Highlights

The Comptroller and Auditor General of India conducts the audit of Receipts from Direct Taxes of the Union Government under section 16 of the Comptroller Auditor General of India (Duties, Power and Conditions of Service) Act, 1971. This Report discusses direct taxes administration, audit mandate, products & impact and findings of compliance audit including fictitious sales and purchases by shell companies/hawala operators, functioning of Directorate of Income Tax (Infrastructure) and Centralised Processing Centre, Bengaluru.

Chapter I: Direct Taxes Administration

Direct tax receipts of Union Government in FY 2015-16 was ₹ 7,42,012 crore which represented 5.5 *per cent* of the GDP. Share of direct taxes in Gross Tax Revenue decreased to 51.0 *per cent* in FY 2015-16 from 55.9 *per cent* in FY 2014-15.

Two major components of Direct taxes viz. Corporation Tax increased from ₹ 4.29 lakh crore in FY 2014-15 to ₹ 4.53 lakh crore in FY 2015-16 and Income Tax increased from ₹ 2.58 lakh crore in FY 2014-15 to ₹ 2.80 lakh crore in FY 2015-16.

The number of non-corporate assessees increased from 360.55 lakh in FY 2014-15 to 398.04 lakh in FY 2015-16 registering an increase of 10.4 *per cent*.

The number of corporate assessees increased from 6.75 lakh in FY 2014-15 to 6.88 lakh in FY 2015-16 registering an increase of 1.9 *per cent*.

Out of total 7.05 lakh scrutiny assessment cases, the Department had disposed of 3.39 lakh cases (48.06 *per cent*) in FY 2015-16 resulting in decrease in disposal rate.

The arrears of demand increased from ₹ 7.00 lakh crore in FY 2014-15 to ₹ 8.24 lakh crore in FY 2015-16. The Department indicated that more than 97.3 *per cent* of uncollected demand is difficult to recover in FY 2015-16.

Appeals pending with CIT(A) increased from 2.32 lakh in FY 2014-15 to 2.95 lakh in FY 2015-16. The amount locked up in these cases with CIT(A) was ₹ 5.16 lakh crore in FY 2015-16. The amount locked up at higher levels (ITAT/High Court/Supreme Court) increased from ₹ 1.9 lakh crore (77,448 cases) in FY 2014-15 to ₹ 3.0 lakh crore (70,371 cases) in FY 2015-16.

Chapter II: Audit Mandate, Products and Impact

ITD completed 2.28 lakh scrutiny assessments in FY 2014-15 in those units which were audited during audit plan of FY 2015-16, of which we checked 2.19 lakh cases. Apart from this, we have also audited 0.25 lakh cases completed in previous financial years, during FY 2015-16. The incidence of errors in assessment checked in audit during FY 2015-16 was 0.18 lakh cases (7.3 *per cent).*

The Report discusses 463 high value and important cases reported to the Ministry, which have been included in Chapter III and IV. Out of these, the Ministry/ITD accepted 298 cases (89 *per cent*) while it did not accept 37 cases as of 20 December 2016. In remaining cases the Ministry/ITD did not furnish replies. Besides, one long para on 'Fictitious sales and purchases by shell companies/hawala operators' has been included in Chapter V. The Report also discusses two subject specific compliance audit on 'Functioning of Directorate of Income Tax (Infrastructure)' and 'Centralised Processing Centre, Bengaluru' which have been included in Chapter VI and VII respectively.

The accretion in pendency in replies to audit findings each year has resulted in accumulation of 48,106 cases involving revenue effect of ₹ 72,391.68 crore as of 31 March 2016.

ITD recovered ₹ 525.68 crore in FY 2015-16 from demands raised to rectify the errors in assessments that we pointed out.

During FY 2015-16, 2,074 cases with tax effect of ₹ 1,230.72 crore became time-barred for remedial action.

Chapter III: Corporation Tax

We pointed out 320 high value cases pertaining to corporation tax with tax effect of ₹ 3,298.93 crore. We classified these cases in four broad categories namely quality of assessments involving tax effect of ₹ 1,442.94 crore (105 cases), administration of tax concessions/exemptions/deductions involving tax effect of ₹ 1,433.82 crore (145 cases), income escaping assessments due to omissions involving tax effect of ₹ 245.44 crore (47 cases) and over-charge of tax/interest involving ₹ 176.73 crore (23 cases).

Chapter IV: Income Tax and Wealth Tax

We pointed out 136 high value cases pertaining to income tax with tax effect of ₹ 460.70 crore. We classified these cases in four broad categories namely quality of assessments involving tax effect of ₹ 107.27 crore (68 cases), administration of tax concessions/exemptions/deductions involving tax effect of ₹ 63.28 crore (38 cases), income escaping assessments due to omissions involving tax effect of ₹ 15.02 crore (21 cases) and over charge of tax/interest involving ₹ 275.13 crore (nine cases). Besides, we also pointed out seven cases of Wealth Tax involving tax effect of ₹ 0.47 crore.

Chapter V: Fictitious sales and purchases by Shell Companies/Hawala Operators

This deals with the fictitious transactions which took place between Bogus Entry Providers and their beneficiaries which led to generation of unaccounted income. Audit noticed failure of the ITD to effectively use various tools at its disposal to carry out suo motu detailed investigation of the facts and take up cases for scrutiny in order to bring to book the severe economic offenders.

Chapter VI: Functioning of Directorate of Income Tax (Infrastructure)

We pointed out weakness in planning and implementation of infrastructural works by the Directorate/Pr. CCsIT. The CCsIT did not send proposals for acquisition of land complete in all respect resulting in delays in according approvals. Cases were noticed where construction of office/residential buildings did not take place as acquired land was incapable of being used for construction. Unsuitability of land indicates poor due diligence before acquiring the land. There were delays in according administrative approval for construction leading to projects not taking off. There is a need to improve planning and approval process to complete the projects in a time bound manner. There was weakness in financial management in implementing the works project by the Directorate. The Directorate was not able to utilize the budgeted allocation fully although there was shortage of office space. Audit came across cases where approval by the competent authority was not given for spending money and lease rent was being paid without renewing the lease deed.

Chapter VII: Centralised Processing Centre, Bengaluru

We pointed out mistake in business rules relating to matching of TDS with offered income. Full potential of CPC such as AST-CPC interface for accessing demand/refund information, information available with AO not used in processing returns, non-linking of previous years' ITRs resulting in excess deduction, was not realised due to not changing the definition of 'processing'. During execution of the project, deviations from agreed processes were noticed. One of the deviations was related to matching of TDS/Tax payment claims which resulted in increased rectification due to non-matching of tax credit. Rectification process in contravention of the Master Service Agreement resulted in irregular payment of ₹ 5.86 crore. Service Level Agreement (SLA) metrics were not achieved by the Service Provider during FY 2012-13 in respect of processing of physical ITRs. Though the number of e-filing of ITR had been increased as compared to projected, however, SLA was not revised and the performances of the SP continued to be compared against the original targets.