

Chapter 2: Performance of IT Applications

- Assessing Officers (AOs) do not record details of scrutiny assessment in AST module. This makes scrutiny process incomplete and affects systemic monitoring of tax collection and refunds.
- Monitoring feature of AST module remains inoperative as AOs do not record details of penalty and appeal proceedings in it. ITD did not issue notices to non-filers despite availability of details in ITD system.
- ITD did not maintain legacy data linkages with current assessment, leaving the possibility open that assesseees could avail themselves of undue benefits.
- ITD did not reconcile the revenue collections as reported by Banks and as accounted by Zonal Accounts Office, with implications on correctness of Government Accounts.
- Un-posted Credits in OLTAS increased the risk of undue availment by the Assesseees. Multiple credits to the same Challans led to inadmissible credits indicating inadequacies in ITD system.
- ITD system is unable to generate important MIS reports hampering effective tax planning and evaluating the performance of ITD.
- Huge amounts of TDS are lying unclaimed in ITD system which indicates all corresponding income of assesseees has not been offered to tax.

The following are major ICT initiatives in ITD:

- a. **e-filing of income tax returns** : ITD notified² the scheme of electronic furnishing of IT Return from AY 05, through an e-return intermediary. From AY 08, ITD made e-filing mandatory for the companies and firms; and from 1st April 2010, extended that to individuals and HUF whose income exceeded ₹ 40 lakh.
- b. **Refund banker scheme**: It is a system for determination, generation, issue, dispatch and credit of refunds, presently operating in Mumbai, Kolkata, Bengaluru, Chennai, Ahmedabad, Bhubaneswar, Cochin, Hyderabad, Kanpur, Patiala, Pune, Chandigarh and Bengaluru.
- c. **e-payment of tax**: e-payment of tax (including TDS) is mandatory³ for all corporate assesseees and certain other classes of assesseees from 01 April 2008.
- d. **System integration for database consolidation**: ITD integrated all ITD applications prevalent in 36 Regional Computer Centres (RCCs)

² Vide Notification No. 253 of 2004, dated 30th Sep., 2004 S.O.1073(E),

³ Vide Notification S.O.No.493 (E) dated 13.3.2008

into a single national database called Primary Database Centre (PDC)⁴ in December 2008.

- e. **Establishment of Tax Information Network:** ITD established the Tax Information Network (TIN) in 2003-04, as a repository of important tax related information; and appointed M/s National Security Depository Ltd (NSDL) as e-intermediary for managing TIN.
- f. **Centralized Processing Centre:** CPC became operational in October 2009 at Bengaluru to process all e-filed returns and paper returns of Karnataka and Goa. ITD has yet to commission two more CPCs for processing physical ITRs at Pune (Maharashtra), Manesar (Haryana), and one CPC for processing of TDS returns at Ghaziabad (Uttar Pradesh).

Application Interactions

2.1 Inputs for IT modules come from various sources including OLTAS (tax payment and accounting) and eTDS (returns by tax collectors). Processing of returns in AST and CPC are based on matching of data between tax credit claims of assesseees with credits already available in the system (OLTAS and e TDS). IRLA would capture the outcome of matching tax credits with tax demands.

Assessment Information System (AST)

Assessing Officers (AOs) do not record details of scrutiny assessment in AST module. This makes scrutiny process incomplete and affects systemic monitoring of tax collection and refunds.

Non recording of scrutiny assessment details

2.2 The Income Tax Act, 1961 (the Act) provides for scrutiny assessment under various sections. AST module has limited functionality for scrutiny assessments under regular assessment (section 143(3)), best judgment assessment (section 144), reassessment (section 147), etc. As the processes prescribed for making an assessment under these sections involve application of mind and inquiry into the financial transactions of the assessee, AST system is designed to keep track of proceedings and to integrate the results of the same into the system once final orders are prepared and uploaded. AST system thereafter calculates tax, interest, posting to Demand and Collection Register and IRLA, preparation of demand notice etc.

⁴ Annual Report, Ministry of Finance, 2010-11

2.3 We found that these features were not utilised by the Assessing Officers, inspite of specific instructions⁵ for carrying out all post-processing action only on AST. In RCC Delhi a meager percentage of scrutiny cases were being recorded in AST. The percentage of such recordings during FY 07 to FY 10 ranged between 0.50 and 0.03 only. Further, across India, out of 11.31 lakh cases selected for regular assessment under section 143(3) during FY 07 to FY 10, only 1.98 lakh cases were entered into AST.

