

## Highlights

The Comptroller and Auditor General of India conducts the audit of receipts of the Union Government under section 16 of the Comptroller 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 seven chapters, the highlights of which are described below:

### Chapter I: Direct Taxes Administration

Direct taxes receipts of Union Government in FY 2016-17 amounted to ₹ 8,49,801 crore grew by 14.5 *per cent* over the FY 2015-16 (₹ 7,42,012 crore). Direct Taxes represented 5.6 *per cent* of the GDP in FY 2016-17. Share of direct taxes in gross tax revenue decreased to 49.5 *per cent* in FY 2016-17 from 51.0 *per cent* in FY 2015-16.

Of the two major components of direct taxes, collections from Corporation Tax increased by 7.0 *per cent*, from ₹ 4.53 lakh crore in FY 2015-16 to ₹ 4.85 lakh crore in FY 2016-17. Collections from Income Tax increased by 21.5 *per cent* from ₹ 2.80 lakh crore in FY 2015-16 to ₹ 3.41 lakh crore in FY 2016-17.

The number of non-corporate assesseees increased from 3.98 crore in FY 2015-16 to 4.37 crore in FY 2016-17, registering an increase of 9.8 *per cent*. The number of corporate assesseees increased from 6.9 lakh in FY 2015-16 to 7.1 lakh in FY 2016-17, registering an increase of 3.6 *per cent*.

Out of total 9.2 lakh scrutiny assessment cases, the Income Tax Department had disposed off 4.0 lakh cases (44.0 *per cent*) in FY 2016-17. The disposal rate was 48.1 *per cent* last year.

There has been significant reduction in the pendency of direct refund cases over the years from 28.9 *per cent* in FY 2012-13 to only 10.7 *per cent* in FY 2016-17.

The arrears of demand increased from ₹ 8.2 lakh crore in FY 2015-16 to ₹ 10.4 lakh crore in FY 2016-17. The Department indicated that more than 98.6 *per cent* of uncollected demand would be difficult to recover.

Number of appeals pending with CIT (Appeals) increased from 2.6 lakh in FY 2015-16 to 2.9 lakh in FY 2016-17. The amount locked up in these cases was ₹ 6.1 lakh crore in FY 2016-17. The amount locked up at higher levels (ITAT/High Court/Supreme Court) increased from ₹ 3.0 lakh crore (70,371 cases) in FY 2015-16 to ₹ 4.4 lakh crore (82,806 cases) in FY 2016-17.

## **Chapter II: Audit Mandate, Products and Impact**

During FY 2015-16, the ITD had completed 2.57 lakh scrutiny assessments in the units audited as per the audit plan of FY 2016-17, out of which we checked 2.39 lakh cases. Apart from this, we have also audited 0.30 lakh cases completed in the earlier financial years, during FY 2016-17. The incidence of errors in assessment checked in audit during FY 2016-17 was 0.19 lakh cases (7.2 *per cent*, as against 7.3 *per cent* last year).

There has been persistent and pervasive irregularities in respect of corporation tax and income tax assessments cases over the years. Recurrence of such irregularities, despite being pointed out repeatedly in the earlier Audit Reports points to structural weaknesses on the part of Department as well as the absence of appropriate institutional mechanisms to address this. Such irregularities were particularly noticeable in the assessment charges in Maharashtra and Delhi.

This Report includes only 457 high value cases reported to the Ministry. Out of these, we received replies in respect of 269 cases as on 31 October 2017, of which, 243 cases (90.3 *per cent*) were accepted and 26 cases not accepted. In remaining cases the Ministry/ ITD did not furnish replies. These do not include the cases described in Chapters V and VI, relating respectively to fictitious demands during scrutiny assessments and bogus transactions by assesseees, noticed in audit. Besides, the Report also discusses one subject specific compliance audit on 'The Appeal process in Income Tax Department' which has been included in Chapter VII.

In the last five years, the ITD recovered ₹ 4,951.51 crore from demands raised to rectify the errors in assessments that we had pointed out. There are 49,436 cases involving revenue effect of ₹ 0.87 lakh crore pointed in audit which are remaining unsettled as of 31 March 2017 for want of replies from the ITD.

During FY 2016-17, 2,243 cases with tax effect of ₹ 1,637.81 crore became time-barred for initiating any remedial action.

## **Chapter III: Corporation Tax**

We pointed out 320 high value cases pertaining to corporation tax with tax effect of ₹ 3,850.86 crore. We classified these cases in four broad categories, viz. (1) quality of assessments involving tax effect of ₹ 625.73 crore (99 cases); (2) administration of tax concessions/exemptions/deductions involving tax effect of ₹ 1,789.22 crore (150 cases); (3) income escaping assessments due to omissions involving tax effect of ₹ 989.83 crore (31 cases); and (4) over-charge of tax/interest involving ₹ 446.08 crore (40 cases).

#### **Chapter IV: Income Tax and Wealth Tax**

We pointed out 131 high value cases of income tax with tax effect of ₹ 335.53 crore and six cases of wealth tax with tax effect of ₹ 0.46 crore. We classified these cases in the above four broad categories as follows: (1) quality of assessments involving tax effect of ₹ 217.93 crore (69 cases); (2) administration of tax concessions/exemptions/deductions involving tax effect of ₹ 78.19 crore (35 cases); (3) income escaping assessments due to omissions involving tax effect of ₹ 18.61 crore (17 cases); and (4) over charge of tax/ interest involving ₹ 21.26 crore (16 cases).

#### **Chapter V: Fictitious demands during scrutiny assessments**

We pointed out that the ITD had raised exaggerated demands to achieve its revenue collection targets by resorting to methods that were irregular and unwarranted. The demands so collected were refunded in the next financial year along with the interest under section 244A, which eventually put a heavy burden on the exchequer in the form of avoidable interest paid on refunds.

#### **Chapter VI: Bogus transactions by assessees**

**We pointed out that ITD did not adopt a uniform approach to deal with the cases of fictitious donations or bogus purchases. The AOs did not take cognizance of reports of the Investigation Wing and failed to initiate necessary follow up actions by disallowing the amounts of the fictitious donations or bogus purchases which resulted in loss of revenue.**

#### **Chapter VII: The Appeal Process in Income Tax Department**

We audited 17,097 appeal cases produced by the ITD and found irregularities in 2,203 cases involving tax effect of ₹ 549.56 crore related to non-compliance of the provisions of the Act/Rules/CBDT circulars etc. Such irregularities accounted for more than 12 *per cent* of total cases audited.

We pointed out admission of appeals by the CIT (Appeals) ignoring the precondition of payment of tax by the assessee, besides pointing out other violations of rules noticed.

In implementation of appellate orders, we noticed mistakes in giving effect to the appellate orders on account of non-consideration of the refund already issued to the assessee, short/non levy of the interest etc. There were delays in implementation of appellate orders which resulted in avoidable payment of interest under section 244A to the assessee. We also came across cases where the appellate authorities gave decisions in favour of revenue, but no action was taken by the ITD to implement the Appellate orders resulting in unrealised revenues.

