

**OFFICE OF THE
COMPTROLLER & AUDITOR GENERAL OF INDIA**

NEW DELHI
10th March, 2017

**CAG PERFORMANCE AUDIT REPORT ON
IMPLEMENTATION OF TDS/TCS SCHEMES PRESENTED IN
PARLIAMENT**

The Comptroller & Auditor General of India Audit Report No. 04 of 2017 on Implementation of TDS/TCS Schemes was tabled in Parliament today and hence it has become a public document.

The Comptroller & Auditor General of India (C&AG) carried out a Performance Audit on “**Implementation of TDS/TCS Schemes**” during the period from November 2015 to March 2016. The findings of Performance Audit were reported to Central Board of Direct Taxes (CBDT) on 8 November 2016 followed by Exit conference on 15 December 2016 and results of discussion were incorporated in the Report.

The important findings presented in the report are as follows:

Introduction

Tax deducted at source (TDS) and Tax collected at source (TCS) are tools in the hands of the Income Tax Department (ITD) designed for quick and smooth collection of tax due to the Government from the taxpayer. It helps the Government to ensure collection of revenue at the time of the transactions itself and prevent tax evasion. Regular inflow of TDS/TCS collection ensures a good flow of revenue to government accounts and assists treasury management. TDS/TCS provisions also place a responsibility of deducting and depositing tax on the shoulders of persons other than the payees.

Audit findings

The performance audit covered cases of (i) verification orders processed by respective AO (TDS) on TDS returns filed by the tax deductors and (ii) assessment orders completed by jurisdictional Assessing Officer (AO) on return of income filed by the assessee processed/completed during financial years (FYs) 2012-13 to 2014-15 which were test checked during the period November 2015 to March 2016.

During audit, C&AG noticed following audit observations:

- In 168 cases that, AO(TDS) failed to impose interest amounting to ₹ 902.16 crore for non/short deduction and collection of tax at source under section 201(1A)/206C(7) on the defaulting tax deductors (*Paragraph 2.2*).
- In 311 cases and 343 cases where there was non-initiation of penalty and prosecution proceedings under section 271C/271CA and 276B/276BB/278A respectively against the tax deductors on account of non-deduction/collection of tax at source and where tax was deducted/collected at source but not deposited within due date respectively (*Paragraphs 2.3 and 2.4*).
- In 128 cases the AO failed to disallow expenditure even though tax was not deducted at source or deducted but not deposited by the assessee, resulting in short levy of tax of ₹ 2,026.42 crore (*Paragraph 2.5*).
- In 108 cases, we found that the deductors failed to deduct tax at source on sale of immovable property resulting in non/short deduction of tax at source of ₹ 23.69 crore. This is despite the fact that the information on the transactions on sale/purchase of immovable property exceeding ₹ 50 lakh were reported to ITD through AIR (*Paragraph 2.6*).
- There was lack of coordination between assessment units and TDS units in 369 cases where information was not being shared in order to ensure compliance to various TDS provisions of the Act (*Paragraph 2.7*).
- In 27 cases AO failed to utilize during regular assessment the available information on income of assessee (*Paragraph 2.8*).
- The criteria for selection of TDS returns for verification were not prescribed by the CBDT (*Paragraph 3.3*).
- 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 and 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 (*Paragraph 3.4*).
- The ITD was performing inadequate 'KYC' before allotting TAN to tax deductors and therefore was not able to track all TDS defaulters (*Paragraph 3.5*).

- The extent of unconsumed challans was significant in terms of number of challans as well as TDS amount involved and the facility of tagging of unconsumed challans was not being utilized by all AOs (*Paragraph 4.2*).
- Non-utilization of facilities available for AO(TDS) at CPC(TDS) portal for realization of resolvable demand and resolving defaults from defaulters report of tax deductors was high (*Paragraphs 4.3 to 4.4*).
- The amount reported by State Government AINs in Form 24G were different from the amount reported by the State AGs showing non reconciliation of G-OLTAS (*Paragraph 5.2*).
- There were delays in furnishing 24G by the 18,703 AIN holders (*Paragraph 5.3*).
- During the years 2012-13 to 2014-15, 19.3 *per cent* of total AINs allotted were inactive. Default in case of Government deductors constituted 42.3 *per cent* of the total default by all categories of deductors during the same period (*Paragraph 5.5*).

Recommendations by C & AG

Sharing of information between assessment and TDS units

- We recommend that the CBDT may ensure sharing of information among TDS units and respective Jurisdictional assessment units so that revenue efforts are synergized.

The CBDT stated (December 2016) that the process of such information sharing between TDS Unit and Jurisdictional Unit has been initiated through CPC (TDS) and ITBA linkage. The process is in initial stages and will gradually be scaled up to give greater information flow.

(Paragraph 2.8)

Selection criteria for verification of TDS returns

We recommend that the CBDT may prescribe a 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.

(Paragraph 3.3)

Survey conducted by TDS units

- We recommend that the CBDT may fix realistic targets of the surveys for its CIT(TDS) charges to 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.

(Paragraph 3.4)

Inadequacies in Know Your Customer for allotment of TAN

- We recommend that the CBDT 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.

(Paragraph 3.5)

Issues relating to unconsumed challans, realization of resolvable demand and resolving defaults from defaulters report of tax deductors

- We recommend that the CBDT may take steps to ensure that all AOs may utilize the facilities available in CPC(TDS) portal for addressing the issues of unconsumed challans, realization of resolvable demand and resolving defaults from defaulters report of tax deductors.

The CBDT agreed (December 2016) with the suggestion and stated that proper action would be taken in this regard.

(Paragraphs 4.2 to 4.4)

Issue of quick recovery of undisputed resolvable demand

We recommend that the CBDT may take effective steps for quick recovery of the resolvable demand as it is free from any dispute.

The CBDT stated (December 2016) that CPC(TDS) has in its training programs for field formation imparted knowledge for quick recovery of demands by Assessing Officers. It has also imparted knowledge to deductors to resolve their demands.

(Paragraph 4.3)

Non-reconciliation of TDS reported by the State Government AINs and State Accountant Generals

- We recommend that the CBDT may ensure the reconciliation of tax payments reported by State Accountants General (AGs) and the TDS reported by the AIN holders through Form 24G.

The CBDT stated (December 2016) that the observations have been taken note of and appropriate analyses of this area will be carried out at CPC level to generate actionable information for field formations.

(Paragraph 5.2)

Delay in furnishing of Form 24G

We recommend that the CBDT may take steps for better compliance in filing of Form 24G by the AIN holders so as to enable the DDOs to file the quarterly statements in time.

The CBDT stated (December 2016) that delays in filing form 24G have to be pursued by respective TDS unit. However, CPC will provide necessary data or such other support as may be required by AOs to carry out this task.

(Paragraph 5.3)

In-active AIN holders

We recommend that the department may review the reasons for inactive AINs holders and remove those who are no longer performing the function of Accounts Officer for better monitoring of submission of Form 24G.

The CBDT stated (December 2016) that the observations have been taken note of and all possible steps will be taken in this regard.

(Paragraph 5.4)