

Chapter II

Tax Administration

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Chapter Summary

Total collections from direct taxes increased from Rs. 69,198 crore in 2001-02 to Rs. 1,65,216 crore in 2005-06 at an average annual rate of growth of 19.73 percent. Overall direct tax collections as percentage of GDP increased from 3.03 per cent in 2001-02 to 4.68 percent in 2005-06. Average tax buoyancy has slightly decreased to 1.76 in 2005-06 as compared to 1.85 in 2004-05.

(Para 2.5 & 2.5.3)

In the case of corporate assesseees, 74.98 percent of gross collections was made at pre-assessment stage, of which 53.37 percent was by way of advance tax. In the case of non corporate assesseees, 90.64 percent of the gross collection was made at pre-assessment stage, of which 51.89 percent was by way of TDS.

(Para 2.6.1)

During 2001-02 to 2005-06, total number of assesseees for direct taxes grew from 2.62 crore to 2.98 crore at a compound annual growth rate of 3.24 percent which was lower than 4.28 percent during 2000-01 to 2004-05. Non-corporate assesseees increased from 2.59 crore in 2001-02 to 2.94 crore in 2005-06 i.e., at a compound annual rate of growth of 3.24 percent and corporate assesseees increased from 3.49 lakh in 2001-02 to 3.93 lakh in 2005-06, at a compound annual growth rate of 3.01 per cent..

(Para 2.7 & 2.7.2)

Cost of collection as worked out by the department was 0.15 paise per rupee of collection for corporation tax and 1.70 paise per rupee of collection for income tax. It was Rs. 3,740 and Rs. 325 per assessee for corporation tax and income tax respectively.

(Para 2.15)

The number of cases selected for scrutiny during 2005-06 was lower at 2.03 lakh as compared to 2.46 lakh in 2004-05. The percentage of assessments completed in summary manner decreased as a result of which the total pendency increased from 22.57 percent in 2004-05 to 31.18 percent in 2005-06.

(Para 2.9.1)

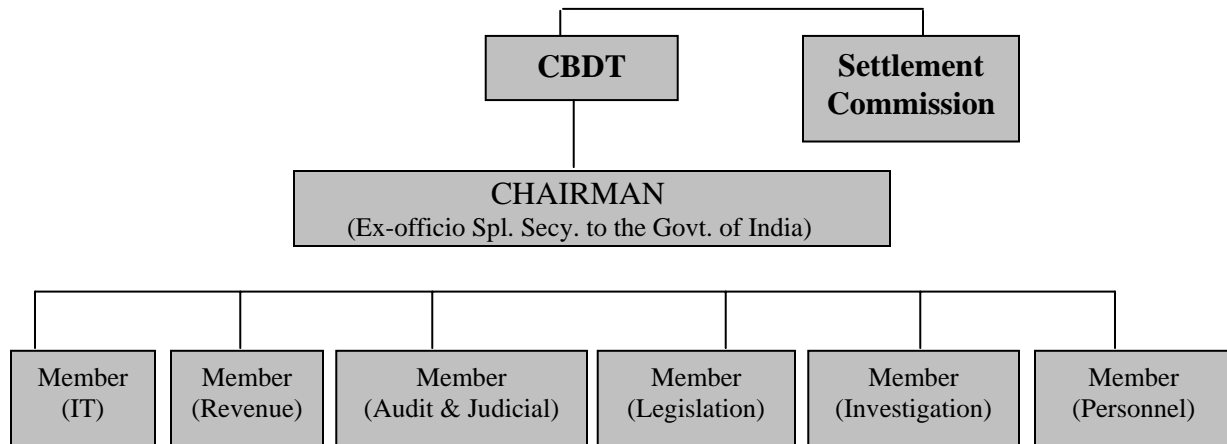
Uncollected amount of Rs. 95,387 crore out of total demand of Rs. 2,60,603 crore comprised demand of Rs. 58,385 crore of earlier years and current demand of Rs. 37,002 crore outstanding as on 31 March 2006

(Para 2.10.1)

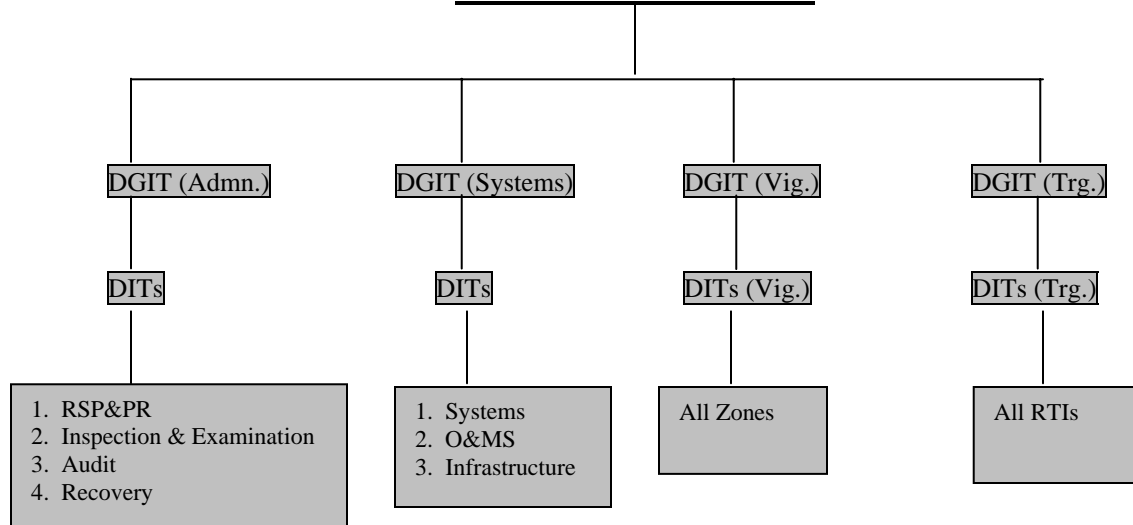
Recovery of certified demand declined from 16 percent during 2004-05 to about 14 percent during 2005-06. The working strength of TROs however, also decreased to 329 from 356 during the same period.

(Para 2.11.2)

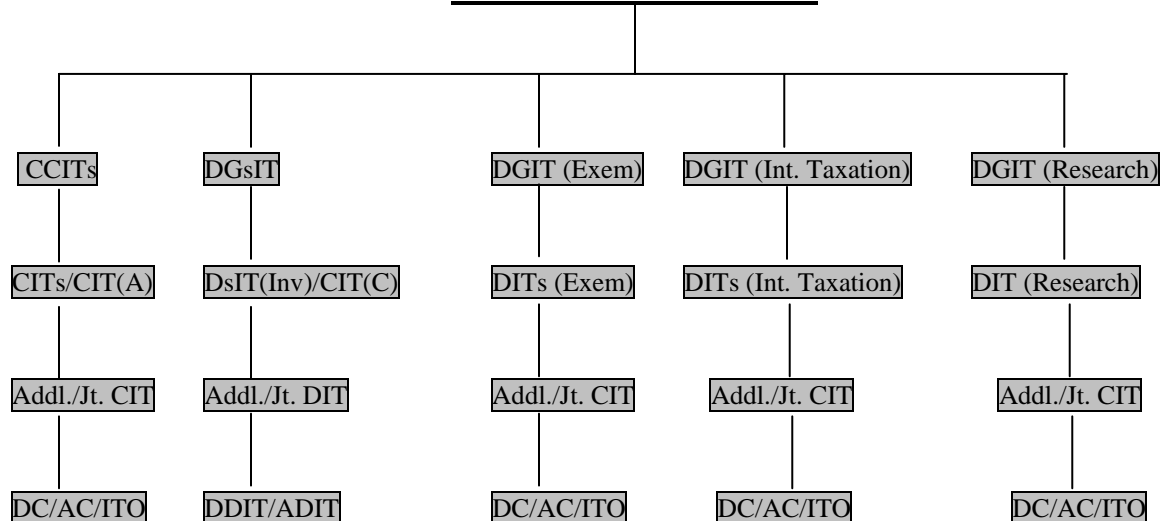
Chart 1: Organisational set up of the Income Tax Department



