

OVERVIEW

Chapter I: Introduction

The Comptroller and Auditor General of India conducts the audit of revenues from direct taxes of the Union Government under section 16 of the Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act 1971.

Six hundred and eighty eight observations with a tax effect of Rs.3,490.55 crore were issued to the Ministry as individual draft paragraphs, including 308 observations involving tax effect of Rs.429.07 crore that has arisen from local audit conducted in earlier years. Six hundred and eighty three observations involving tax effect of Rs.3,486.38 crore have been included in this report. There was loss of revenue of Rs.226.45 crore due to not taking remedial action in time in 1,644 cases.

Although the manpower for internal audit had increased by more than 1000 percent after introduction of the new chain system, there was a short fall of 56.81 percent with reference to total auditable cases.

Department did not produce 37,471 cases or 67 percent of cases not produced during earlier audits and requisitioned again in 2004-05, to audit which included 91 cases not produced in three or more consecutive audit cycles in Andhra Pradesh, Karnataka, Orissa and Maharashtra charges. Consequently, audit of such cases could not be carried out.

Chapter II: Tax Administration

Total collections from direct taxes increased from Rs.68,305 crore in 2000-01 to Rs.1,32,771 crore in 2004-05 at an average annual rate of growth of 18.41 percent. In the case of corporate assesseees, 88.80 percent of gross collections was made at pre-assessment stage, of which 70.29 percent was by way of advance tax. In the case of non-corporate assesseees, 91.64 percent of the gross collection was made at pre-assessment stage, of which 53.04 percent was by way of TDS. Total number of assesseees grew from 2.30 crore in 2000-01 to 2.72 crore in 2004-05 at a compound annual growth rate of 4.28 percent which was lower than 10.06 percent of growth rate in 2003-04. Although the number of cases selected for scrutiny during 2004-05 increased to 2.46 lakh as compared to 1.90 lakh in 2003-04, the percentage of assessments completed after scrutiny as well as in summary manner declined during 2004-05. As a result the total pendency of both summary and scrutiny assessments increased during 2004-05. Uncollected amount of Rs.1,23,181 crore out of total demand of Rs.2,55,952 crore comprised demand of Rs.58,762 crore of earlier years and current demand of Rs.64,419 crore

outstanding as on 31 March 2005. The outstanding demand in corporation tax increased from Rs.37,631 crore to Rs.39,204 crore and that in income tax increased from Rs.50,386 crore to Rs.83,977 crore during the year 2004-05 as compared to last year. The percentage of recovery of demand has declined from 19 percent during 2003-04 to about 16 percent during 2004-05. The working strength of TROs however, decreased to 356 during 2004-05 as compared to 462 in 2003-04.

Chapter III: Corporation Tax

Receipts from corporation tax amounted to Rs.82,680 crore which constituted 62.27 percent of the total collection from direct taxes during 2004-05. The number of corporate assesseees as on 31 March 2005 was 3.80 lakh which represented an increase of 1.95 per cent over the previous year. In respect of corporate assesseees, 472 audit observations involving under charge of tax of Rs.3,393.66 crore and 14 observations involving over charge of tax of Rs.40.99 crore on account of various irregularities in assessments, such as, mistakes in adoption of correct figures, applying incorrect rate of tax and levy of surcharge, computation of business income, allowing unentitled expenditure or provision and claims, computation of capital gains, carry forward and set off of losses, allowing reliefs and exemptions, excess or irregular refunds and non levy/short levy of interest were issued to the Ministry of Finance for their comments. Four hundred seventy cases involving undercharge of tax of Rs.3,392.89 crore and 14 observations involving overcharge of Rs.40.99 crore have been included in this chapter. The Ministry accepted observations in 17 cases involving tax effect of Rs.8.27 crore, till the date of preparation of this report.

Chapter IV: Income Tax

Receipts from income tax amounted to Rs.49,268 crore which constituted 37.11 percent of the total collection from direct taxes in 2004-05. The number of income tax assesseees as on 31 March 2005 was 2.68 crore, which represented a decrease of 6.94 percent over the previous year. One hundred and eighteen audit observations involving revenue effect of Rs.39.33 crore on account of various irregularities in income tax assessments such as adoption of incorrect figures, applying incorrect rate of tax, non-levy of surcharge, adopting incorrect status of the assessee, incorrect computation of income from house property and business, mistake in assessment of firms, incorrect computation of capital gains, depreciation, carry forward and set off of losses, allowing income to escape assessment, allowing reliefs and exemptions under Chapter VIA, excess or irregular refunds, short/non-levy of interest, non levy of penalty, overassessment and overcharge, non deduction of tax at source and irregular credits without corresponding income being taxed have been included in this chapter. Ministry of Finance accepted observations in four cases involving tax effect of Rs.41.17 lakh, till the date of preparation of this report.

Chapter V: Other Direct Taxes

Eighty one cases of irregularities involving tax effect of Rs.13.17 crore relating to mistakes in computation of wealth tax, incorrect valuation of assets, non/short levy of/over charge of interest for default in filing of return, non levy of tax on deemed gifts, omission to make assessment of interest tax and mistakes in computation of chargeable expenditure tax have been included in this chapter.

Ministry of Finance accepted observations in **15 cases** involving tax effect of Rs.59.54 lakh till the date of preparation of this report.