of ₹ 4.04 crore, allowed a deduction of ₹ 1.45 crore under Section 80P, which included ₹ 1.44 crore of interest and dividend income earned from Sikkim State Co-operative Bank Limited. As Sikkim State Co-operative Bank Limited does not qualify as a co-operative society, the assessee was not entitled to a deduction for the said amount. The mistake resulted in an under-assessment of income of ₹ 1.44 crore, having a tax effect of ₹ 65.77 lakh, including interest under Section 234B. *The Department while accepting the audit observation (December 2023) intimated that the error was rectified by passing an order under Section 144/263 in March 2023.* Further, the status of the recovery of demand is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

4.3.4 Incorrect allowance of business expenditure

We noticed incorrect allowance of business expenditure in nine cases involving tax effect of ₹ 14.08 crore in seven States. Four such cases are illustrated below:

Case I	CIT Charge	:	Pr. CIT, Panaji
	Assessee	:	M/s S
	Status	:	Firm
	Assessment Year	:	2018-19

The AO concluded the assessment under Section 143(3) read with section 143(3A&3B) of the Act in April 2021 at Nil income by restricting carry forward loss to ₹ 22.65 crore after making the addition of ₹ 4.73 crore under the head 'Income from Other Sources'. The assessee is engaged in the business of mining and extraction of iron ore. Audit observed that in the assessment order, the AO held that the assessee did not undertake any mining activity during the year on account of the ban imposed by the Supreme Court and, therefore, capitalized the expenditure incurred during the year on matching principle since no business income was offered by the assessee. The AO, however, added back the revenue income of ₹ 4.73 crore under the head 'income from other sources' but omitted to disallow the amount of ₹ 6.12 crore shown as business expenditure on account of the matching principle of accountancy. The omission resulted in allowing excess carry forward of loss amounting to ₹ 6.12 crore involving a potential tax effect amounting to ₹ 2.12 crore. *The Department while accepting the audit observation (April 2024) stated that remedial action had been taken by passing the Order Giving Effect to the order under section 263 read with section 143(3) in January 2024.* Further, the status of the recovery of demand is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

As per provision of section 36(1)(vii) of the Income Tax Act 1961, the amount of any bad debt or part thereof written off as irrecoverable in the accounts of the assessee for the previous year is deductible. Further, the CBDT has clarified vide Instruction No.17 of 2008 that any provision regarding any unascertained liability or a liability that has not accrued does not qualify for deduction.

Case II	CIT Charge	:	Pr. CIT-1 Agra
	Assessee	:	M/s AZSB Ltd.
	Status	:	AOP
	Assessment Year	:	2017-18

The scrutiny assessment of an AOP was concluded under section 143(3) in December 2019 at the assessed loss of ₹ 2.83 crore. Audit observed that the assessee had debited ₹ 3.27 crore and ₹ 2.50 crore towards the provision for interest overdue and the provision for bad debt reserve, respectively. However, while completing the assessment, AO did not consider the provisions as unascertained, and which were also not written off as irrecoverable and, therefore, not an admissible deduction and were supposed to be added back to the total income. The omission resulted in an under-assessment of the income of ₹ 5.77 crore involving a short levy of tax of ₹ 2.35 crore, including a potential tax effect of ₹ 98.38 lakh. *The Department has taken remedial action under Section 144 read with Section 263 of the Act (March 2023).* Further, the status of the recovery of demand is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

As per para (vii) of CBDT Instruction No. 17 of 2008 and as per RBI guidelines dated 16th October 2000, the investment portfolio of the banks is required to be classified under three categories viz. Held to Maturity (HTM), Held for Trading (HFT), and Available for Sale (AFS). Investments classified under the HTM category need not be marked to market and are carried at acquisition cost unless these are more than the face value. In this case, the premium should be amortized over the period remaining to maturity. In the case of HFT and AFS securities forming stock in the trade of the bank, the depreciation/ appreciation is to be aggregated scrip-wise, and only net depreciation, if any, is required to be provided for in the accounts.

Case III CIT Charge : Pr. CIT-1, Bhubaneswar
Assessee : OSCB Ltd.
Status : AOP
Assessment Year : 2018-19

Audit observed that AO, while finalising the assessment of an AOP under Section 143(3) in June 2021 at a total income of ₹ 5.24 crore, allowed a claim of depreciation on Held to maturity (HTM) category of investment considered as stock-in-trade for ₹ 21.62 crore but omitted to consider appreciation in the value of such investment of ₹ 13.57 crore. The above mistake resulted in an under-assessment of income of ₹ 13.57 crore involving a tax effect of ₹ 5.16 crore, including interest. *The Department accepted (April 2023) the audit objection and initiated remedial action under Section 143(3) read with Section 263 of the Act (March 2024).* Further details of the remedial action taken are awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Case I **CIT Charge** : **Pr. CIT-1, Vadodara**
Assessee : **PC Ltd.**
Status : **Firm**
Assessment Year : **2018-19**

The AO concluded the assessment under Section 143(3) in May 2021 determining Nil income. Audit observed that, while completing the scrutiny assessment, the AO had allowed set-off of brought forward of unabsorbed depreciation of ₹ 18.84 crore pertaining to AY 2011-12. As per the assessment records, no brought forward unabsorbed depreciation was available after giving effect to the order of CIT(Appeals) relevant to AY 2011-12. Therefore, the claim of set-off of unabsorbed depreciation of ₹ 18.84 crore in AY 2018-19 was incorrect and required to be disallowed. The error had resulted in under assessment of income of ₹ 18.84 crore involving short levy of tax of ₹ 9.24 crore including interest under Section 234B of the Act. *The Department has accepted the audit observation (March 2023) and rectified the mistake under Section 154 in March 2023.* Further, status of the recovery is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

As per Section 74 of the Income Tax Act 1961, "where in respect of any assessment year, the net result of the computation under the head "Capital gains" is a loss to the assessee, the whole loss can be carried forward up to eight assessment years immediately succeeding the assessment year for which the loss was first computed." Further, sub-Section 3 of Section 139 of the Act stipulates that loss cannot be carried forward if the return is not filed within the original due date.