Attached Offices of CBDT



Field Formations of CBDT



CHAPTER II: TAX ADMINISTRATION

Administration of Direct Taxes

2.1 Income tax, corporation tax and wealth tax constitute the principal elements of direct taxes. Income tax is chargeable on the total income of the previous year of every person. The term 'person' includes an individual, a Hindu undivided family (HUF), a company, a firm, an association of persons (AOP), a body of individuals (BOI), a local authority and an artificial juridical person. Income tax paid by companies is categorized as corporation tax.

Wealth tax is charged for every assessment year on 'net' wealth on the relevant valuation date of every individual, HUF and company at specified rates on certain specified assets. No wealth tax is payable in respect of net wealth valued below Rs. 15 lakh with effect from assessment year 1993-94.

Broad functional profile of the Department of Revenue

2.2 The overall responsibility for administration of direct taxes lies with the Department of Revenue which functions through income tax department, with a staff strength of around 59,000, the Central Board of Direct Taxes (Board) at its apex.

2.2.1 Chart 1 shows the organisational set up of the income tax department. The Board consists of a Chairman and six members, and has several attached and subordinate offices throughout the country. These offices function under 116 Directors General of Income tax and Chief Commissioners of Income tax who oversee the work of the Directors/Commissioners of Income tax in their respective charges. Chief Commissioners of Income tax are stationed at different locations all over the country. They are in charge of supervision, control and administration of their respective regions. Also, Directors General of Income tax (Investigation) stationed in different parts of the country are in overall charge of the investigation machinery in respect of their regions for curbing tax evasion and unearthing unaccounted money. The Chief Commissioners of Income tax/Directors General of Income tax are assisted by Commissioners of Income tax/Directors of Income tax in their respective jurisdictions. There is also first appellate machinery comprising Commissioners of Income tax (Appeals) who perform the work of disposal of appeals against the orders of the assessing officers.

2.2.2 The tables and figures below in this chapter have been collected from the Board and attached offices such as Directorate of Income tax (Research, Statistics, Publications & Public Relations) (RSP&PR), Pr. Chief Controller of Accounts and Settlement Commission.

Sanctioned and working strength of officers

2.3 Table 2.1 below shows the sanctioned strength of the officers as on 31 March 2006 in the department.

TABLE 2.1: SANCTIONED STRENGTH OF OFFICERS*

Post	Sanctioned strength
1	2
CCIT	116
CIT	698
Addl. CIT	469
Jt. CIT	647
DCIT/ ACIT	1,934
ITO	4,204
Total	8,068

2.3.1 Working strength of officers who are assigned assessment/non assessment duty is given in Table 2.2 below.

TABLE 2.2: WORKING STRENGTH OF OFFICERS ON ASSESSMENT AND NON-ASSESSMENT DUTY*

Nature of Post	2003-04			2004-05			2005-06 [♦]		
	Asstt Duty	Non-Asstt Duty	Total	Asstt Duty	Non-Asstt Duty	Total	Asstt Duty	Non-Asstt Duty	Total
1	2			3			4		
Addl.CIT/Addl DIT/ Jt CIT/ Jt DIT/Dy.DIT/ Dy CIT/ Asstt. DIT/Asstt. CIT	1,519	1,173	2,692	1,519	1,173	2,692	1,173	532	1705
ITOs	2,917	1,200	4,117	2,917	1,200	4,117	2,628	887	3515
Total (%age to total strength)	4,436 (65.1)	2,373 (34.9)	6,809	4,436 (65.1)	2,373 (34.9)	6,809	3,801 (72.8)	1,419 (27.2)	5,220

2.3.2 In the absence of complete information furnished by the Directorate of Income Tax (RSP & PR), the position of working strength of officers on assessment and non assessment duty during 2005-06 cannot be compared with the position in previous years.

* Source: Directorate of Income Tax (Research, Statistics, Publications and Public Relations)

♦ Based on information from the field units of the Department who have reported these details till finalization of the Report.

Actual receipts
vis-à-vis
Budget
estimates

2.4 A comparative position of budget estimates and actual collections of major direct taxes reflecting fiscal marksmanship is indicated in Table 2.3 below.

(Rs in crore)

TABLE 2.3: COMPARATIVE POSITION OF ACTUAL RECEIPTS VIS-À-VIS BUDGET ESTIMATES*

Year	Budget Estimates	Actuals	Surplus(+)/ Shortfall (-)	Percentage of surplus/Shortfall
1	2	3	4	5
0020-Corporation tax				
2003-04	51,499.00	63,562.03	(+) 12,063.03	(+) 23.43
2004-05	88,436.00	82,679.58	(-) 5,756.42	(-) 6.51
2005-06	1,10,573.00	1,01,277.16	(-) 9,295.84	(-) 8.41
0021-Taxes on income other than corporation tax				
2003-04	44,070.00	41,386.51	(-) 2,683.49	(-) 6.09
2004-05	50,929.00	49,268.12	(-) 1,660.88	(-) 3.26
2005-06	66,239.00	55,984.62	(-) 10,254.38	(-) 15.48
0032-Wealth tax				
2003-04	145.00	135.83	(-) 9.17	(-) 6.33
2004-05	145.00	145.36	(+) 0.36	(+) 0.25
2005-06	265.00	250.35	(-) 14.65	(-) 5.53

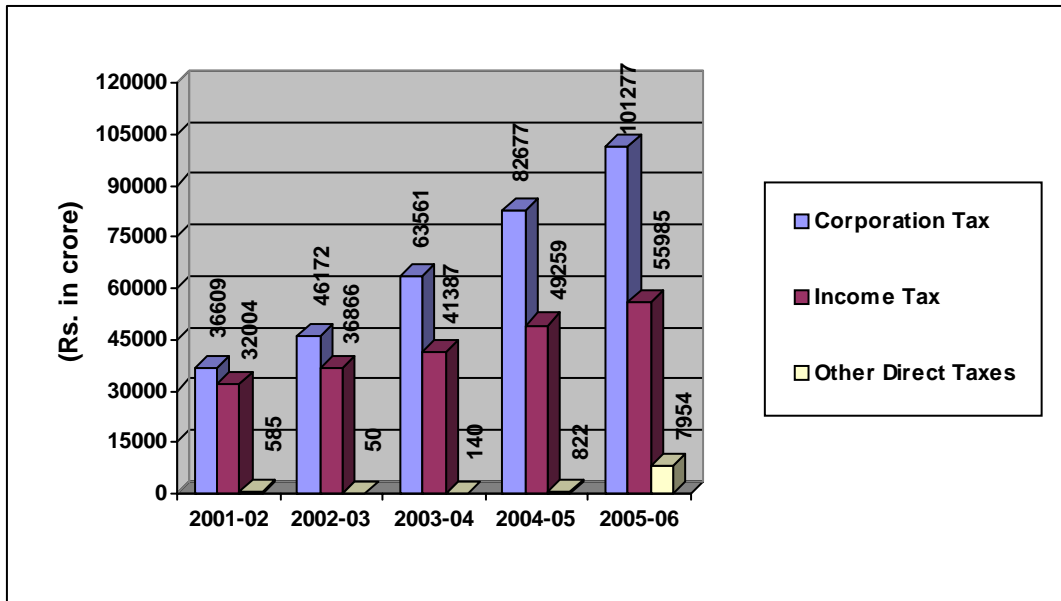
2.4.1 The actual collections during 2005-06 have been lower than the budget estimates in case of both corporation tax as well as taxes on income other than corporation tax by 8.41 percent and 15.48 percent respectively. The gap between 'actuals' and budget estimates in respect of both corporation tax as well as taxes on income other than corporation tax has increased in 2005-06 as compared to 2004-05.

