

# OFFICE OF THE COMPTROLLER & AUDITOR GENERAL OF INDIA

NEW DELHI  
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## CAG COMPLIANCE AUDIT REPORT ON DIRECT TAXES PRESENTED IN PARLIAMENT

The Comptroller & Auditor General of India Audit Report No. 02 of 2017 on Direct Taxes was tabled in Parliament today and hence it has become a public document.

This Report contains 463 audit observations having tax effect of ₹ 3,760.10 crore, besides one long para on 'Fictitious sales and purchases by shell companies/hawala operators' and findings of compliance audits on "Functioning of Directorate of Income Tax (Infrastructure)" and "Centralised Processing Centre (CPC), Bengaluru".

### **The important findings presented in the report are as follows:**

- Direct Taxes increased by 6.6 *per cent* in FY 2015-16 (₹ 46,220 crore) as compared to FY 2014-15. However, 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 (paragraph 1.5.1).
- During the period FY 2011-12 to FY 2015-16, the compound annual growth rate of Direct Tax was 10.7 *per cent* (paragraph 1.5.4).
- Voluntarily compliance of Corporation tax and income tax during FY 2015-16 was 81.2 *per cent* as compared to 79.8 *per cent* in FY 2014-15 (paragraph 1.5.7).
- The Department had disposed of 3.39 lakh cases in FY 2015-16 out of total 7.05 lakh assessment cases due for scrutiny (paragraph 1.8.1).
- 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 arrears of demand is difficult to recover in FY 2015-16 (paragraphs 1.10.1 and 1.10.2).

- The appeals pending with Commissioner of Income Tax (Appeal) increased from 2.32 lakh in FY 2014-15 to 2.59 lakh in FY 2015-16 and the amount locked up in these cases was ₹ 5.16 lakh crore (paragraph 1.11.1).
- Income Tax department recovered ₹ 525.68 crore during 2015-16 on the basis of observations pointed out by audit (paragraph 2.4.1).
- In FY 2015-16, 2,074 cases with tax effect of ₹ 1230.72 crore became time-barred for remedial action (paragraph 2.5.2).
- 320 high value cases pertaining to corporation tax with tax effect of ₹ 3,298.93 crore have been pointed out in this Report (paragraph 3.1.1).
- 136 high value cases pertaining to Income tax and seven cases of Wealth Tax involving tax effect of ₹ 461.17 crore have been pointed out in this Report (paragraph 4.1.1).
- Audit came across cases where approval for lease and hiring of operational vehicles was not given by the competent authority. These were approved by the lower authority (paragraph 6.6.3).
- Audit noticed cases where accommodation on lease was continued without renewing the lease deed (paragraph 6.6.5).
- There was no interface between 'Assessment Information System' and 'CPC' for accessing demand/refund information. Information available with Assessing Officer was not used in processing of Income Tax returns (ITRs) and there was no linking of previous years ITRs which resulted in excess deduction (paragraph 7.8.4).
- As per Master Service Agreement (MSA), service provider was responsible for handling ITR rectification requests which was part of the scope of processing of ITR and no separate payment was required to be made for ITR rectification. Audit noticed that in contravention of the MSA, irregular payment of ₹ 5.86 crore was made to the service provider for the ITR rectification process (paragraph 7.9.3).
- The monthly Service Level Agreement (SLA) metrics prescribed overall processing of ₹ 5 lakh e-ITRs during peak months (August, September and October) and ₹ 2.50 lakh non-peak during months (April to July and November to March). The count of e-ITRs processed ranged from 2.57 lakh (July 2012) to 51.31 lakh (December 2014) in non-peak months and 12.04 lakh (August 2012) to 30.41 lakh (October 2014) in peak months. However, SLA was not revised and the

performances of the Service Provider continued to be compared against the original targets (paragraph 7.9.4.2).