Case II **CIT Charge** : **Pr. CIT (Central), Bengaluru**
Assessee : **HPR**
Status : **Individual**
Assessment Year : **2018-19**

Audit observed that, the AO, while finalising assessment under Section 153A⁷⁶ in September 2021 at an income of ₹ 1.32 crore, had allowed set-off of brought forward loss of ₹ 7.49 crore being long-term capital loss brought forward from AY 2014-15, as claimed by the assessee. As per the assessment order for AY 2014-15, "Losses of the current year to be carried forward" were determined at Nil. Further, the original return was filed after a delay in December 2014. Thus, the allowance for the set-off of loss was not found to be in order. The omission resulted in a short computation of income of

⁷⁶ Section 153A of the Income Tax Act, 1961 deals with the assessment of the income of any person in case of search or requisition. It empowers the tax authorities to conduct a search and seizure operation if they have reason to believe that any person has undisclosed income or assets. It also provides for the assessment of such undisclosed income or assets

₹ 7.49 crore involving a short levy of tax to the tune of ₹ 2.51 crore. *The Department has accepted the audit observation (June 2024) and rectified the mistake under Section 154 in June 2024.* Further, status of the recovery is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Case III CIT Charge : Pr. CIT-9, Kolkata
Assessee : DH
Status : Individual
Assessment Year : 2018-19

The AO concluded the assessment of an individual under Section 144 in April 2021 at an income of ₹ 2.35 crore. Audit observed from the assessment order that the assessee had a speculation loss of ₹ 12.24 crore in addition to his returned income, which was not allowed to be carried forward for set off in future years in view of the non-compliance of the assessee during assessment proceedings and the absence of any transaction statement or details to justify the existence of such loss. However, the same was allowed to be carried forward in the computation sheet. The mistake resulted in excess carry forward of loss of ₹ 12.24 crore, having a potential tax effect of ₹ 4.35 crore. *The Department accepted the observation (October 2023) and rectified the mistake under Section 154 in November 2022.*

Reply of the Ministry is awaited (March 2025).

4.4 Income escaping assessments due to omissions

4.4.1 Section 5 of the Act provides that the total income of a person for any previous year shall include all incomes from whatever source derived, actually received or, accrued or deemed to be received or accrued. Audit observed that the AOs did not assess or under-assessed the total income that was required to be offered to tax. Table 4.3 below shows the sub-categories that have resulted in income escaping assessments.

Table 4.3: Sub-categories of mistakes under income escaping assessments due to errors			
Sub-categories	Nos.	Tax Effect (₹ in crore)	States
a. Income not assessed	10	42.85	Gujarat, Haryana, Kerala, Odisha, Tamil Nadu and West Bengal
b. Incorrect classification and computation of Capital Gains	04	2.41	Goa, Gujarat, Maharashtra and Uttar Pradesh
c. Incorrect computation of income	1	1.13	Maharashtra

Table 4.3: Sub-categories of mistakes under income escaping assessments due to errors			
Sub-categories	Nos.	Tax Effect (₹ in crore)	States
d. Omission in implementing provisions of TDS/TCS	2	1.90	New Delhi
e. Unexplained Investments/ Cash Credits etc.	4	29.54	Assam, Tamil Nadu, West Bengal
Total	21	77.83	

4.4.2 Income not assessed

We noticed irregularities in respect of income escaping assessment in six States in ten cases involving a tax effect of ₹ 42.85 crore. Four such cases are illustrated below:

Section 41(1) of the Income Tax Act provides that, if in the course of earlier assessment year, an allowance or deduction has been made in respect of loss, expenditure or trading liability incurred by the assessee and subsequently a benefit is obtained by way of remission or cessation thereof during any previous year, the value of benefit accruing to the assessee is deemed to be profit and gains of business and is chargeable to income tax in that previous year.

Case I CIT Charge : Pr. CIT-1, Surat
Assessee : PD
Status : Firm
Assessment Year : 2017-18

The AO concluded the assessment under Section 143(3) of the Act in November 2019 determining loss of ₹ 28.57 crore. Audit scrutiny of assessment records revealed that the balance of secured loan as on 31/03/2016 of ₹ 20.76 crore was reduced to 'NIL' as on 31/03/2017 and the same was reflected in the Balance Sheet Schedule as written off "Outstanding Bank Loan" from the capital accounts of the partners for ₹ 19.01 crore. Thus, adjustment of written off amount with the partner's capital account was not in order and required to be taxed as remission of liability under Section 41(1) of the Act. The mistake resulted in under assessment of ₹ 19.01 crore with consequent potential short levy of tax of ₹ 6.58 crore. *The Department had accepted the audit observation (March 2022) and took the remedial action by passing order under Section 144 read with Section 263 read with Section 144B of the IT Act in March 2023.*

Reply of the Ministry is awaited (March 2025).

Section 184(5) of the Income Tax Act provides that where, in respect of any assessment year, there is, on the part of a firm, any such failure as is mentioned in Section 144, the firm shall be so assessed that no deduction, by way of any payment of interest, salary, bonus, commission or remuneration, by whatever name called, made by such firm, to any partner of such firm, shall be allowed in computing the income chargeable under the head "Profits and gains of business or profession" and such interest, salary, bonus, commission or remuneration shall not be chargeable to income-tax under clause (v) of Section 28.

Case II CIT Charge : Pr. CIT-I, Coimbatore
Assessee : SG
Status : Firm
Assessment Year : 2017-18

The AO, while finalizing the assessment under Section 147 read with Section 144 of the Act in March 2022, computed tax liability by adopting assessed income at ₹ 3.74 crore instead of correct amount of ₹ 6.58 crore (i.e., the total amount of cash deposited by the assessee in the bank account). The incorrect adoption of assessed income has resulted in a short levy of tax of ₹ 4.62 crore, including interest under Sections 234A and 234B. *The Department took remedial action by passing a rectification order under Section 154 in June 2023.* Further, the status of the recovery of demand is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

As per the provision of Section 10(20), the expression 'Local Authority' means Panchayat, as referred to in clause (d) of article 243 of the Constitution, or Municipality as referred to in clause (e) of Article 243P of the Constitution; or Municipal Committee and District Board, legally entitled to, or entrusted by the Government with, the control or management of a Municipal or local fund; or Cantonment Board as defined in Section 3 of the Cantonments Act, 1924 (2 of 1924).

Case III CIT Charge : Pr. CIT-1, Vadodara
Assessee : PC Ltd.
Status : AOP
Assessment Year : 2018-19

The AO, while finalizing the assessment under Section 143(3) in May 2021 at an income of 'Nil', allowed the TDS credit of ₹ 2.68 crore which pertained to interest income of ₹ 26.82 crore earned from different banks. However, in the Profit & Loss account and the statement of total income, the assessee had shown an interest income of ₹ 19.29 crore instead of the correct interest income of ₹ 26.82 crore. The error resulted in an understatement of income by ₹ 7.53 crore and a consequent short levy of tax of ₹ 3.69 crore. *The Department accepted the audit observation (March 2023) and took remedial action under Section 154 read with Section 143(3) in March 2023.* Further, status of the recovery is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Case IV **CIT Charge** : **Pr. CIT, Sambalpur**
Assessee : **SSBE Trust**
Status : **AOP**
Assessment Year : **2015-16**