Direct tax
collections –
recent trends

2.5 Direct tax collections, as shown in Chart 2 below, increased from Rs. 69,198 crore in 2001-02 to Rs. 1,65,216 crore in 2005-06 at an average annual rate of growth of 19.73 percent. The rate of growth had increased from 1.31 percent in 2001-02 to over 26 percent in 2003-04/2004-05 and declined marginally to 24.44 percent in 2005-06.

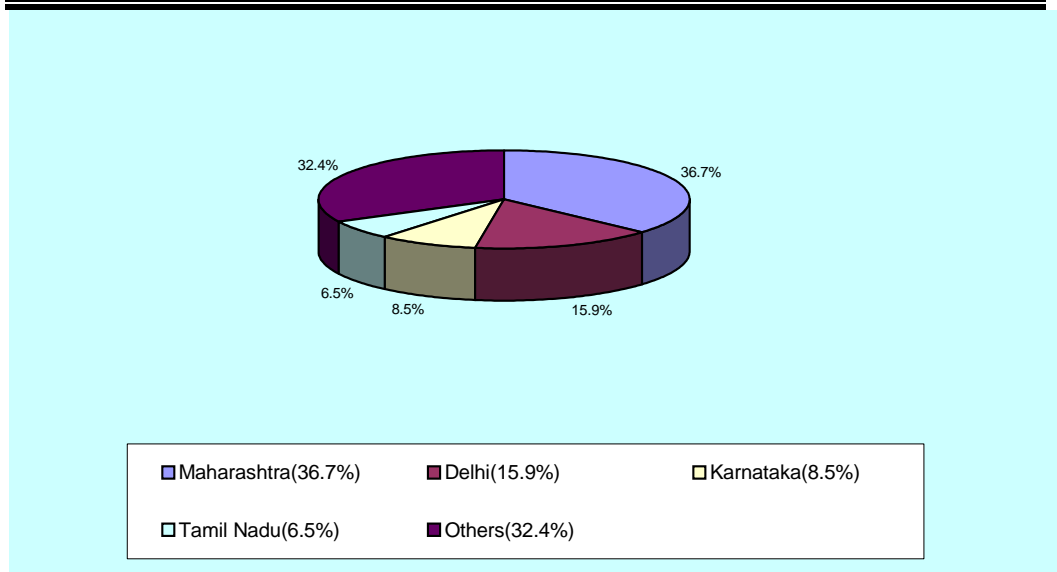
* Minor head wise details given in Appendix-2

CHART 2: DIRECT TAX COLLECTIONS FROM 2001-02 TO 2005-06



2.5.1 Chart 3 below depicts the percentage share of direct tax collections collected by different states. Maharashtra had the largest tax collection followed by Delhi, Karnataka, Tamil Nadu and others.

CHART 3: PERCENTAGE SHARE OF REVENUE COLLECTION OF STATES



Broad parameters of direct tax collections

2.5.2 Overall direct tax collections, annual rates of growth, the ratio of direct taxes to GDP and their buoyancy are indicated in Table 2.4.

(Rs in crore)

TABLE 2.4: BROAD PARAMETERS OF DIRECT TAX COLLECTIONS*

	2001-02	2002-03	2003-04	2004-05 [@]	2005-06	Average
Corporation Tax	36,609	46,172	63,562	82,680	1,01,277	66,060
Income Tax	32,004	36,866	41,387	49,268	55,985	43,102
Other Direct Taxes	585	50	140	823	7,954	1,910
Total Direct Taxes	69,198	83,088	1,05,089	1,32,771	1,65,216	1,11,072
GDP	22,81,305	24,49,736	27,60,224	31,21,414	35,31,451	28,28,826
Rate of growth (per cent)						
Corporation Tax	2.56	26.12	37.66	30.08	22.49	23.78
Income Tax	0.76	15.19	12.26	19.04	13.63	12.18
Total Direct Taxes	1.31	20.07	26.48	26.34	24.44	19.73
GDP	9.18	7.38	12.67	13.09	13.14	11.09
Tax Collections-GDP Ratio (per cent)						
Corporation Tax	1.60	1.88	2.30	2.65	2.87	2.26
Income Tax	1.40	1.50	1.50	1.58	1.59	1.51
Total Direct Taxes	3.03	3.39	3.81	4.25	4.68	3.83
Tax Buoyancy^{♦♦}						
Corporation Tax	0.28	3.54	2.97	2.30	1.71	2.16
Income Tax	0.08	2.06	0.97	1.46	1.04	1.12
Total Direct Taxes	0.14	2.72	2.09	2.01	1.86	1.76

GDP ratio

2.5.3 Overall direct tax collections as percentage of GDP increased from 3.03 per cent in 2001-02 to 4.68 percent in 2005-06. This increase was observed for both corporation and income tax. Average tax buoyancy has slightly decreased to 1.76 in 2005-06 as compared to 1.85 in 2004-05.

Pre-assessment – post-assessment tax collections

2.6 Income tax is chargeable for every assessment year in respect of the total income of the previous year at the rates prescribed in the annual Finance Act. The Act provides for pre-assessment collection by way of deduction of tax at source, advance tax and payment of tax on self-assessment. Post-assessment collection is additional demand arising after assessment. Table 2.5 below contains details of overall tax collected at the pre and post assessment level and percentage of refunds in the last three years.

* All India collection figures of corporation tax and income tax given in Appendix-3 and Head wise/State/UT wise break up given in Appendix-4

[@] Source: Tax collection figures – Pr. CCA CBDT, New Delhi, GDP – CSO, Press release dt. 31 May 2006 and Economic Survey 2005-06.

^{♦♦} Tax buoyancy is measured by the ratio of percentage change in tax revenues to percentage change in GDP.

