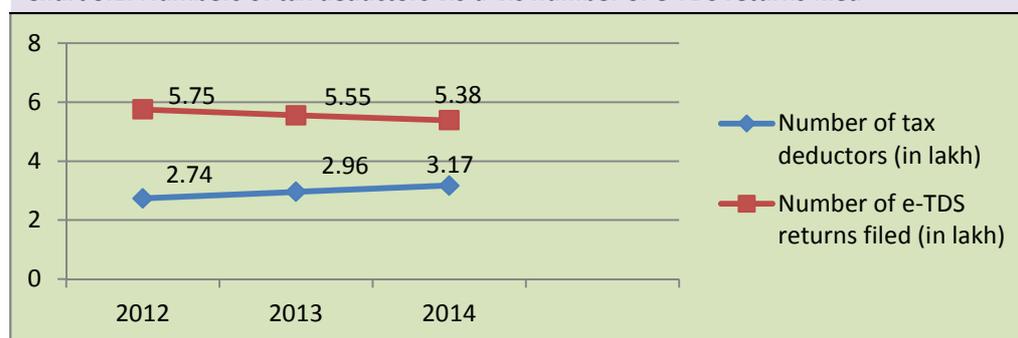


Chapter 3

Widening of TDS/TCS base

3.1 The strategy to augment revenue through tax deduction at source as outlined in the Central Action Plan (CAP) 2014-15 of CBDT emphasised on surveys and identifying areas of no/low deduction of tax at source for widening of TDS/TCS base. The number of tax deductors available with the ITD as on 31 March 2012, 2013 and 2014 and number of e-TDS returns filed during the same period are shown in Chart 3.1.

Chart 3.1: Numbers of tax deductors vis-à-vis number of e-TDS returns filed



Source: CPC(TDS)

This chapter highlights the issues related to efforts made by the ITD for widening the TDS/TCS base.

3.2 TDS collection under different sub-heads

3.2.1 Tax collection⁴ increased from ₹ 6.37 lakh crore in FY 2012-13 to ₹ 7.99 lakh crore in FY 2014-15 with a growth of 25.5 *per cent* whereas TDS collections from taxpayers under different sub-heads increased from ₹ 2.11 lakh crore in FY 2012-13 to ₹ 2.59 lakh crore in FY 2014-15 with an increase of 22.75 *per cent*. Table 3.1 shows the details of Tax collection vis-à-vis TDS collection under different sub-heads during FYs 2012-13 to 2014-15.

⁴ Including corporation and income tax

Table 3.1: Tax collection vis-à-vis TDS collections under sub-heads				₹ in crore
Particulars/FY	2012-13	2013-14	2014-15	
Tax collection	6,36,932	7,21,604	7,99,459	
Details of TDS under different sub-heads				
Salaries	84,293	98,346	1,08,215	
Interest on securities	1,307	736	952	
Dividends	243	162	112	
Interest	25,836	33,353	34,915	
Winning from lottery or crossword puzzles	204	265	226	
Winning from horse races	19	20	21	
Payments to contractors & sub-contractors	26,826	27,757	29,863	
Insurance Commission	2,194	2,436	2,428	
Payment to non-residents	51	71	77	
Others	69,681	85,399	82,298	
Total TDS	2,10,654	2,48,547	2,59,106	

There has been steady growth in the tax collection and the TDS collection during the period 2012-13 to 2014-15.

3.3 Selection criteria for verification of TDS returns

The CBDT prescribes criteria for selection of returns/cases for regular assessments to ensure that the assessee has not understated the income or has not computed excessive loss or has not under-paid the tax in any manner. Similar criteria are required for selection of verification of TDS/TCS returns to detect the default of tax deductor on account of non deduction/short deduction of tax or tax deducted but not deposited in the Government account.