The AO, while finalising the assessment under Section 147 of the Act in March 2022 at an income of ₹ 17.91 lakh, omitted to disallow differential Written Down Value (WDV) of ₹ 1.95 crore, i.e., the difference between the closing WDV 31/03/2014 and opening WDV on 01/04/2014 which was neither explained by the assessee nor enquired by the Assessing Officer during the assessment. Further, an unexplained liability for the Development Fund of ₹ 54.50 lakh was directly claimed in the Balance Sheet without routing through the Income and Expenditure statement. These omissions resulted in under assessment of income of ₹ 2.50 crore (₹ 1.95 crore plus ₹ 0.55 crore) involving tax effect of ₹ 2.15 crore. *The Department accepted the audit observation (February 2023) and took remedial action under Section 263 of the Act in March 2024.* Further, the status of recovery demand was awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

4.4.3 Incorrect classification and computation of Capital Gains

We noticed incorrect classification and computation of Capital Gains in four cases involving tax effect of ₹ 2.41 crore in four States. One such case is illustrated below:

As per provision of Section 143(3) of the Income Tax Act, 1961, the Assessing Officer is required to make a correct assessment of total income or loss of the assessee and determine the sum payable by him or refundable to him based on such assessment. As per Section 50C of the Income Tax Act, 1961, if the value stated in the instrument of transfer is less than the valuation adopted or assessed or assessable by the stamp duty authorities, such valuation of the stamp duty authorities will be considered as the sale consideration for the purpose of computation of capital gains arising on transfer of land or building or both.

Case I **CIT Charge** : **Pr. CIT, Bareilly**
Assessee : **HK**
Status : **Individual**
Assessment Year : **2017-18**

The AO, while finalising the scrutiny assessment under Section 143(3) of the Act in February 2019 omitted to disallow the complete Long Term Capital Gains (LTCG) of ₹ 2.03 crore claimed exempt by the assessee and disallowed only ₹ 8.51 lakh as the LTCG was relating to commercial property. The omission to disallow the entire claim of deduction resulted in a short computation of LTCG

of ₹ 1.94 crore involving a short levy of tax of ₹ 46.07 lakh. *The Department rectified the mistake by passing order under Section 147 read with Section 144B of the Act, 1961 (March 2023) and under Section 154 read with Section 143(3) (January 2024).* Further, the status of recovery of demand is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

4.4.4 Incorrect computation of income

We noticed incorrect computation of income in one case involving tax effect of ₹ 1.13 crore in one state. The case is illustrated below:

Case I	CIT Charge	:	CIT Exemption, Nagpur
	Assessee	:	TAPES
	Status	:	Trust
	Assessment Year	:	2015-16

The AO, finalised the assessment under Section 147 read with Section 144 of the Act in March 2022 at an income of ₹ 36.61 lakh after adding corpus and non-corporus donations of ₹ 28.08 lakh and ₹ 8.52 lakh, respectively, to the total income. However, during the assessment AO classified non-corporus donation of ₹ 1.71 crore as anonymous donation but added back only ₹ 8.52 lakh to the total income. In addition, the AO omitted to add disallowance of ₹ 28.08 lakh towards corpus donations. These mistakes resulted in short levy of tax of ₹ 1.13 crore, including consequential interest. *The Department stated in October 2023 that the audit observation was acceptable and initiated remedial action in March 2024 under Section 263 of the Act.* Further status of assessment proceedings is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

4.4.5 Omission in implementing provisions of Tax Deduction at Source (TDS)/ Tax Collection at Source (TCS)

We noticed an omission in implementing provisions of TDS/TCS in two cases, involving a tax effect of ₹ 1.90 crore in one state. One case is illustrated below:

Section 201(1) of the Income Tax Act 1961, provides for consequences of failure to deduct or pay whole or any part of the tax as specified in the Act while making payment. Further, Section 201(1A) of the Act provides for levy of penal interest in case of assessee-in default for non-deduction or non-payment of tax on payments made, as required by or under this Act.

Case I	CIT Charge	:	CIT, TDS-2 Delhi
	Assessee	:	M/s VD Pvt. Ltd.
	Status	:	AOP
	Assessment Year	:	2014-15

The AO, while finalising the assessment under Section 201(1)/201(1A) of the Act in March 2021, omitted to levy correct interest under Section 201(1A) on the outstanding TDS liability of ₹ 9.42 crore and charged interest only for 84 months instead of 96 months. The mistake in the computation of interest resulted in a short levy of tax of ₹ 1.13 crore. *The Department rectified the mistake under Section 154 read with Section 201(1)/201(1A) of the Act (April 2023).* Further, status of the recovery is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

4.4.6 Unexplained Investment/Cash Credits etc.

We noticed irregularities in respect of unexplained investment/cash credits in three States in four cases involving a tax effect of ₹ 29.54 crore. Two such cases are illustrated below:

As per provisions of Section 68, 69, 69A, 69B, 69C and 69D of the Act, any cash credited in the books, unexplained investments which is not recorded in the books of account, money, bullion, jewellery not recorded in the books of account, amount of investments etc. not fully disclosed in books of account, unexplained expenditure and amount borrowed or repaid on hundi otherwise than through an account payee cheque drawn on a bank respectively for which assessee offers no explanation about the nature and source thereof may be deemed to the income of the assessee. Further, the provisions of Section 115BBE of the Income Tax Act, (1961) stipulate that, where the total income of an assessee includes any income referred to in Sections 68, 69, 69A, 69B, 69C or Section 69D, the amount of income tax payable shall be calculated at the rate of sixty per cent on such income. Further, Finance Act, 2016, as applicable from the AY 2017-18 onwards, stipulates for levy of surcharge on such income tax at the rate of twenty five per cent.

Case I	CIT Charge	: Pr. CIT-2, Chennai
	Assessee	: MCPC
	Status	: Individual
	Assessment Year	: 2015-16

The AO while finalising the re-assessment under Section 147 read with Section 144B of the Act in March 2022 omitted to charge unexplained investments of ₹ 25.91 crore to tax and computed tax only on total income of ₹ 1.05 crore assessed under Section 143(3) of the Act in December 2017. The mistake resulted in short levy of tax of ₹ 16.21 crore including consequential interest under Section 234B. *The Department rectified the mistake under Section 154 of the Act (June 2022).* Further, status of recovery is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Case II	CIT Charge	: Pr. CIT-13, Kolkata
	Assessee	: ND
	Status	: Individual
	Assessment Year	: 2013-14

The AO, while finalising the assessment under Section 144/147 in September 2021 at an income of ₹ 8.15 crore, omitted to add back the entire cash deposits made by the assessee for ₹ 19.27 crore and added back only ₹ 8.15 crore. The omission resulted in under assessment of income of ₹ 11.12 crore having a tax effect of ₹ 10.36 crore, including interest under Sections 234A and 234B. *The Department took remedial action under Section 154 in December 2022.* Further, status of recovery is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

4.5 Overcharge of tax/Interest

4.5.1 Over-assessment of income and overcharge of tax/interest not only points to a lack of due diligence on the part of AOs while making assessments/weaknesses of the ITD systems while computing tax payable but also can potentially cause avoidable hardship to the genuine taxpayer. We noticed an overassessment of income in 38 cases involving an overcharge of tax/interest of ₹ 400.73 crore in eight States, viz. Bihar, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, New Delhi, Tamil Nadu and Telangana. Three such cases are illustrated below:

Under Section 143(3) of the Income Tax Act 1961, in a scrutiny assessment, the Assessing Officer is required to make a correct assessment of the total income or loss of the assessee and determine the correct sum payable by the assessee or refundable to the assessee based on such assessment. Further, the Board has issued instructions from time to time that mistakes in the computation of taxable income and tax should not occur. Section 144B of the Act outlines the procedure for conducting faceless assessments of income tax returns, with effect from 01 April 2023. Section 147 of the Act provides for reopening of the assessment proceedings when the Assessing Officer has reasons to believe that whole income or part of the income has escaped assessment.