(Rs. in crore)

TABLE 2.5: DETAILS OF TAX COLLECTIONS FOR COMPANIES AND NON-COMPANIES AT PRE-ASSESSMENT AND POST-ASSESSMENT STAGES

Year	Tax Deducted at source	Advance Tax	Self Assessment	Regular Assessment	Other Receipts	Total Collections	Refunds	Net Collections
1	2	3	4	5	6	7	8	9
Corporate Assesseees								
2003-04	11,934 (14.52)	49,004 (59.60)	5,184 (6.30)	13,477 (16.38)	2,632 (3.20)	82,231	18,669 (22.71)	63,562
2004-05	14,654 (13.93)	73,934 (70.29)	4,815 (4.58)	2,888 (2.74)	8,898 (8.46)	1,05,189	22,509 (21.40)	82,680
2005-06	21,429 (17.17)	66,625 (53.37)	5,549 (4.44)	18,624 (14.92)	12,610 (10.10)	1,24,837	23,560 (18.87)	1,01,277
Non-Corporate Assesseees								
2003-04	31,021 (64.03)	9,709 (20.04)	4,668 (9.63)	2,538 (5.24)	518 (1.06)	48,454	7,067 (14.59)	41,387
2004-05	29,319 (53.04)	16,100 (29.14)	5,229 (9.46)	3,118 (5.64)	1,507 (2.72)	55,273	6,005 (10.86)	49,268
2005-06	32,409 (51.89)	18,127 (29.03)	6,069 (9.72)	3,488 (5.58)	2,364 (3.78)	62,457	6,472 (10.36)	55,985

Figures in brackets indicate percentage of total collection

2.6.1 In the case of corporate assesseees, 74.98 percent of gross collections was made at pre-assessment stage, of which 53.37 percent was by way of advance tax. Advance tax collection decreased from 70.29 percent of total collection in 2004-05 to 53.37 percent in 2005-06. In the case of non-corporate assesseees, 90.64 percent of the gross collection was made at pre-assessment stage, of which 51.89 percent was by way of TDS.

2.6.2 Percentage of refunds in respect of corporate assesseees as well as non corporate assesseees declined from 21.40 and 10.86 in 2004-05 to 18.87 and 10.36 respectively in 2005-06.

TABLE 2.6: CATEGORY WISE DETAILS OF DEDUCTION OF TAX AT SOURCE

Category	Amount of tax deducted (Rs in crore)			Per cent to total tax deducted		
	2003-04	2004-05	2005-06	2003-04	2004-05	2005-06
Salaries	17,712	17,341	17,941	41.23	39.44	33.32
Interest on securities	2,214	1,849	1,871	5.15	4.20	3.48
Dividends	950	852	752	2.22	1.94	1.40
Interest	4,930	7,833	10,585	11.47	17.81	19.65
Winnings from lottery or crossword puzzles	169	318	233	0.40	0.72	0.44
Winnings from horse races	7	11	17	0.02	0.03	0.03
Payments to contractors and sub-contractors	7,543	2,535	9,638	17.56	5.76	17.90
Insurance commission	434	523	967	1.01	1.19	1.80
Payment to non-residents and others	8,996	12,711	11,834	20.94	28.91	21.98
Total	42,955	43,973	53,838	100	100	100

2.6.3 Contribution from salaries to total TDS declined from about 41 per cent in 2003-04 to the current level of over 33 percent. Other important sources which contributed to TDS were interest, payments to contractors, sub-contractors and non-residents. These four sources together contributed about 93 percent of total TDS collections as indicated in Table 2.6.

2.6.4 Every person responsible for deducting tax at source under the Act has to submit a return within the prescribed time and in the prescribed form to the income tax authority. In case of failure, penalty equal to a sum of one hundred rupees for every day during which the default continues, is payable.

2.6.5 In 2005-06, out of 4.60 lakh returns to be filed by tax deductors, only 2.81 lakh returns were filed and 1.79 lakh returns had not been filed. The percentage of non-filers has decreased from 42.81 percent in 2004-05 to 38.91 percent in 2005-06

Assessee profile

2.7 During 2001-02 to 2005-06, total number of assessees for direct taxes grew from 2.62 crore to 2.98 crore at a compound annual growth rate of 3.24 percent which was lower than 4.28 percent during 2000-01 to 2004-05. Non corporate assessees constituted 98.68 percent of the total assessees whereas 1.32 percent were corporate assessees. Non-corporate assessees increased from 2.59 crore in 2001-02 to 2.94 crore in 2005-06 i.e., at a compound annual rate of growth of 3.24 percent. Category wise details of increase are indicated in Table 2.7 below:

Non-corporate assessees

TABLE 2.7: CATEGORY WISE INCREASE OF NON CORPORATE ASSESSEES DURING LAST 5 YEARS

Income level	2001-02	2005-06	Compound annual growth rate	Present share in total assessees	
				2001-02	2005-06
	(Number in lakh)			(Percentage)	
A*	243.50	258.98	1.55	94.09	88.10
B* (lower)	11.17	20.74	16.73	4.32	7.06
B* (higher)	2.98	6.48	21.43	1.15	2.20
C*	0.79	5.62	63.32	0.31	1.91
D*	0.33	2.13	59.39	0.13	0.73
Total	258.77	293.95	3.24	100	100

* Category 'A' non corporate assessees- Assessments with income/loss below Rs. 2 lakh.

* Category 'B' non corporate assessees (lower income group) - Assessments with income/loss of Rs.2 lakh and above but below Rs.5 lakh.

* Category 'B' non corporate assessees (higher income group) - Assessments with income/loss of Rs.5 lakh and above but below Rs.10 lakh.

* Category 'C' non corporate assessees - Assessments with income/loss of Rs.10 lakh and above.

* Category 'D' non corporate assessees - Search and seizure assessments.

2.7.1 The compound annual growth rate of non-corporate assessee declined in category A and category B (lower) level of income during 2001-2006 as compared to those during 2000-05 whereas those of Categories B (higher), C and D levels of income increased during the same period. The share of total assessee belonging to B (lower), B (higher), C and D categories increased whereas the share of assessee belonging to A category decreased during the period 2001-06.

**Corporate
assessee**

2.7.2 Number of corporate assessee increased from 3.49 lakh in 2001-02 to 3.93 lakh in 2005-06, at a compound annual growth rate of 3.01 per cent. Category wise details of the corporate assessee are indicated in Table 2.8 below:

TABLE 2.8: PROFILE OF CORPORATE ASSESSEES

Income level	2001-02	2005-06	Compound annual growth rate	Share in total assessee	
				2001-02	2005-06
	(Number in lakh)			(Percentage)	
1	2	3	4	5	
A*	1.91	1.99	1.03	54.73	50.64
B [♦] (lower)	0.63	0.78	5.48	18.05	19.85
B [♥] (higher)	0.59	0.46	(-) 6.03	16.91	11.70
C [♠]	0.34	0.68	18.92	9.74	17.30
D [♣]	0.02	0.02	0.00	0.57	0.51
Total	3.49	3.93	3.01	100	100

2.7.3 The compound annual growth rate of corporate assessee declined in categories A, B (lower) and B (higher) during 2001-2006 as compared to those during 2000-2005 whereas those of Category C level of income increased during the same period. The share of assessee belonging to B (lower) and C categories of income level increased and those belonging to categories A, B (higher) and D decreased during 2005-06 as compared to those in 2001-02.

2.7.4 The number of companies limited by shares at work, according to the Department of Company Affairs (DCA) as on 30 November 2005, was 7,12,435 which included 6,33,089 private limited companies and 79,346 public limited companies in government/non-government sector. Therefore, there were 3.19

* Category 'A' corporate assessee- Assessments with income/loss below Rs.50,000

♦ Category 'B' corporate assessee (lower income group) - Assessments with income /loss of Rs.50,000 and above but below Rs.5 lakh

♥ Category 'B' corporate assessee (higher income group) - Assessments with income/loss of Rs.5 lakh and above but below Rs.10 lakh.

♠ Category 'C' corporate assessee - Assessments with income/loss of Rs.10 lakh and above.