2.4 Thus the demand raised in assessment proceedings was not available in real time basis for enforcing recovery. This resulted into non issuance of refunds issued on time, increasing the burden of interest in refund. IRLA also became truncated to the extent and could not provide updated picture of taxpayers.

2.5 *The Central Board of Direct Taxes (the Board) in its reply (September 2012) has accepted the observation and stated that with latest changes in the software, ITD has decided now to strictly enforce the decision of passing / uploading the orders on the system. This issue has also been included in the Central Action Plan for FY 13 for closer monitoring.*

Monitoring feature of AST module remains inoperative as AOs do not record details of penalty and appeal proceedings in it.

Limited utilization of functionalities on penalty proceedings and appeal

2.6 AST provides for initiation and management of penalty proceedings from processing to appeals. Although penalty notices and penalty orders are to be made manually, the details of penalty orders such as section, date of passing of order, penalty amount are to be stored in the system. The application has been designed to track and record variations in demands arising out of penalty, appeal, rectifications and revisions.

2.7 We observed that this functionality was not being used in RCC Delhi. Test check of 15 assessing units in Delhi revealed that out of 195 penalty cases initiated and finalized, not a single case was entered in AST.

⁵ CBDT instruction dated 01.08.2005

At an all India level we found that out of total 36 RCCs, in 16 RCCs⁶ this functionality was never utilized.

2.8 Similarly, AST module has the option for recording the details of the appeal proceedings, which has been put to limited use. Our examination revealed that, although as on 01.06.2011, there were 77,385 cases pending in appeal, only 3205 (4 %) cases in respect of 14 RCCs, were found to be entered in the system. Further, not a single case, finalised by ITAT, was found recorded while of the cases finalised by High Courts and Supreme Court, only 15 cases were entered in the system.

2.9 *The Board stated (September 2012) that passing of penalty orders without the availability of connected scrutiny assessment orders was not possible in the existing application. Hence, CBDT, in its latest instruction has made passing of scrutiny orders mandatory in the system. The Board added that a new application called Income Tax Business Application (ITBA) in place of existing ITD application is under conceptualization and development.*

ITD did not issue notices to non-filers despite availability of details in ITD system.

Failure to issue notice to non-filers

2.10 As per paragraph 7.5 of Manual of Procedure (Volume-II Technical) of ITD 'once non-filers are identified, the responsibility to take further action would be that of the Assessing Officer. He should send a letter to 'non-filers' with a request to file their returns. In cases where a reply or a return is not received within a reasonable time, formal action under section 142(1) should be initiated'.

2.11 We examined the compliance against this critical tax compliance measure for a sample of assesses who had filed their income tax returns during AY 09. We found that 2,122 assesseees who had filed their returns of income either during AY 09 or AY 10 had not filed their return of income for AY 11. Tax paid by these assesses during AY 09 and AY 10 amounted to ₹ 997 crore. Loss of revenue for AY 11 is not quantifiable as no return of

⁶ Pune, Meerut, Surat, Kanpur, Bhopal, Jodhpur, Kohlapur, Madurai, Nasik, Allahbad, Amritsar, Jalandhar, Patna, Bhubneshwar, Vishakapatnam and Trivandrum

income is available with ITD for them. A crucial deterrence mechanism was not being put to adequate use though AST system provided for the same.

2.12 ITD stated (October 2011) that 15 PAN's were checked out of the list provided, and it was found that no returns against 12 PAN's exist in ITD application and in 3 cases return for 2010 exist in ITD application. There may be possibility that these cases may have been processed out of the system due to some problem in online processing. The reply of ITD while confirming the missing return does not address the issue of taking necessary action in the form of notice to non-filers. Further during verification on test check basis, we noted that ITD issued notices to the 48 non-filers after being pointed out by the audit.

2.13 *The Board stated (September 2012) that though AST can pin point non filers accurately, no action was possible as the data in AST was incomplete due to offline and standalone processing on TMS software. New solutions in the form of online TMS processing, standalone TMS processing in AST and software to upload earlier offline TMS processed cases into AST has been released to complete the data in AST.*

Follow up on previous audit

2.14 In a previous Performance Audit of the Assessment Information System⁷ conducted by us, the above issues of limited utilization of the application were highlighted. We have indicated that the heavy unreconciled balances in OLTAS system indicated that the bank validated input regarding the payment of tax is not available at the time of processing of returns. AO can not verify through AST system whether the amount claimed to be paid by the assessee has actually been paid in all cases. Prior period data in respect of arrear demands is also unreliable. This entails the risk of loss of critical information relating to revenue due to the government. However, the situation continues to be the same.