Audit noticed that no selection criteria have been prescribed by the CBDT for selection of TDS returns for scrutiny by the AO of TDS units. AO(TDS) picks up the TDS returns for verification in a subjective manner. Similar issue had also been raised in the Performance Audit Report no. 8 of 2007 wherein Ministry had replied that suitable procedure was under consideration, which would specify time limit as well as procedure of verification of TDS returns.

During exit conference, the CBDT stated that some standardized approach would be adopted for selection of verification of TDS cases on the lines of methodology of selection criteria of regular assessment cases.

3.4 Survey conducted by TDS units

In order to ensure that all entities liable to deduct or collect tax at source are brought on the records of the ITD, TDS units are required to examine the income tax assessments, connected records and conduct surveys under section 133A. As per Central Action Plan 2013-14, survey is one of the easy and handy tools for verification of TDS compliance. The data available in the ITD system regarding current trends of business, useful information gathered from newspapers/magazines and also during enquiry/examination of other cases can provide valuable inputs for proper selection of cases to conduct surveys. Prompt action to pass necessary orders under section 201 for defaults, charging of interest, levying penalties in respect of defaults detected during survey etc. will result in timely collection of TDS. Survey reports prepared thereafter by the TDS units need to be followed up for compliance from the defaulters.

Audit examination of survey targeted, conducted, finalised and pending during the period revealed the following:

In 24 CIT(TDS) charges in 15 states⁵, ITD finalized 3,026 surveys out of 3,401 surveys carried out during FYs 2012-13 to 2014-15 raising demand of ₹ 2,387.83 crore and realized ₹ 718.35 crore. The details are shown in Appendix 2.

- (i) In more than 50 *per cent* of the CIT(TDS) charges the annual target of number of surveys to be conducted was either not fixed/not available or was zero during the above period.
- (ii) In nine CIT (TDS) charges⁶ in each of the above years, the number of surveys conducted either far exceeded the target (more than 100 *per cent*) or was less than 50 *per cent* of the target. Thus the target fixing was not done realistically.
- (iii) Information of target was not available with CIT(TDS) charges in Delhi, Chattisgarh, Gujarat, Rajasthan, Chandigarh UT, Tamil Nadu, Vijayawada and Odisha; the information with regard to survey targeted, conducted, finalised and pending was not available in Goa, Tamil Nadu and Jharkhand;

5 Assam, Andhra Pradesh, Bihar, Chandigarh UT, Chhattisgarh, Delhi, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Odisha, Rajasthan, Uttar Pradesh, Uttarakhand and West Bengal.

6 Bangalore, Bhopal, Hyderabad, Kanpur, Lucknow, CIT-I, Mumbai, Nagpur, Patna & Pune

- (iv) In FY 2012-13, there were four CIT (TDS) charges⁷ and in FY 2013-14 and FY 2014-15, there were two CIT (TDS) charges⁸ where no survey had been conducted.
- (v) 89 *per cent* of the surveys conducted during the period were completed by AOs(TDS),
- (vi) 221 out of 375 surveys remaining pending for finalization pertained to four states which accounted for 59 *per cent* of total pending survey cases. Table 3.2 shows the details of surveys conducted and finalized in these four states.

FY	2012-13		2013-14		2014-15	
	Total surveys conducted	Surveys pending	Total surveys conducted	Surveys pending	Total surveys conducted	Surveys pending
Madhya Pradesh	85	11	123	81	55	24
Karnataka	92	10	211	12	238	52
Andhra Pradesh ⁹	18	6	16	4	26	4
West Bengal	16	0	30	12	12	5
Total	211	27	380	109	331	85

The above indicates that the ITD's approach towards fixing of target for conducting of surveys was not scientific and follow-up and monitoring was also non-existent.

The issue had also been raised in the Performance Audit Report no. 8 of 2007 wherein it was stated that surveys were either not being conducted or the reports of surveys not finalized in a number of cases. It is recommended that ITD may fix realistic targets for its CIT (TDS) charges of the surveys to be conducted and surveys may be conducted in all TDS units and thereafter finalized in time for broadening the tax base by bringing hitherto uncovered tax deductors in the tax net.