Case I CIT Charge : CIT Central-3, Delhi
Assessee : JG
Status : Individual
Assessment Year : 2014-15

The AO, while finalising the assessment under Section 153A of the Act in March 2022 at an income of ₹ 517.86 crore and a tax liability of ₹ 346.70 crore, thereon charged excess levy of interest under Section 234B of the Act. The mistake resulted in an excess levy of tax of ₹ 104.69 crore. *The Department accepted the audit observation and rectified the mistake under Section 154 of the Act (August 2023).*

Reply of the Ministry is awaited (March 2025).

Case II **CIT Charge** : **CIT (Exemption), Mumbai**
 Assessee : **KES**
 Status : **AOP (Trust)**
 Assessment Year : **2016-17**

The AO concluded the assessment of a Trust for the assessment year 2016-17 under Section 147 read with Section 144B at Nil income in March 2022. Audit observed that, while computing tax in computation sheet, the gross total income was incorrectly adopted as ₹107.31 crore as against actual Nil assessed income which resulted in raising of infructuous demand to the extent of ₹ 67.93 crore. *The Department while accepting the audit objection stated (September 2023) that the error was rectified by passing order under Section 154 in March 2023.*

Reply of the Ministry is awaited (March 2025).

Case III **CIT Charge** : **Pr. CIT-1, Delhi**
 Assessee : **NSDF**
 Status : **Trust**
 Assessment Year : **2018-19**

The AO, while finalising the assessment under Section 143(3) read with Section 143(3A) of the Act in February 2021 at an income of ₹ 73.23 crore wrongly levied tax on income of ₹ 146.46 crore. Further, the interest under Section 234 C of the Act for ₹ 1.31 crore was also wrongly charged. The mistake resulted in over charge of tax for ₹ 36.70 crore including interest under Section 234A, 234B and 234C. The audit observation was communicated to the Department in December 2021, however, response is awaited (March 2025).

Reply of the Ministry is awaited (March 2025).

Recommendations

- (i)** ***Application of incorrect rates of tax and surcharge, errors in levy of interest, excess or irregular refunds, etc. point to weaknesses in the internal controls of the ITD, which need to be addressed through ITBA system prompts that will cause the Assessing officer to verify calculations before finalization of the case.***

- (ii)** ***While the Department has taken action to initiate correction in the cases pointed out by the Audit, it may be mentioned that these are only a few illustrative cases, test checked in the audit. In the entire universe of all assessments, including non-scrutiny assessments, probability of occurrence of such errors of omission or commission cannot be ruled out. The CBDT not only needs to revisit the***

assessments completed during the year but also put in place a foolproof IT system and internal control mechanism to avoid the recurrence of such errors in the future.

- (iii) *The CBDT may examine whether the instances of "errors" noticed are errors of omission or commission, and in the case of errors of commission, the ITD should ensure necessary action, including fixing responsibility as per law.*

New Delhi
Dated: 28 July 2025



(Monika Verma)
Director General (Direct Taxes)

Countersigned

New Delhi
Dated: 29 July 2025



(K. Sanjay Murthy)
Comptroller and Auditor General of India

Appendices

Appendix 1.1 (Reference- Paragraph 1.13.1 and 2.2.3)

The Faceless Assessment Scheme functions under the direct supervision of the Member (Admn. & Faceless Scheme). The functional architecture of assessment proceedings has been changed for the implementation of the scheme. Due to the introduction of the Faceless Scheme, a National Faceless Assessment Center (NaFAC), headed by Pr. CCIT (NaFAC), has been set up at Delhi. Further, Regional e-Assessment Centers (ReACs) have been established at 20 locations in the country. Each of these ReACs is headed by a CCIT (ReFAC). Depending upon the workload, the following Units have also been established at each ReAC, for completion of faceless assessments:

- i. Regional e- Faceless Assessment Centers (Assessment Units) [ReFAC (AU)],
- ii. Regional e-Faceless Assessment Centers (Verification Units) [ReFAC (VU)],
- iii. Regional e-Faceless Assessment Centers (Review Units) [ReFAC (RU)] and
- iv. Regional e-Faceless Assessment Centers (Technical Units) [ReFAC (TU)] at Kolkata, Mumbai and Chennai

Each of these units is headed by a Pr.CIT (ReFAC)(AU)/ Pr.CIT (ReFAC)(VU)/ Pr.CIT (ReFAC)(RU)/ Pr.CIT (ReFAC)(TU).

For the purposes of Faceless Assessment Scheme 2019, the setting up⁷⁷ of various units [further amended as the Faceless Assessment (1st Amendment) Scheme, 2021] and their functions, are enumerated hereunder:

(i) National Faceless Assessment Centre⁷⁸ (NaFAC)

NaFAC has been set up to facilitate the conduct of e-assessment proceedings in a centralized manner. It serves the notices on the concerned assessee and assigns the cases, selected for the purposes of e-assessment, under this Scheme, to specific assessment units, in any one of the Regional e-Assessment Centres, through an automated allocation system. Thereafter, upon receipt of the draft assessment orders, from the concerned assessment units, it is expected to finalize the assessment, within the prescribed time frame. After completion of the assessment, it transfers all the electronic records of the case, to the Assessing Officer having jurisdiction over the said case, for such action, as may be required under the Act.

