

## OVERVIEW

### CHAPTER I: TAX ADMINISTRATION

Direct taxes collections increased from Rs. 2,30,181 crore in 2006-07 to Rs. 3,33,818 crore in 2008-09 at an average annual rate of growth of 27.3 *per cent*. Global recession and economic slowdown in 2008-09 had an impact on actual collections which were lower (by 8.5 *per cent*) than the budget estimates.

Tax-Gross Domestic Product (GDP) ratio in 2008-09 also reduced from 6.6 *per cent* in 2007-08 to 6.3 *per cent* in 2008-09. For every unit growth in GDP, direct taxes grew by 0.6 *per cent* only in 2008-09 reversing the trend of buoyancy in excess of one in earlier years. The deceleration in tax collection was thus sharper than that of GDP.

The taxpayer base grew over the last five years from 271.8 lakh taxpayers in 2004-05 to 326.5 lakh taxpayers in 2008-09. However, in 2008-09, the total number of direct tax assesseees declined by 3.0 *per cent* as compared to an increase by 7.6 *per cent* in 2007-08. The decline was sharper among corporate assesseees. Inability to retain the existing tax base was a matter of concern.

84 *per cent* of gross collections in 2008-09 were by way of voluntary compliance by assesseees (pre-assessment stage), moving towards international principles of tax administration. 65 *per cent* of the demand raised in the year was collected in 2008-09, registering a decline from 74 *per cent* achieved in 2007-08.

The department achieved greater efficiency in completion of scrutiny assessment cases, bringing down pendency from 54 *per cent* in 2006-07 to 44 *per cent* in 2008-09.

Cost of collection rose from 0.6 *per cent* in 2007-08 to 0.7 *per cent* in 2008-09 because of deceleration in tax collection and increase in establishment cost.

84 *per cent* of the targeted audits were completed by Internal Audit. Mistakes detected in the assessments previously checked in Internal Audit indicate a need for improvement in the quality of Internal Audit. Departmental response to Internal Audit was clearly inadequate.

## **CHAPTER II: AUDIT IMPACT**

In the last five years, Government introduced six legislative amendments to correct the anomalies pointed out by us. This included two amendments to Section 80-IA of the Income Tax Act, 1961, in the Finance Act 2009.

The department recovered Rs. 165.2 crore in 2008-09 on the basis of our findings.

We referred 342 cases with a tax effect of Rs. 1734.3 crore to the Ministry of Finance for comments. Delayed departmental response to our findings in the interest of protecting revenue, is an area of concern.

Our analysis shows that incidence of errors in scrutiny assessments completed in 2007-08 was 6.7 *per cent*. Tax effect of the erroneous demands, was Rs. 7,450.3 crore, which would impact the total tax demand raised by the department by 14 *per cent*.

## **CHAPTER III: CORPORATE TAX**

We referred 247 cases involving revenue impact of Rs. 1,642.4 crore to the Ministry for comments.

The Ministry has accepted our findings in 101 cases. Of these, the Department has completed remedial action in 49 cases involving tax effect of Rs. 679.4 crore and initiated remedial action in 15 other cases involving tax effect of Rs. 83.2 crore. The errors in most of the assessments were committed despite clear provisions in the Act. 66 *per cent* of the errors occurred while granting ineligible concessions; 16 *per cent* were arithmetical errors. 12 cases which involve ambiguity in the provisions highlight the need for clarification through departmental instructions.

## **CHAPTER IV:**

### **PART A – INCOME TAX**

The Chapter includes 73 cases involving tax effect of Rs. 90 crore. The Ministry has accepted our findings on 34 cases and of these the Department has initiated/completed remedial action in 21 cases involving tax effect of Rs. 53.7 crore. 42 *per cent* of the errors were due to incorrect carry forward and set off of losses and 14 *per cent* on account of mistakes in computation of business income.

## **PART B – WEALTH TAX**

The Chapter includes 14 cases involving revenue impact of Rs. 1.6 crore. Tax aggregating to Rs. 73.6 lakh was not levied because wealth tax assessment was not correlated with the income tax assessment.

The Ministry has accepted our findings in nine cases involving aggregate revenue impact of Rs. 80.5 lakh. Of these, the Department has initiated/completed remedial action in eight cases involving tax effect of Rs. 0.3 crore.