2.15 *The Board stated (September 2012) that OLTAS data is available in the system at the time of processing of returns. However, lesser use of AST for post processing functions by field officers has led to non consumption of OLTAS data of regular tax payments. The use in coming years will be enhanced, as all scrutiny assessments are being passed in AST. Although,*

⁷ CAG's Report No. 10 of 2006-Union Government –Direct Taxes

the data of arrears in IRLA for earlier years is incomplete due to various issues, the AO's are maintaining this data in manual D & CR. This data has been uploaded in CPC portal in recently and is available for adjustment.

AST did not maintain legacy data linkages with current assessment, leaving the possibility open that assessee could avail themselves of undue benefits.

Legacy issues

2.16 AST Module fulfils the requirement of summary processing under section 143(1) and provides for computation of taxable income after allowing deduction/exemption and calculation of income tax and interest thereon. In this process assessee's claim of set off of losses and unabsorbed depreciation pertaining to earlier assessment years and carry forward of current losses/ unabsorbed depreciation for set off during subsequent years is admitted.

2.17 We found that the module was deficient with regard to transactions involving legacy issues like carry forward and set off of losses and unabsorbed depreciation. The module does not provide for automatically picking up data from earlier years so that the set off claimed during current year are indeed correct. The system totally relies upon the data furnished by the assessee in its return for giving them such benefit. Such cross linkages were also found wanting even in CPC environment.

2.18 ITD replied that each year's return is an independent process and AO could ascertain the set off after necessary investigation and verification. Reply of ITD needs to be viewed in the light of the following:

Table 2.1: Status of assesseees

Financial Year	FY 08	FY 09	FY 10	FY 11
Corporate#				
1. Returns filed (number)	410451	366233	427811	459270
2. Loss making entities (number)	144170	132356	149283	161596
3. Loss (Crore ₹)	NA	NA	185585	203564
Non-Corporate#				
4. No. filing returns	462053	380983	395458	502141
5. No. of Loss making entities	41585	34288	34405	43335
6. Loss (Crore ₹)	NA	NA	NA	NA
Scrutiny assessments*				
Numbers	407239	538505	429585	455212

#Receipts Budget for the respective years

*Compliance Audit Reports of C&AG for the respective years

2.19 As all large profit making entities are being subjected to scrutiny, a large number of entities still exist which are claiming and being allowed losses in a routine manner without any plausible system checks.

2.20 Further, major Chapter VIA deductions are available for a specific period only⁸. The availability of legacy data would facilitate assessment and may reduce the probability of irregular claims being allowed by the assessing officers. Revenue foregone on account of deduction u/s 80IA alone amounts to ₹ 13824 crore⁹. To effectively monitor the allowance of deduction, it is necessary that previous availments are appropriately recorded and taken cognizance of.

2.21 *The Board stated (September 2012) that there is no linkage of returns w.r.t different AY's for same PAN due to the structure of the existing software. The carry forward losses also change during scrutiny assessments & appeal orders. Thus the linkages, even if introduced in processing, may not be accurate unless the assessment & appeal functions are enforced online. These issues would be taken into consideration in the new Income Tax Business Application (ITBA) being developed by ITD to replace the existing ITD applications.*

Online Tax Accounting System (OLTAS)

2.22 OLTAS evolved from the earlier Tax Accounting System (TAS) application wherein Challans were manually complied. There were elaborate controls to ensure accuracy of data capture. OLTAS is designed to accept the Tax Credit and Refund information originating from the Banking system, and routed through the Tax Information Network and make it available for the Assessment System for processing of returns. In effect, the Challan information has become an electronic token/equivalent of cash and the accuracy and integrity of this data is of utmost importance. The following issues were examined:

⁸ For example deduction u/s 80IA is available for ten consecutive assessment years out of fifteen years beginning from the year in which the undertaking begins its activity.