(ii) Regional e-assessment Centres (ReACs)

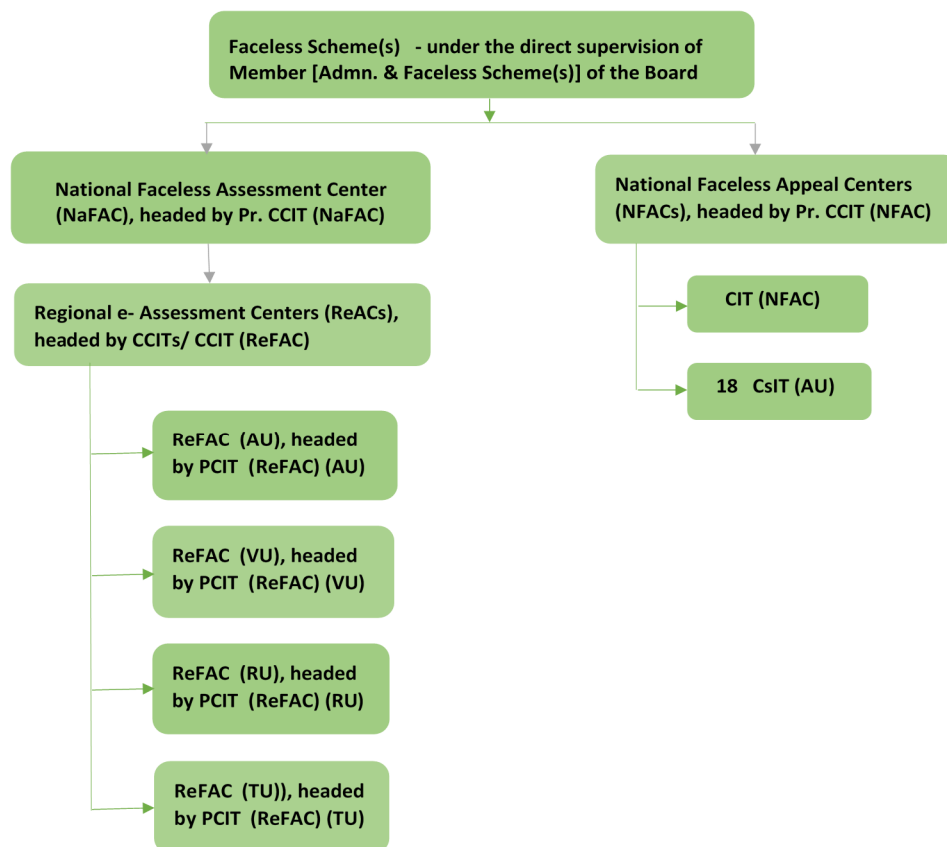
ReACs are expected to facilitate the conduct of e-assessment proceedings in the cadre controlling regions of the concerned Pr. CCITs. They have also been

⁷⁷ As notified in the principal Faceless Assessment Scheme, vide Notification No. 61/2019/F.No. 370149/154/2019-TPL dated 12/09/2019

⁷⁸ CBDT, vide Notification No. 27/2021/F. No. 370142/33/2020-TPL dated 31/03/2021, substituted the term "National e-Assessment Centre", by the term "National Faceless Assessment Centre".

vested with the power for making assessments in accordance with the provisions of this Scheme. ReACs, with the help of various units created thereunder, are required to make assessments and provide support to the NaFAC, in the finalization of assessments, in a faceless manner.

Chart 1.14: Organogram of NaFAC and NFACs



(iii) Assessment Units (AUs)

AUs are expected to facilitate the conduct of e-assessment, by performing the function of making assessments, which includes identification of points or issues material for the determination of any liability (including refund) under the Act, seeking information or clarification on points or issues so identified, analysis of the material furnished by the assessee or any other person, and such other functions as may be required for the purposes of making assessment. Upon being assigned a case, the concerned AU may make a request to the NaFAC for: (i) obtaining further information, documents or evidence from the assessee or any other person (ii) conduct of certain enquiries or verification by the verification units; and (iii) seeking technical assistance from the technical units. After taking into account the relevant material, as available on records, the AU makes, in writing, a draft assessment order, to the best of its judgment, either accepting the income or sum payable by, or sum refundable to, the assessee, as per his return, or making variation to such income or sum, and sends a copy of such order to the NaFAC.

(iv) Verification Units (VUs)

VUs are expected to perform the function of verification on a request from the Assessment Unit (AUs) for conducting of certain enquiry or verification, which includes enquiry, cross verification, examination of books of accounts, examination of witnesses and recording of statements, and such other functions as may be required for the purposes of verification.

(v) Technical Units (TUs)

TUs are required to perform the function of providing technical assistance, which includes any assistance or advice on legal, accounting, forensic, information technology, valuation, transfer pricing, data analytics, management or any other technical matter, which may be required in a particular case or a class of cases, under this Scheme.

(vi) Review Units (RUs)

The cases are assigned to the Review Units (RUs) by the National E-Assessment Centre (NeAC) in accordance with the risk management strategy. RUs are expected to perform the function of reviewing the draft assessment orders, which includes checking whether the relevant and material evidence has been brought on record, whether the relevant points of fact and law have been duly incorporated in the draft orders, whether the issues on which addition or disallowance should be made have been discussed in the draft orders, whether the applicable judicial decisions have been considered and dealt with in the draft orders, checking for arithmetical correctness of the modifications proposed, if any, and such other functions as may be required for the purposes of review, and specify their respective jurisdiction.

All communication, among the assessment unit, review unit, verification unit, or technical units, or with the assessees, or any other persons, with respect to the information or documents or evidence or any other details, as may be necessary for the purposes of making an assessment under this Scheme, is required to be made through the NaFAC. The organogram of the NaFAC is given in **Chart 1.14**.

Faceless Appeal Scheme

CBDT, vide notification issued in December 2021, notified the 'Faceless Appeal Scheme' and, for the purpose of this Scheme, it set up: (i) a National Faceless Appeal Centre (NFAC), to facilitate the conduct of e-appeal proceedings in a centralized and faceless manner; and (ii) Appeal units, to facilitate the conduct of e-appeal proceedings, by the Commissioner (Appeals). The National Faceless Appeal Center (NFAC) has been established at Delhi and is headed by Pr. CCIT (NFAC). Further, CIT (NFAC) at Delhi and various CsIT (AU), at

18 locations across the country, have also been set up. The organogram of the NaFAC and NFACs is given in **Chart 1.14**.

National Faceless Penalty Scheme (NFPS)

The NFPS was notified by the CBDT, vide notification No 3/2021 dated 12/01/2021, specifying the procedures to be followed for imposition of penalties. The scheme mandated the setting up of National Faceless Penalty Centres, Regional Penalty Centres, Penalty Units and Penalty Review Units, for execution of penalty proceedings. The National Faceless Penalty Centre has been established at Delhi and is headed by Pr. CCIT (NFPC). In addition, there are CsIT (NFPC) at Delhi and other locations of the country. The Penalty Units and Penalty Review Units are headed by the Additional CITs followed by DCITs.

Jurisdictional Assessment Offices (JAO)

JAOs are headed by Pr.CCsIT. The functions of JAOs include the filing of appeals or special litigation petitions, making rectifications, issuance of demands, disposal of old outstanding paras of revenue audit, as well as internal audit objections etc.