♣ Category 'D' corporate assessee - Search and Seizure assessments.

lakh companies which were registered with Registrar of Companies but were not on the records of the Income Tax Department during 2005-06. This number was 2.81 lakh in 2004-05. Audit could not identify the reasons for the difference between the number of companies registered with DCA and the number of companies in the records of Income Tax Department.

2.7.5 There has been an increase in the average tax collection per corporate/non corporate assessee during the year as compared to 2004-05. Table 2.9 below contains the details:

TABLE 2.9: AVERAGE TAX COLLECTED FROM CORPORATE AND NON-CORPORATE ASSESSEES

Nature of tax	2001-02	2002-03	2003-04	2004-05	2005-06
Number of assessees (Number in lakh)					
Corporation Tax	3.49	3.65	3.72	3.80	3.93
Income Tax	258.77	281.00	288.30	267.95	293.95
Average tax collected per assessee (Rs. in thousand)					
Corporation Tax	1,048	1,265	1,709	2,176	2577
Income Tax	12	13	14	18	19

PAN applications

2.8 The Act has made it mandatory for every person to quote his/her Permanent Account Number (PAN) in documents pertaining to specified transactions. In order to comply with the provisions of the Act it is necessary to allot PAN at the earliest to persons who apply for the same.

2.8.1 With a view to enhancing the efficiency of PAN services, the Income Tax Department had outsourced a part of the process for allotment of PAN to UTI Investors Services Ltd. (UTIISL) with effect from 1 July 2003. Table 2.10 shows statistics furnished by the Board relating to PAN allotment for the outsourcing period. The closing balance at the end of the year does not tally with the opening balance of the next year in the data furnished by the Board.

TABLE 2.10: ALLOTMENT OF PAN FROM 1.7.2003 TO 31.3.2006 THROUGH UTIISL/ NSDL

Financial Year	Opening Balance	Application received during the year*	PAN allotted during the year	PAN application Pending at the end of the year. (3-4)
1	2	3	4	5
2003-04 (From 1.7.03 to 31.3.04)	0	40,02,352	35,08,956	4,93,396
2004-05	5,92,253	55,01,215	57,67,733	3,25,735
2005-06	(-) 42,505	62,94,680	58,98,470	3,53,705

* These figures include request for change.

Position of assessments

2.9 Under the Act, time limit for completion of assessments and reassessments is two years from the end of the assessment year in which the income was first assessable or one year from the end of the financial year in which a return or a revised return relating to relevant assessment year is filed under section 139(4) and 139 (5). Position of assessments of income and corporation tax during the last five years is indicated in Table 2.11 and 2.12 below.

TABLE 2.11: CASES SELECTED FOR SCRUTINY DURING THE LAST 5 YEARS

Financial year	Opening balance of scrutiny cases	Cases selected for scrutiny during the year	Total cases for disposal
1	2	3	4
2001-02	1,34,411	83,129	2,17,540
2002-03	49,530	8,44,885	8,94,415
2003-04	1,97,811	1,90,464	3,88,275
2004-05	1,93,017	2,46,241	4,39,258
2005-06	2,21,739	2,03,486	4,25,225

TABLE 2.12: POSITION OF INCOME TAX INCLUDING CORPORATION TAX ASSESSMENTS*

Financial year	Assessments due for disposal			Assessments completed (Percentage)			Assessments pending (Percentage)		
	Scrutiny	Summary	Total	Scrutiny	Summary	Total	Scrutiny	Summary	Total
1	2	3	4	5	6	7	8	9	10
2001-02	2,17,540	3,65,08,234	3,67,25,774	1,68,010 (77.23)	1,99,58,558 (54.67)	2,01,26,568 (54.80)	49,530 (22.77)	1,65,49,676 (45.33)	1,65,99,206 (45.20)
2002-03	8,94,415	3,69,00,040	3,77,94,455	1,72,410 (19.28)	3,37,92,795 (91.58)	3,39,65,205 (89.87)	7,22,005** (80.72)	31,07,245 (8.42)	38,29,250 (10.13)
2003-04	3,88,275	2,69,78,376	2,73,66,651	1,97,390 (50.83)	2,13,80,490 (79.25)	2,15,77,880 (78.84)	1,90,885 (49.17)	55,97,886 (20.75)	57,88,771 (21.16)
2004-05	4,39,258	2,62,98,066	2,67,37,324	2,10,866 (48.00)	2,04,92,965 (77.93)	2,07,03,831 (77.43)	2,28,392 (52.00)	58,05,101 (22.07)	60,33,493 (22.57)
2005-06	4,25,225	3,28,21,007	3,32,46,232	2,30,698 (54.25)	2,26,49,070 (69.00)	2,28,79,768 (68.82)	194,527 (45.75)	1,01,71,937 (31.00)	1,03,66,464 (31.18)

2.9.1 The number of cases selected for scrutiny during 2005-06 was lower at 2.03 lakh as compared to 2.46 lakh in 2004-05. The percentage of assessments completed in summary manner has decreased as a result of which the total pendency has increased from 22.57 percent in 2004-05 to 31.18 percent in 2005-06.

Arrears of demand

2.10 The Act provides that when any tax, interest, penalty, fine or any other sum is payable as a consequence of any order, a notice of demand shall be served upon the assessee. The amount specified in the notice has to be paid within 30 days unless the assessing officer, on application, extends the time for

* Status wise and Category wise details given in Appendix-5

** 5, 24,194 cases out of 7, 22,005 cases pending for scrutiny in 2002-03 had been converted into summary assessment in 2003-04.

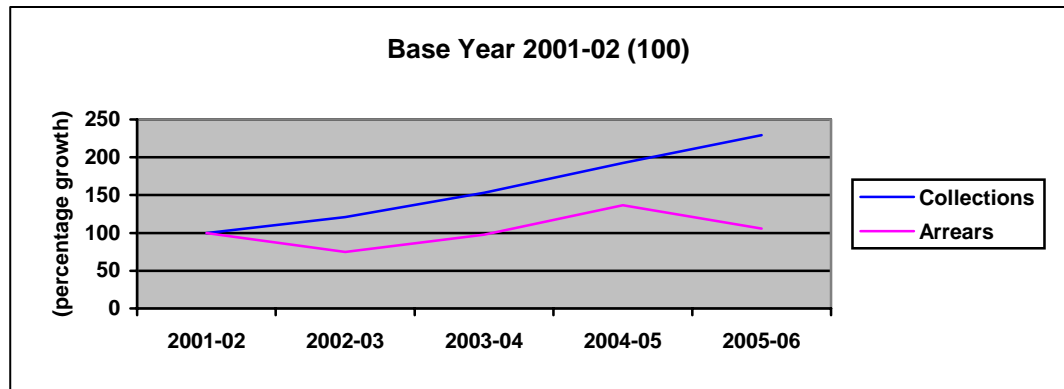
payment to be made by the assessee. The Act provides that an appeal against an assessment order would be barred unless tax on the returned income is paid before filing the appeal. The amount, which remains unpaid, becomes arrears. Table 2.13 below contains details of income tax and corporation tax collected and remaining uncollected during 2001-02 to 2005-06. The growth rate of arrears was lower than the growth rate of collections during 2004-05 which is depicted in Chart 4.

