

PRESS RELEASE

OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

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CAG's Compliance Audit Report No. 13 of 2024 on Direct Taxes presented in Parliament

The Report of the Comptroller and Auditor General of India on Direct Taxes of the Union Government for the year ended March 2022 (Audit Report No. 13 of 2024) was laid in Parliament here today. This Report contains 504 audit observations having tax effect of ₹ 5,728.79 crore.

Important observations presented in the report are as follows:

- The number of non-corporate assessees increased from 6.63 crore in FY 2020-21 to 6.72 crore in FY 2021-22, whereas the number of corporate assessees increased from 9.21 lakh in FY 2020-21 to 9.65 lakh in FY 2021-22 (paragraphs 1.4.10 and 1.4.11). Further, the Direct tax collection increased by 49.1 *per cent* (₹ 4.65 lakh crore) in FY 2021-22 compared to FY 2020-21 (paragraph 1.3.1). However, the share of direct taxes in gross tax revenue increased to 52.1 *per cent* in FY 2021-22 from 46.7 *per cent* in FY 2020-21 (paragraph 1.4.1).
- The collections from corporation tax increased by 55.6 *per cent*, from ₹ 4.58 lakh crore in FY 2020-21 to ₹ 7.12 lakh crore in FY 2021-22 and Income Tax increased by 43.1 *per cent* from ₹ 4.71 lakh crore in FY 2020-21 to ₹ 6.73 lakh crore in FY 2021-22 (paragraphs 1.4.3 and 1.4.4).
- The arrears of demand increased from ₹ 14.94 lakh crore in FY 2020-21 to ₹ 19.35 lakh crore in FY 2021-22. Net collectible demand increased from ₹ 26,279 crore in FY 2020-21 to ₹ 51,318 crore in FY 2021-22. The Department indicated that more than 97.4 *per cent* of uncollected demand would be difficult to recover. (paragraphs 1.9.1 and 1.9.2).
- In the last three years, the Income Tax Officer (ITD) recovered ₹ 349.03 crore from demands raised to rectify the errors in assessments that Audit had pointed out. There are 55,934 cases of earlier years pointed out in the audit up to 31 March 2022, which remained unsettled as of 30 April 2024 for want of replies from the ITD. (paragraph 2.4.3 and 2.6).
- 332 high-value cases pertaining to corporation tax with a tax effect of ₹ 5,127.12 crore have been pointed out in this Report. These cases mainly pertained to errors in levy of

interest, irregularities in allowing depreciation/business losses/capital losses, incorrect allowance of business expenditure, unexplained investment/cash credit and arithmetical errors in the computation of income and tax etc. The Ministry/the ITD accepted 164 cases involving tax effect of ₹ 2,003.57 crore and did not accept 13 cases involving tax effect of ₹ 1,612.69 crore. However, out of 332 cases, the ITD has completed remedial action in 211 cases involving tax effect of ₹ 2,137.94 crore and initiated remedial action in 21 cases involving tax effect of ₹ 640.11 crore. In the remaining 100 cases, the ITD had not taken/initiated any action till April 2024 (paragraph 3.1.1).

- Out of 332 high-value cases cited above, we draw attention to 48 instances of significant errors/ irregularities in corporation tax assessments involving tax effect of ₹ 3,578.38 crore. The irregularities illustrated in this chapter include: non levy of interest of ₹ 23.24 crore under Sections 234A and 234B of the Act; excess grant of interest of ₹ 2.73 crore under Section 244A of the Act; omitted to claim of brought forward loss of ₹ 1,173.74 crore resulting in potential tax effect of ₹ 406.21 crore; allowed incorrect claim of additional depreciation of ₹ 331.92 crore on assets acquired and put to use prior to 1 April 2015 which resulted in under assessment of income of ₹ 331.92 crore with a short levy of tax of ₹ 175.99 crore; allowed excess Minimum Alternate Tax (MAT) credit of ₹ 59.73 crore to be carried forward; allowed incorrect allowance of expenditure of ₹ 214.58 crore involving potential tax effect of ₹ 64.37 crore; allowed assessee to reduce ₹ 1,219.98 crore and ₹ 1,624.33 crore from the amount of ₹ 1,225.00 crore and ₹ 1,724.00 crore respectively, received for indefeasible right to use (IRU) of the dark fiber as per the agreement entered with other company, treating it deferment of revenue over the agreement period of 20 years which resulted in aggregate under assessment of ₹ 2,844.31 crore involving tax effect of ₹ 976.81 crore excluding interest.
- 172 high-value cases pertaining to income tax with tax effect of ₹ 601.67 crore have been pointed out in this Report. These cases mainly pertained to errors in levy of interest, irregularities in allowing depreciation/business losses/capital losses, incorrect allowance of business expenditure, unexplained investment/cash credit and arithmetical errors in the computation of income and tax etc. The Ministry/the ITD accepted 60 cases involving tax effect of ₹ 445.36 crore, and did not accept three cases involving tax effect of ₹ 3.49 crore. Further, out of 172 cases, the ITD has completed remedial action in 151 cases involving tax effect of ₹ 426.38 crore and initiated remedial action in 10 cases involving tax effect of ₹ 22.70 crore. In the remaining eight cases, the ITD had not taken/ initiated any action till April 2024 (paragraph 4.1.1).
- 172 high-value cases cited above, include 41 instances of significant errors/ irregularities in income tax assessments involving tax effect of ₹ 404.91 crore. The irregularities illustrated in this chapter include: incorrect adoption of assessed income at ₹ 247.22 crore instead of the correct figure of ₹ 367.21 crore, involving short levy of tax of ₹ 76.98 crore; incorrect levy of interest under Section 234A(3) for non-compliance to the notice issued under Section 148 and incorrect levy of interest under

Section 234B for default in payment of advance tax, involving tax effect of ₹ 10.62 crore; incorrect set off of brought forward losses of ₹ 48.57 crore, involving short levy of tax of ₹ 22.34 crore; incorrect allowance of depreciation of ₹ 38.14 crore, involving potential tax effect of ₹ 13.20 crore; and non-taxation of accumulated income of an Artificial Juridical Person for not utilizing it within a specified period of five years, involving short levy of tax of ₹ 140.51 crore.

In addition, the following three recommendations have also been included in the Report:

- I. Application of incorrect rates of tax and surcharge, errors in levy of interest, excess or irregular refunds, etc., point to weaknesses in the internal controls in the ITD which need to be addressed.*
 - II. While the Department has taken action to initiate correction in the cases pointed out by the Audit, it may be mentioned that these are only a few illustrative cases, test checked in audit. In the entire universe of all assessments, including non-scrutiny assessments, such errors of omission or commission cannot be ruled out. The CBDT not only needs to revisit its assessments completed during the year but also put in place a foolproof IT system and internal control mechanism to avoid the recurrence of such errors in the future.*
 - III. The CBDT may examine whether the instances of "errors" noticed are errors of omission or commission, and if these are errors of commission, they should ensure necessary action, including fixing responsibility as per law.*
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BSC/SS/RK 52-24