Appendix 1.2 (Reference Paragraph 1.13.2)

Tax Administration Process	
Permanent Account Number (PAN)	Every person ⁷⁹ who is required to file an Income Tax Return (ITR) under the provisions of Section 139A of the Income Tax Act, 1961 (the Act) and has not been allotted a Permanent Account Number shall apply to the ITD for allotment of a PAN.
Return of income	Under Section 139 of the Act, every person being a company or a firm; or being a person other than a company or a firm, if his total income or the total income of any other person in respect of which he is assessable under this Act during the previous year exceeded the maximum amount which is not chargeable to income-tax, shall, on or before the due date, furnish a return of his income or the income of such other person during the previous year, in the prescribed form. CBDT has prescribed different forms of ITR for different categories of assessee. Assessee are required to file returns of income electronically {Rule 12(3) of the Income Tax Rules, 1962}.
Summary processing {Section 143(1), 143(1A), 143(1B)}	<p>Under Summary processing, ITRs are checked for arithmetical accuracy, internal consistency, etc. Further, the addition of income appearing in Form 26AS or Form 16A or Form-16, which has not been included in computing the total income in the IT return, is also made.</p> <p>The summary processing takes place with the available data in the ITR and without calling for records and information from the assessee. Thus, summary processing is non-intrusive in nature. After processing, if there is any demand due from the assessee, it is intimated through demand notices. In case of excess payment of tax, refunds are issued through the Refund Banker Scheme, except in some exceptional cases wherein refund is allowed in manual mode.</p>
Scrutiny Assessment	<p>The ITRs filed by the assessee are selected for detailed scrutiny through Computer Aided Scrutiny Selection (CASS) and, in some cases, manually by the Assessing Officer as per CBDT guidelines. The Act provides for two types of regular scrutiny assessments: (a) Assessment under Section 143(3) after affording the assessee an opportunity and taking all relevant facts and responses of the assessee on record. (b) Assessment under Section 144 (Best Judgment Assessment) is framed when, despite notices, the assessee does not respond/file a response. In addition to the above, scrutiny of block assessments is conducted in cases of search cases (Section 153A/153C).</p> <p>In scrutiny assessment, the Assessing Officer (AO) retrieves all records and information related to the assessee available with the ITD and additionally calls for records and Information from the assessee to satisfy himself that no income has been unaccounted and tax has been computed correctly.</p> <p>Post implementation of Faceless Assessment Scheme, scrutiny assessments are being conducted in faceless manner.</p>
Rectification of mistake	The Act also provides for subsequent rectification of assessment orders <i>suo-moto</i> or on the request of the assessee (Section 154).

⁷⁹ Company, Firm, Individual, HUF, Trusts, Association of Persons, Body of Individuals, Co-operative Societies, Local Authority, Artificial Juridical Person, Government Agency.

Tax Administration Process

Income escaping assessment If the AO has reason to believe that any income chargeable to tax has escaped assessment for any assessment year, he may assess or reassess such income and also any other income chargeable to tax that comes to his notice subsequently in the course of the re-assessment subject to the provisions of the Act (Section 147).

Post implementation of Faceless Assessment Scheme, re-assessments are being conducted in faceless manner.

Revision orders of The Principal Commissioner of Income Tax may revise an assessment order under Section 263/264 if he considers any order passed by the AO is erroneous, subject to provisions of the Act.

Tax Deduction and Collection Account Number (TAN) TAN, or Tax Deduction and Collection Account Number, is a 10-digit alpha numeric number required to be obtained under Section 203(A) of the Act by all persons who are responsible for deducting or collecting tax.

Pre-assessment Collection Every assessee is required to assess his Income Tax liabilities and pay Advance Tax (Section 207) and Self-Assessment Tax (Section 140A), subject to provisions of the Act. The Act also requires certain paying authorities to deduct a certain percentage of the payment made to non-corporates or corporates, and deposit the same in the Government's account. Another way of collecting tax is through designated authorities called Tax Collected at Source (TCS) authorities who collect tax from certain individuals/corporate getting certain contracts/lease rights from public authorities. The collection of Income Tax through these four mechanisms - Advance Tax, Self-Assessment Tax, TDS and TCS is called pre-assessment mode of tax collections.

Appeal Process An aggrieved assessee can appeal to the Commissioner of Income Tax (Appeals) against the order of an AO. Further, appeal is also permitted to be made on questions of fact and law to the Income Tax Appellate Tribunal against the orders passed by appellate authorities. An appeal can be preferred to the High Court under Section 260A if any issue has not been considered or wrongly considered by the Appellate Tribunal and also to the Supreme Court under Section 261 in any case which the High Court certifies to be a fit one for appeal thereto.

Post implementation of Faceless Appeal Scheme, e-appeal proceedings under CIT (Appeals) are conducted in a centralized and faceless manner.

Refund Where the amount of tax paid exceeds the amount of tax payable, the assessee is entitled to a refund of the excess amount along with simple interest at the prescribed rate.

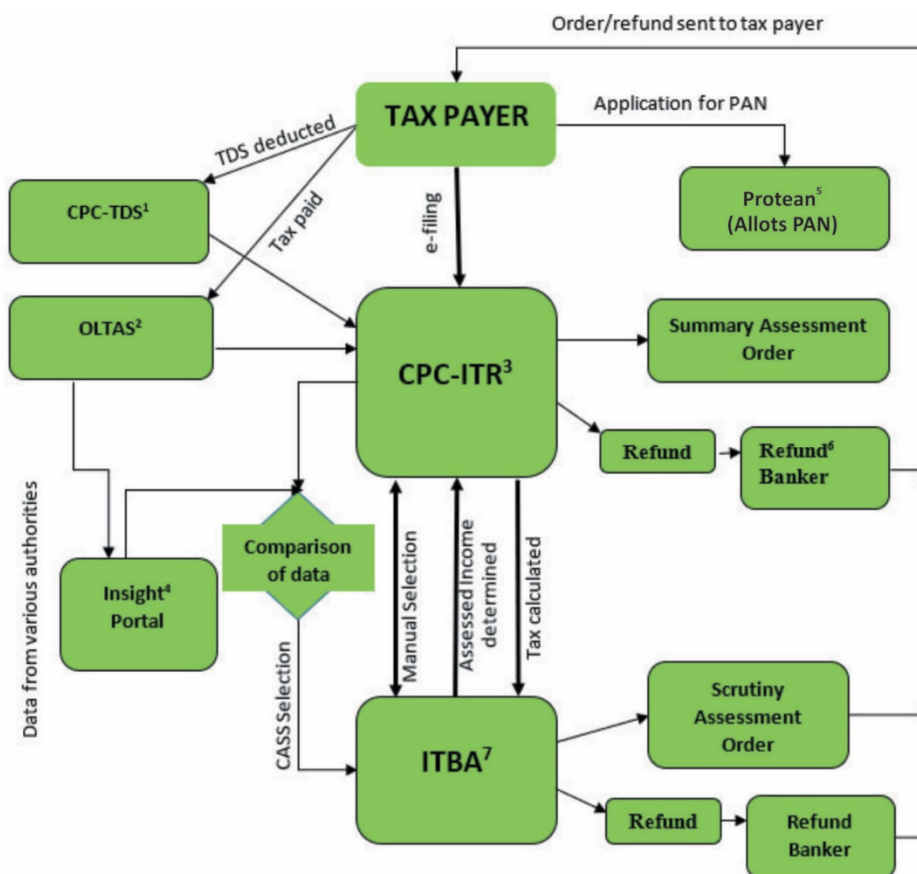
Recovery of tax arrears On receipt of Demand from the AO, the assessee is required to pay the Demand within 30 days or any other time limit prescribed by the AO. If the recovery is not affected within a year of raising the Demand, the AO is required to send the details of arrear cases to the Tax Recovery Officer (TRO) for drawing up of Tax Recovery Certificates (TRC).