During exit conference, the CBDT agreed on taking a decision on fixing of realistic targets for conducting of surveys.

7 CIT-1&2 (TDS)-Delhi, CIT-2 (TDS)-Mumbai & CIT (Patna) for Jharkhand region;

8 for FY 2013-14- CIT-1 (TDS)-Mumbai & CIT (Patna) for Jharkhand region; for FY 2014-15- CIT-1 (TDS)-Chandigarh & CIT (Patna) for Jharkhand region;

9 In CIT(TDS) Vijaywada charge

3.5 Inadequacies in Know Your Customer (KYC) for allotment of TAN

Tax Deduction Account Number or Tax Collection Account Number (TAN) is a 10-digit alpha-numeric number issued by the ITD. It is to be obtained by all persons who are responsible for deducting tax at source or who are required to collect tax at source. For issue of TAN, an application is made in Form 49B and submitted to TIN-FC. However, no documents as the proof of identity and address are required to be attached while submitting the Form 49B. Even PAN field prescribed in the Form 49B is not required to be filled in mandatorily.

Audit noticed that, during FYs 2012-13 to 2014-15, 1.08 lakh notices were issued by AO (TDS) under different CIT charges¹⁰ to non-filers/stop filers out of which 5,068 notices were received back as 'un-served' on account of inadequacies in 'KYC' details given in Appendix 3.

Audit observed that due to inadequate 'KYC' the ITD was unable to address the issue of the demand of ₹ 4,180 crore¹¹ raised under section 201(1)/201(1A) during the period 2007-08 to 2011-12 that has not been attended to by the tax deductors.

For tracking of tax defaulters, it is necessary to have adequate 'KYC' norms at the time of allotment of TAN. However, the ITD was not doing sufficient 'KYC' before allotting TAN to the tax deductors. Validation of identities, addresses with telephone numbers and e-mail of the tax deductors may be the prerequisite for allotment of TAN so as to keep track of all the tax deductors.

During exit conference, the CBDT agreed on this issue and stated that they are considering making PAN mandatory in TAN allotment.

3.6 Conclusion

The criteria for selection of verification of TDS returns are not prescribed by the CBDT. In more than 50 *per cent* of the CIT(TDS) charges the annual target of number of surveys to be conducted was either not fixed/not available or was zero during the period. Except for three CIT (TDS) charges in each of the years, the number of surveys conducted either far exceeded the target or was less than its 50 *per cent* indicating no relationship between the target and the achievement. The ITD's approach towards fixing of target for conducting of surveys was not scientific. The ITD was not doing sufficient 'KYC' before allotting TAN to tax deductors and therefore was not able to track all TDS defaulters.

10 CIT (TDS)-Baroda, Bhopal, Bhubaneswar, Chandigarh, Chennai, Delhi 1 & 2, Guwahati, Jaipur, Kanpur, Kolkata, Lucknow, Mumbai 1 & 2, Pune, Siliguri and Vijayawada

11 The report of Annual Conference (2015-16) of Pr. CCIT/CIT

3.7 Recommendations

Audit recommends that

- ❖ The CBDT may prescribe the procedure and criteria for selection of TDS returns for verification.

The CBDT agreed (December 2016) with the recommendation and stated that action would be taken on the lines of methodology of selection criteria of regular assessment cases.

- ❖ The CBDT may fix realistic targets for its CIT(TDS) charges of the surveys to be conducted and surveys may be conducted in all TDS units and thereafter finalized in time for broadening the tax base by bringing hitherto uncovered tax deductors in the tax net.

The CBDT agreed (December 2016) on taking a decision on fixing of realistic targets for conducting of surveys.

- ❖ The CBDT may examine the inadequacies in the 'KYC' and without sufficient 'KYC' the ITD may not issue TAN so as to keep track of tax defaulters.

The CBDT stated (December 2016) that CBDT is considering for making PAN mandatory in TAN allotment.