(Rs. in crore)

TABLE 2.13: INCOME TAX INCLUDING CORPORATION TAX COLLECTED AND REMAINING UNCOLLECTED

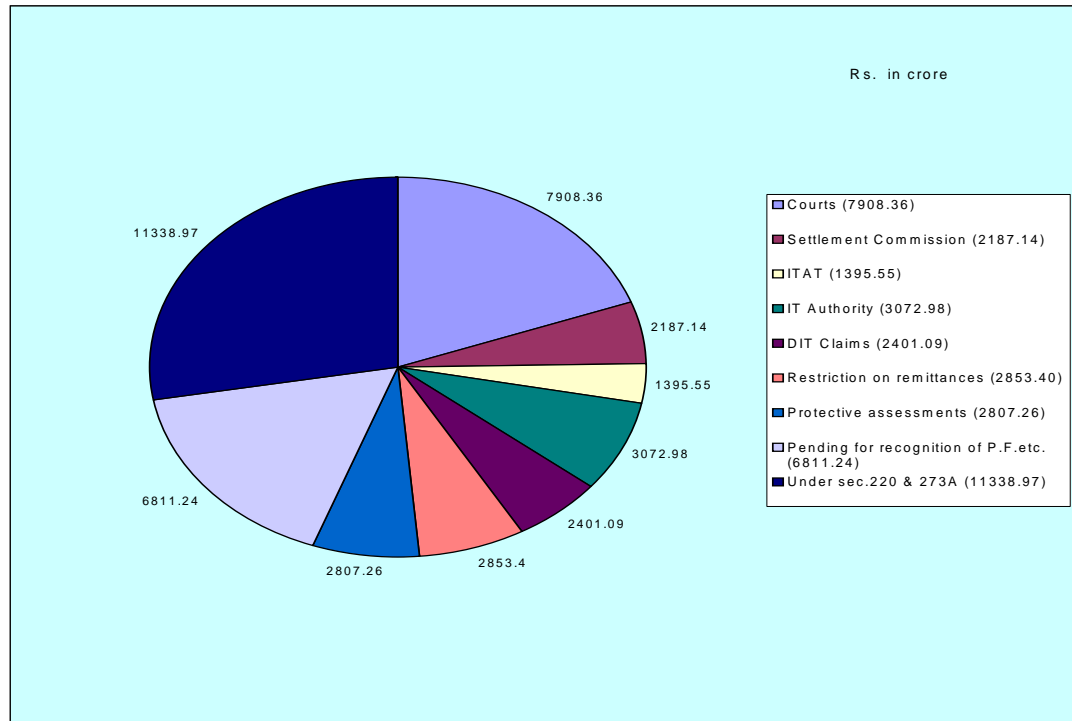
Year	Tax collected			Tax remaining uncollected		
	CT	IT	Total	CT	IT	Total
1	2	3	4	5	6	7
2001-02	36,609	32,004	68,613	42,538	47,639	90,177
2002-03	46,172	36,866	83,038	35,057	32,581	67,638
2003-04	63,561	41,387	1,04,948	37,631	50,386	88,017
2004-05	82,677	49,259	1,31,936	39,204	83,977	1,23,181
2005-06	1,01,277	55,985	1,57,262	55,098	40,289	95,387

CHART 4: GROWTH IN COLLECTION AND AMOUNT REMAINING UNCOLLECTED



2.10.1 Uncollected amount of Rs. 95,387 crore out of total demand of Rs. 2,60,603 crore comprised demand of Rs. 58,385 crore of earlier years and current demand of Rs. 37,002 crore outstanding as on 31 March 2006. The outstanding demand in corporation tax increased from Rs. 39,204 crore to Rs. 55,098 crore and that in income tax decreased from Rs. 83,977 crore to Rs. 40,289 crore during the year as compared to last year. Total uncollected demand stayed/kept in abeyance increased from Rs. 39,037 crore in 2004-05 to Rs. 40,776 crore in 2005-06.

CHART 5: AMOUNTS STAYED/KEPT IN ABEYANCE



2.10.2 Table 2.14 below, containing year wise details of arrears, indicates that 4.8 percent of the arrears were pending for a period of five or more years.

(Rs in crore)

TABLE 2.14: YEARWISE DETAILS OF ARREAR DEMAND OF EARLIER YEARS (UPTO 2004-05)

		Corporation tax	Income tax	Interest	Others	Total
1	2	3	4	5	6	7
1	Over 1 year but less than two years	11,440.62	17,337.61	14,598.78	6,294.51	49,671.52
2	Over 2 years but less than 5 years	2,124.68	1,437.17	1,922.92	414.27	5,899.04
3	Over 5 years but less than 10 years	937.87	452.88	513.91	274.44	2,179.10
4	Over 10 years	167.35	210.84	146.90	110.65	635.74
	Total	14,670.52	19,438.50	17,182.51	7,093.87	58,385.40

2.10.3 More than 82 per cent of gross arrears and over 92 percent of net arrear as on 31 March 2006 consisted of cases where demand in each case was Rs. 1 crore and above. Details of arrears in terms of their value in each case are indicated in Table 2.15 below:

Rs. in crore)

TABLE 2.15: AMOUNT WISE DETAILS OF GROSS ARREARS AND NET* ARREARS (UPTO 2005-06)

	Company cases			Non-company cases			Total		
	No. of cases	Gross arrears	Net arrears	No. of cases	Gross arrears	Net arrears	No. of cases	Gross arrears	Net arrears
1	2	3	4	5	6	7	8	9	10
Upto Rs.1 lakh in each case	1,22,117	4,040.04	553.19	35,13,183	2,811.95	731.76	36,35,300	6,851.99	1,284.95
Over Rs.1 lakh to Rs.10 lakh in each case	23,163	2,936.84	389.15	1,09,066	1,410.79	399.88	1,32,229	4,347.63	789.03
Over Rs.10 lakh to Rs.1 crore in each case	9,269	4,390.03	686.19	11,818	2,051.89	572.56	21,087	6,441.92	1,258.75
Over Rs.1 crore in each case	3,128	43,730.54	15,773.86	2,221	34,014.69	23,044.83	5,349	77,745.23	38,818.69
Total	1,57,677	55,097.45	17,402.39	36,36,288	40,289.32	24,749.03	37,93,965	95,386.77	42,151.42

Tax recovery machinery

2.11 Every demand of tax, interest, penalty or fine, should be paid within thirty days of the service of notice of demand. On the default of an assessee in this respect, the assessing officer may forward a certificate specifying the demand of arrears to the tax recovery officer (TRO) for recovery of demand. The latter will serve a notice on the defaulter requiring him to pay the demand within fifteen days. If the amount is not paid within the time specified in the notice or within extended period, if any, the TRO shall proceed to realise the amount together with interest leviable for default in payment of tax demand by attachment and sale of the defaulter's movable property or by attachment and sale of the defaulter's immovable property or by arrest of the defaulter and his detention in prison or by appointing a receiver for management of defaulter's movable and immovable properties.

2.11.1 The administrative machinery of tax recovery has been strengthened by allocating one TRO exclusively for each range consequent to the implementation of the scheme of restructuring of the department. The demands certified to TROs and amount recovered is indicated in Table 2.16 below:

* Net arrears comprise gross arrears minus arrears not fallen due, amounts claimed to have been paid pending verification, amount for which instalments were granted and amount stayed/kept in abeyance

(Rs. in crore)

TABLE 2.16: TAX DEMANDS CERTIFIED TO THE TAX RECOVERY OFFICER AND DEMAND RECOVERED

Year	Demand certified at the beginning of the year	Demand certified during the year	Total certified demand	Demand certified recovered during the year	Balance at the end of the year
1	2	3	4	5	6
2003-04	16,009.26	5,320.28	21,329.54	4111.73 (19.28)	17,217.81
2004-05	17,217.81	14,217.55	31,435.36	5,078.01 (16.16)	26,357.35
2005-06	26,357.35	5,285.09	31,642.44	4,433.04 (14.01)	27,209.40*

2.11.2 Recovery of certified demand has declined from 16 percent during 2004-05 to about 14 percent during 2005-06. The working strength of TROs however, also decreased to 329 from 356 during the same period.