Tax Administration Process

Penalty and Prosecution In order to ensure compliance of the provisions of the Act and to have a deterrent effect for violations, the Act provides for exhaustive procedures for the imposition of penalty and initiation of prosecution. The levy of many penal provisions is discretionary in nature and can be waived off by the competent authority.

Appendix 1.3 (Reference Paragraph 1.13.2)

Tax Administration process



1. CPC-TDS (Centralized Processing Centre - Tax Collection at source) reconciles and co-relates information from various sources including banks, deductors, Assessing Officers (AOs) and Tax Professionals.
2. OLTAS (Online Tax Accounting System) is a system for collection, accounting and reporting of the receipts and payments of Direct Taxes from all kind of taxpayers, online through a network of bank branches.
3. CPC-ITR (Centralized Processing Centre - Income Tax Returns) for bulk processing of Income Tax Returns (ITRs) expeditiously determines the tax payable by, or refund due to the assessee.
4. The Insight Portal uses data mining, research and analytics against black money and tax evasion and provides inputs for CASS (Computer Aided Scrutiny Selection) selection.
5. Protean (Protean eGov Technologies Limited) {Earlier, NSDL (NSDL e-Governance Infrastructure Ltd.)} through its chain of TIN-Facilities (TIN-FCs) and PAN centres accepts PAN applications and issues PANs.
6. Facilitates transmission of refunds generated by CPC/AOs to the State Bank of India, CMP branch for further distribution to taxpayers.
7. ITBA (Income Tax Business Application) is a business application to create paperless electronic processes and to provide a single user interface to access various functionalities of the ITD.

Appendix 2.1 (Reference: Paragraph 2.2.4)

State-wise incidence of errors in assessments							
State	Assessments completed in units selected for audit during 2021-22	Assessments produced to audit during 2021-22	Audit observations raised during 2021-22 ⁸⁰ (Nos.)	Assessments with errors (Nos.)	Total revenue effect of the Audit Observations (₹ in crore)	Percentage of assessments with errors (Col. 5/ Col. 3x100)	No. of assessments checked by IAP out of Col 3
1	2	3	4	5	6	7	8
Andhra Pradesh & Telangana	23,193	14,852	1,727	1,727	2,117.56	11.63	594.00
Assam	10,819	8,274	349	350	404.44	4.23	0.00
Bihar	7,273	5,442	444	444	279.08	8.16	0.00
Chhattisgarh	6,507	3,820	155	154	377.99	4.03	0.00
Delhi	16,800	16,599	1,414	1,414	7,182.07	8.52	796.00
Goa	1,449	1,446	64	61	116.45	4.22	27.00
Gujarat	34,742	28,525	1,709	1,483	5,210.70	5.20	0.00
Haryana	21,367	8,897	500	485	1,346.08	5.45	0.00
Himachal Pradesh	1,400	966	100	100	115.50	10.35	0.00
Jammu & Kashmir	1,014	957	25	25	114.36	2.61	0.00
Jharkhand	8,235	4,593	445	362	1,954.98	7.88	0.00
Karnataka	12,881	10,171	687	570	5,548.06	5.60	48
Kerala	7,345	7,066	588	535	770.42	7.57	375.00
Madhya Pradesh	12,439	10,073	856	856	2,058.02	8.50	76.00
Maharashtra	63,653	32,352	1,859	1,364	18,761.30	4.22	294
Odisha	4,560	4,441	439	405	482.99	9.12	147.00
Punjab	7,221	4,189	190	190	472.09	4.54	0.00
Rajasthan	24,124	12,605	657	634	1,234.79	5.03	0.00
Tamil Nadu	39,329	27,865	2,025	1,872	4,696.72	6.72	7
UT Chandigarh	4,046	2,520	162	162	414.49	6.43	0.00
Uttarakhand	2,922	2,912	117	117	99.20	4.02	0.00
Uttar Pradesh	26,543	26,151	927	919	4,875.20	3.51	0.00
West Bengal	35,989	33,574	1,878	1,511	5,830.51	4.50	21.00
Total	3,73,851	2,68,290	17,317	15,740	64,463.00	5.87	2,385

⁸⁰ This includes all audit observations of under-assessment as well as over-assessment in corporate tax, income tax and other direct taxes.

Appendix 2.2 (Reference: Paragraph 2.2.8)

Category-wise details of under assessment in respect of Corporation tax and Income tax detected during Local Audit		
		(₹ in crore)
Sub category	No. of errors	Tax effect
A. Quality of assessments	8,159.00	19,161.59
a. Arithmetical errors in the computation of income and tax	2,443.00	9,414.86
b. Incorrect application of rate of tax, surcharge, etc.	2,231.00	5,979.35
c. There is no/short levy of interest/penalty for delay in submission of returns, delay in payment of tax, etc.	3,241.00	3,515.51
d. Excess or irregular refunds/interest on refunds	212.00	231.22
e. Mistake in assessment while giving effect to appellate orders	32.00	20.66
B. Administration of tax concessions/exemptions/ deductions	2,319.00	16,840.05
a. Irregular exemptions/deductions/reliefs given to Corporate	188.00	1,356.17
b. Irregular exemptions/deductions/reliefs given to Trusts/Firms/Societies	191.00	218.49
c. Irregular exemptions/deductions/reliefs given to individuals	153.00	114.87
d. Incorrect allowance of Business Expenditure	1,500.00	8,404.70
e. Irregularities in allowing depreciation/business losses/Capital losses	275.00	6,738.35
f. Incorrect allowance of DTAT relief	12.00	7.47
C. Income escaping assessments due to omissions	1,100.00	5,486.07
a. Under Special Provisions including MAT/AMT/Tonnage Tax etc.	62.00	367.71
b. Unexplained investments/ cash credits etc.	661.00	4,224.22
c. Incorrect classification and Computation of Capital Gains	154.00	238.65
d. Incorrect estimation of arm's length price	13.00	21.10
e. Omission to club income of spouse, minor child, etc.	38.00	268.66
f. Incorrect computation of Income from House Property	28.00	38.98
g. Incorrect computation of salary income	18.00	36.24
h. Omission in implementing provisions of TDS/ TCS	126.00	290.51
D. Others	3,857.00	11,790.69
Total	15,435.00	53,278.41