Penalties

2.12 If an assessee fails to furnish return of income/wealth or files a false return or fails to produce accounts and documents, penalty is leviable. The assessee is also liable to be prosecuted for the offence. Penalty is also leviable for failure to deduct or pay tax. Table 2.17 indicates that out of 7.35 lakh cases where penalty proceedings were initiated, only 0.78 lakh cases (10.67 percent) were finalized during the year as compared to 13.09 percent in 2004-05. Total pendency has increased from 4.90 lakh cases at the end of 2004-05 to 6.56 lakh cases at the end of 2005-06.

TABLE 2.17: INCOME TAX CASES WHERE PENALTY PROCEEDINGS INITIATED, DISPOSED OF AND PENDING

Year	Opening balance	Additions	Total	Disposal	Closing balance
1	2	3	4	5	6
2003-04	1,50,270	2,55,247	4,05,517	74,332	3,31,185
2004-05	3,31,185	2,32,380	5,63,565	73,774	4,89,791
2005-06	4,89,791	2,44,774	7,34,565	78,383	6,56,182

2.12.1 Out of 78,383 penalty cases disposed of during the year, penalty was imposed in 47 percent or 36,839 cases. Over 55 percent of the penalty cases disposed of related to concealment of income. Table 2.18 below gives the details.

* Year wise, tax wise and amount wise breakup given in Appendix-6

TABLE 2.18: NATURE OF OFFENCES AND PENALTIES IMPOSED DURING 2005-06

Nature of offence	Cases disposed of	Penalties imposed	
		Cases	Amount (Rs in crore)
1	2	3	4
Concealment	43,795	22,530	3040.34
Other than concealment	34,588	14,309	2005.73
Total	78,383	36,839	5,046.07

2.12.2 The number of cases where penalties were imposed increased from 32,170 in 2004-05 to 36,839 in 2005-06 but the amount of penalty imposed decreased from Rs. 7,073.53 crore to Rs. 5,046.07 crore during the same period.

Search and seizure cases

2.13 Chapter XIV-B of the Act governs the assessment of search cases. The time limit for completion of block assessment is two years from the end of the month in which the last of the authorizations for search was executed. Table 2.19 summarizes the position of prosecutions launched, convictions obtained, offences compounded and acquittals allowed.

TABLE 2.19: PROSECUTIONS LAUNCHED, CONVICTIONS OBTAINED, OFFENCES COMPOUNDED AND ACQUITTALS

Year	Number of prosecutions launched			Disposal of cases				Cases pending
	Opening balance	Additions	Total	Convictions	Compounding	Acquittals	Total	Balance
1	2	3	4	5	6	7	8	9
2003-04	11,870	37	11,907	12	55	48	115	11,792
2004-05	11,792	103	11,895	1	262	87	350	11,545
2005-06	11,545	326	11,871	1	85	39	125	11,746

2.13.1 Only 1.05 percent of total cases for prosecution were disposed of during 2005-06 about 31 percent of which resulted in acquittal. Only one out of 125 cases disposed of resulted in conviction.

Refund cases and interest paid on refunds

2.14 Where the amount of tax paid exceeds the amount of tax payable, the assessee is entitled to a refund of the excess amount. Simple interest at the prescribed rate is payable on the amount of such refund. Refund of any amount as a result of any order passed in appeal or other proceedings is also admissible along with simple interest at the prescribed rate.

TABLE 2.20: CASES OF REFUNDS FOR WHICH CLAIMS WERE MADE

Financial year	Opening balance	Claims received during the year	Total	No. of claims disposed of	Balance outstanding
1	2	3	4	5	6
2003-04	2,19,728	2,27,262	4,46,990	3,23,375	1,23,615
2004-05	1,23,615	2,80,862	4,04,477	3,03,747	1,00,730
2005-06	1,00,730	2,30,967	3,31,697	2,76,646	55,051

2.14.1 Pendency of refund claims results in outflow of revenue from government by way of interest. About seventeen percent of the refund claims remained outstanding at the end of March 2006 as compared to 25 percent in 2005-06. Details are given in Table 2.20 above.

TABLE 2.21: CASES RESULTING IN REFUND AS A RESULT OF APPELLATE ORDERS AND REVISION ORDERS, ETC

Financial Year	Opening Balance	Addition	Total	Disposal	Closing Balance
1	2	3	4	5	6
2003-04	36,835	54,677	91,512	64,422	27,090
2004-05	27,090	45,032	72,122	69,931	2,191
2005-06	2,191	29,178	31,369	29,296	2,073

2.14.2 After appeal/revision orders having been received, 2,073 cases, or seven percent of total cases where refunds were due to assesseees remained pending at the end of 2005-06. Details are given in Table 2.21 above.

(Rs. in crore)

TABLE 2.22: INTEREST PAID ON REFUNDS BY THE GOVERNMENT

Section under which interest paid	2003-04		2004-05		2005-06	
	No. of assessments	Amount	No. of assessments	Amount	No. of assessments	Amount
1	2	3	4	5	6	7
214	1,277	0.13	9	49.74	3	0.13
243	4	0.02	3	0.12	1	0.02
244	6,302	2.57	29,684	157.73	38,710	15.52
244A	44,48,218	4,698.44	45,59,980	3,658.39	39,59,413	4559.16
Total	44,55,801	4,701.16	45,89,676	3,865.98	39,98,127	4574.83

2.14.3 Government refunded Rs. 30,032 crore from gross collection of Rs. 1,87,294 crore (Table 2.5) and paid interest amounting to Rs. 4,575 crore (Table 2.22) which worked out to 15 percent of the amount refunded. The number of assessments on which interest was paid had decreased by thirteen

percent from 45.90 lakh in 2004-05 to 39.98 lakh in 2005-06. The amount of interest paid on refunds by the department however increased from Rs. 3,865.98 crore in 2004-05 to Rs. 4,574.83 crore in 2005-06.

Incorrect accounting of interest on refunds

2.14.4 Audit had earlier commented in Audit Reports of 2004, 2005 and 2006 that government was following an incorrect procedure of accounting for interest paid on refunds. Interest payment is a charge on the Consolidated Fund of India and therefore is payable through a proper budgetary mechanism. Accordingly, minor head “interest on refunds” is operated under the Major Head “2020-Collection of Taxes on Income and Expenditure”. However, no budget provision for ‘interest on refund’ was made in the budget estimates for 2005-06 and the expenditure on interest on refunds amounting to Rs. 4574.83 crore was treated as reduction in revenue. Accountal of interest on refund as reduction in revenue is fundamentally incorrect as interest was never collected in the first instance. Interest on belated refunds of excess tax should be budgeted as an expenditure item which, infact, was done in budget estimates 2001-02. An amount of Rs. 92 crore was provided in the demand of ‘Direct Taxes’ under the Major Head ‘2020 – Collection of taxes on Income & Expenditure’ in budget estimates 2001-02 towards interest on belated refund of excess tax. However, subsequently at the revised estimates stage the past practice of showing the interest on excess refund as deduct receipt was reverted to.

Cost of collection of taxes

2.15 Overall cost of collection of income and corporation taxes increased from Rs. 993 crore in 2001-02 to Rs. 1,218 crore in 2004-05 and decreased to Rs. 1,101 crore in 2005-06. However, cost per rupee of corporation tax collected declined from 0.31 paise in 2001-02 to 0.15 paise in 2005-06. For income tax, cost of collection per rupee declined from 2.74 paise in 2001-02 to 1.70 paise in 2005-06. Cost of collection per assessee, however, increased marginally for corporation tax and decreased for income tax during the year as compared to previous years. The position of cost of collection as depicted by the department needs to be viewed against the background that 91.01 percent and 80.48 percent of gross collections during 2005-06 from non corporate and corporate assesseees respectively, were realized at the pre-assessment stage i.e., in the form of advance tax, TDS and self assessment tax. Annual fluctuations in cost of collection of corporation and income tax are indicated in Table 2.23 below.

TABLE 2.23: COST OF COLLECTION OF CORPORATION AND INCOME TAX

Nature of tax	2001-02	2002-03	2003-04	2004-05	2005-06
Cost of collection (Rs. in crore)					
Corporation Tax	115	121	129	141	147
Income Tax	878	927	979	1077	954
Cost of collection per rupee of tax collected (in paisa)					
Corporation Tax	0.31	0.26	0.21	0.17	0.15
Income Tax	2.74	2.51	2.37	2.19	1.70

	2001-02	2002-03	2003-04	2004-05	2005-06
Cost of collection per assessee (In rupees)					
Corporation Tax	3,293	3315	3468	3,710	3,740
Income Tax	339	329	340	402	325

Appeals, revision petitions and writs

2.16 If an assessee is not satisfied with his assessment or refund order, he can file an appeal with the Commissioner (Appeals) and thereafter to Income Tax Appellate Tribunal (ITAT) and on any question of law arising out of such order to High Court and Supreme Court. The assessee can also initiate writ proceedings under Article 226 of the Constitution.

2.16.1 Clauses 6A to section 250 and 2A to section 254 have been inserted in the Income Tax Act, with effect from 1 June 1999 indicating time limits for disposal of an appeal which are one year for CIT (A) and four years for ITAT.

TABLE 2.24: APPEALS PENDING WITH THE COMMISSIONERS (APPEALS) ON 31 MARCH 2006

	Total appeals	High demand* appeals Rs.1-10 lakh	With demand of Rs. 10-25 lakh	With demand of Rs.25 lakh and above
Appeals for disposal	1,34,919	46,337	7,509	9,870
Disposal	70,794	25,394	4,073	5,359
Pending	64,125	20,943	3,436	4,511

2.16.2 As per instructions from the Board, each CIT (Appeal) is required to dispose of a minimum of 60 appeals per month. Thus about 2.06 lakh appeals should have been disposed of during the year on the basis of working strength of 287 CIT (Appeals). Table 2.24 above shows that only 0.71 lakh appeals were disposed of which is less than the required disposal. Average disposal per CIT (A) during 2005-06 was 247 appeals.

TABLE 2.25: APPEALS PENDING WITH SUPREME COURT/HIGH COURT/ INCOME TAX APPELLATE TRIBUNAL ON 31 MARCH 2006

Period	With Supreme Court	With High Court	With ITAT
Appeals, references and writs for disposal	3,158	23,587	49,337
Disposal	136	1,657	9,252
Pending	3,022	21,930	40,085

* An appeal in which tax involved is more than Rupees one lakh but less than ten lakh

2.16.3 Out of the cases referred to Supreme Court, High Court and ITAT till March 2006, 96 percent, 93 percent and 81 percent cases respectively remained pending as shown in Table 2.25.

**Cases settled
by Settlement
Commission**

2.17 An assessee may, at any stage of a case relating to him, make an application to the Settlement Commission to have the case settled. While making such an application, an assessee shall make full and true disclosure of his income (not disclosed before the assessing officer) and the additional amount of income tax payable on such income. The Settlement Commission admits/rejects the application after calling for a report from the Commissioner. Out of 3,065 cases for disposal by the Settlement Commission, 301 cases (9.82 percent) were settled. Percentage of disposal in respect of income tax and wealth tax, as shown in Table 2.26 below decreased during the year as compared to 2004-05.

TABLE 2.26: CASES SETTLED BY THE SETTLEMENT COMMISSION

Year	Opening balance	Addition	Total cases for disposal	Number of cases settled	Percentage of cases settled	Number of cases pending
1	2	3	4	5	6	7
Income Tax						
2003-04	2,464	491	2,955	188	6.37	2,767
2004-05	2,767	427	3,194	372	11.65	2,822
2005-06	2,822	477	3,299	301	9.12	2,998
Wealth Tax						
2003-04	66	Nil	66	0	0.00	66
2004-05	66	Nil	66	1	1.52	65
2005-06	65	2	67	0	0	67

TABLE 2.27: CASES PENDING ADMISSION/HELD UP WITH SETTLEMENT COMMISSION

Nature of cases	31 March 2005	31 March 2006
Cases pending admission before Settlement Commission	665	730
Cases held up with Settlement Commission for want of comments of the department	302	374

2.17.1 Out of 3,065 pending income tax and wealth tax cases, 1,104 (36 per cent) cases were either pending admission with Settlement Commission or held up for want of comments from the department.

Revenue demand written off

2.18 The total amount of arrears, for which recovery certificates were issued to Tax Recovery Officers during 2005-06 amounted to Rs. 27,209.40 crore involving 3,51,564 assessees. Out of this, Rs. 192.72 crore involving 2,49,464 assessees related to cases where demand in each case was up to rupees ten thousand. The department identified arrears in respect of 1,63,971 assessees for possible write-off involving Rs. 46.48 crore and Rs. 13.73 crore was thereafter written off in respect of 48,555 assessees.

2.18.1 A total demand of Rs. 128.22 crore was written off during 2005-06, of which 35.28 percent pertained to cases where assessees either had died leaving behind no assets or had become insolvent or had gone into liquidation or where companies had become defunct and about 22 percent pertained to assessees who were alive but had no attachable assets. Table 2.28 contains the details.

(Rs. in crore)

TABLE 2.28: CATEGORY-WISE DETAILS OF REVENUE DEMANDS WRITTEN OFF DURING 2005-06

Category	Company cases		Non-company cases		Total cases	
	No.	Amount	No.	Amount	No.	Amount
1	2	3	4	5	6	7
(a) Assessee having died leaving behind no assets/become insolvent/gone into liquidation or are defunct.	24	44.36	1,490	0.80	1,514	45.16
(b) Assessee being untraceable.	30	1.45	17,865	22.01	17,895	23.46
(c) Assessee having left India	15	26.16	0	0.00	15	26.16
(d) Assessee who were alive but had no attachable assets/amounts being petty/amounts written off as a result of scaling down of demand and other reasons	577	14.75	32,311	13.66	32,888	28.41
(e) Amount written off on grounds of equity or as a matter of international courtesy, or where time, labour and expense involved in legal remedies for realisation are considered disproportionate to the recovery.	0	0.70	3,529	4.33	3529	5.03
Total	646	87.42	55,195	40.80	55,841	128.22