Appendix 2.3 (Reference: Paragraph 2.4.4)

Category-wise details of observations in respect of high value cases, sent to the Ministry		
Sub category	Cases	Tax Effect (₹ in crore)
A. Quality of assessments	230	3,643.85
a. Arithmetical errors in the computation of income and tax	90	2178.04
b. Incorrect application of rate of tax, surcharge, etc.	19	690.53
c. Non/short levy of interest/penalty for delay in submission of returns, delay in payment of tax, etc.	113	715.89
d. Excess or irregular refunds/interest on refunds	7	58.25
e. Mistake in assessment while giving effect to appellate orders	1	1.14
B. Administration of tax concessions/exemptions/deductions	114	1,553.05
a. Irregular exemptions/deductions/reliefs given to Trusts/Firms/ Societies	7	23.49
b. Irregular exemptions/deductions/reliefs given to individuals	4	6.20
c. Irregular exemptions/deduction/relief/MAT credit given to corporates	28	310.48
d. Incorrect allowance of Business Expenditure	25	132.37
e. Irregularities in allowing depreciation/business losses/Capital losses	50	1080.50
C. Income escaping assessment due to omissions	59	1,127.10
a. Under special provisions including MAT/AMT/Tonnage Tax, etc.	5	605.37
b. Incorrect classification and Computation of Capital Gains	6	5.36
c. Incorrect Computation of Business Income	1	1.13
d. Omission in implementing provisions of TDS/TCS	6	106.34
e. Unexplained investment/ cash credit	7	73.77
f. Incorrect estimation of Arm's Length Price	8	22.49
g. Income not assessed/under-assessed under normal provisions	26	312.65
D. Others	78	1,605.21
Overcharge of tax/interest	78	1,605.20
Total	481	7,929.21

Appendix 2.4 (Reference Paragraph 2.7.2)

Cases where remedial action has become time barred in FY 2022-23			
State	Audit observations where remedial action became time-barred		
	Cases	Tax Effect (₹ in crore)	
Andhra Pradesh & Telangana	95	6.62	
Assam	0	0.00	
Bihar	43	3.57	
Chhattisgarh	74	51.23	
Delhi	3	0.12	
Goa	0	0.00	
Gujarat	50	2.00	
Haryana	641	452.80	
Himachal Pradesh	55	7.74	
Jammu & Kashmir	31	2.87	
Jharkhand	32	3.15	
Karnataka	64	28.97	
Kerala	2	0.11	
Madhya Pradesh	92	121.69	
Maharashtra	360	2,112.27	
Odisha	107	44.15	
Punjab	455	663.95	
Rajasthan	4	0.34	
Tamil Nadu	764	327.87	
UT Chandigarh	227	1,156.98	
Uttarakhand	1	0.01	
Uttar Pradesh	69	28.87	
West Bengal	1	0.02	
Total	3,170	5,015.33	

Appendix 2.5 (Reference Paragraph 2.8.2)

Details of non-production of records during FY 2020-21 to FY 2022-23					
States	Records requisitioned in FY 2022-23	Records not produced in FY 2022-23	Percentage of records not produced in FY 2022-23	Percentage of records not produced in FY 2021-22	Percentage of records not produced in FY 2020-21
Andhra Pradesh & Telangana	15,313	461	3.01	11.86	3.03
Assam	8,773	420	4.79	14.5	7.94
Bihar	5,519	77	1.40	1.2	4.72
Chhattisgarh	3,820	3	0.08	1.97	0
Delhi	20,412	2,174	10.65	7.06	6.2
Goa	1,518	3	0.20	0	0
Gujarat	28,879	354	1.23	1.89	1.53
Haryana	8,923	0	0.00	5.2	0.74
Himachal Pradesh	972	2	0.21	0.84	1.18
Jammu & Kashmir	957	6	0.63	7.09	0
Jharkhand	4,878	11	0.23	1.14	8.27
Karnataka	10,868	351	3.23	5.07	4.11
Kerala	7,509	321	4.27	4.93	5.14
Madhya Pradesh	12,439	803	6.46	4.54	4.12
Maharashtra	37,828	4,023	10.63	9.46	18.33
Odisha	4,560	119	2.61	9.48	9.32
Punjab	4,211	6	0.14	6.85	1.1
Rajasthan	17,254	132	0.77	1.91	0.65
Tamil Nadu	19,886	1,021	5.13	14.96	17.88
UT Chandigarh	2,525	0	0.00	0.45	1.49
Uttarakhand	2,922	10	0.34	5.86	1.35
Uttar Pradesh	22,841	392	1.72	3.87	4.47
West Bengal	36,709	2,544	6.93	6.87	7.57
Total	2,79,516	13,233	4.73	6.63	6.61

Abbreviations	
ACIT	Assistant Commissioner of Income Tax
Act	The Income Tax Act, 1961
AI	Assessed Income
AIR	Annual Information Return
ALP	Arm's Length Price
AO	Assessing Officer
AOP	Association of Person
AST	Assessment Information System
AY	Assessment Year
CASS	Computer Aided Scrutiny Selection
CBDT	Central Board of Direct Taxes
CCIT	Chief Commissioner of Income Tax
CIT	Commissioner of Income Tax
CIT(A)	Commissioner of Income Tax (Appeals)
CPC-ITR	Centralized Processing Centre – Income Tax Return
CPC-TDS	Centralized Processing Centre – Tax Deducted at Source
CT	Corporation Tax
DCIT	Deputy Commissioner of Income Tax
DGIT (Systems)	Director General of Income Tax (Systems)
DOR	Department of Revenue
DT	Direct Taxes
FY	Financial Year
GDP	Gross Domestic Product
GTR	Gross Tax Receipts
IT	Income Tax
ITAT	Income Tax Appellate Tribunal
ITBA	Income Tax Business Application
ITD	Income Tax Department
ITO	Income Tax Officer
ITR/Return	Income Tax Return
JCIT	Joint Commissioner of Income Tax
LTCG	Long term capital Gain
PAN	Permanent Account Number
Pr. CCA	Principal Chief Controller of Accounts
Pr. CCIT	Principal Chief Commissioner of Income Tax
MAT	Minimum Alternate Tax
MOP	Manual of Office Procedure
NSDL	National Securities Depository Limited
OLTAS	Online Tax Accounting System
Pr. DGIT	Principal Director General of Income Tax
Rules	The Income Tax Rules, 1962
STT	Securities Transaction Tax
TCS	Tax Collected at Source
TE	Tax Effect
TDS	Tax Deducted at Source
TP	Transfer Pricing
TPO	Transfer Pricing Officer

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