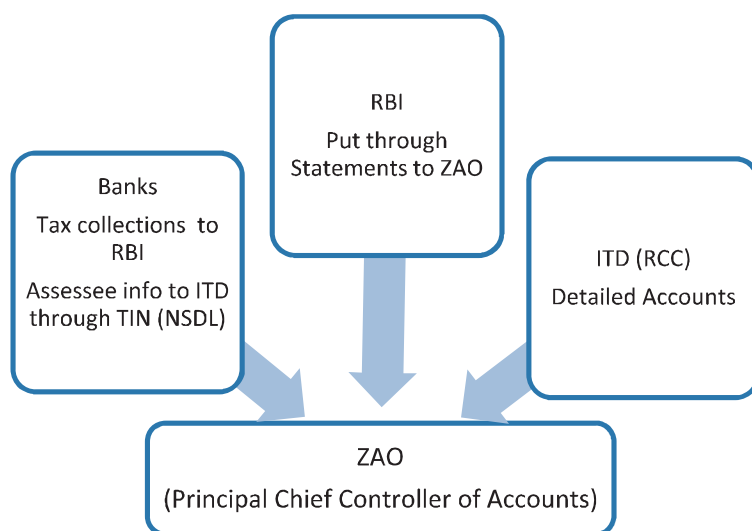
⁹ Revenue Foregone under the Central Tax System, Receipts Budget 2012-13

ITD did not reconcile the revenue collections as reported by Banks and as accounted by Zonal Accounts Office, with implications on correctness of Government Accounts.

Accounting and cash reconciliation

2.23 Since the digital details of Challan made available by TIN to OLTAS forms the basis of providing tax credits to the assesses, a strong system of reconciliation with the actual cash collected is imperative. A graphical overview of tax collection and refunds in ITD is given below:

Figure 2.2 Process of accounting



2.24 The Zonal Accounts Officer (ZAO) thus receives input from three separate sources: (i) the Nodal branches of Banks (Details of transactions); (ii) RBI (details of cash settlements based on information from nodal branches of Banks); and (iii) Details of monthly account received from RCC; Nodal branches consolidated by NSDL in Tax Information Network (TIN)

2.25 We found the system of reconciliation to be critically deficient as follows:

RCC accounting figures in excess of RBI figures

2.26 We found that the collection reported by RCC Delhi (through detailed statement minor head wise) to ZAO was more than actual tax collection reported by RBI (by put through statements) to ZAO. The difference for the two financial years is summarised below:

Table 2.2 Difference in collection

						Crore ₹
Year	Collection (RBI)	Collection (RCC)	Difference	Refund (RBI)	Refund (RCC)	Difference
FY 10	42750.64	43081.80	331.16	12838.44	12942.84	104.40
FY 11	44824.39	45265.89	441.50	12460.43	13034.33	573.90

2.27 Thus the accounts generated by ITD (RCCs) do not reflect the actual collections as reported by banks (RBI).

2.28 *The Board stated (September 2012) that the difference between figures reported by RCC and put through statement given by RBI is mainly an account of treatment of March residual transaction that is the Challans received on 31st March, but uploaded in the next Financial Year. The other reason could be the rejection of Challan records on account of validation failure in OLTAS where as RBI does not reject Challan as it receives information on gross nodal scroll basis rather than Challan level.*

Online tax collections

2.29 As we could not derive an assurance on the reconciliation process at RCC level, we examined whether at least the e-payment which come online could be reconciled at the all India level with those available in OLTAS. We found substantial differences as given in Table 2.4.

Table 2.3 Difference in online tax collections

				Crore ₹
	FY 09	FY 10	FY 11	
RBI (e-payments as per Pr. PAO CBDT)	185635.51	307872.99	401909.57	
Collections as per OLTAS	240566.09	317741.57	413317.14	
Difference	54930.58	9868.58	11407.57	

2.30 *The Board stated (September 2012) that as per OLTAS accounting procedure, the reconciliation between TIN(OLTAS) and RBI takes place on total figures reported by tax collecting banks in a financial year and not on e-collection figure separately. Banks are being followed up with a request to populate proper date and flag to reduce the differences.*

Banking system & Controller General of Accounts (CGA)

2.31 CGA authorized 12,926 branches of nationalized and private sector banks to collect taxes of which 11,638 branches collected ¹⁰ taxes.

CGA de-authorizes branches from collecting taxes where the quality of PAN/TAN data in uploads to the TIN is beyond acceptable limits. NSDL constantly monitors this aspect and prepares periodic reports of quality of PAN/TAN data. During test check¹¹ we found that several bank branches which had been de-authorized to collect taxes were collecting taxes as follows:

Table 2.4 Collection of taxes by De-authorized branches

Deauthorized branches collecting taxes	No of branches	No of Challan	Amount (lakh ₹)
1. Punjab National Bank	1	280	42.35
2. Oriental Bank of Commerce	2	39	3.02
3. Vijaya Bank	8	107	55.80
4. State Bank of India	1	1	70.98
5. Indian Bank	Request for authorization of new branches declined ¹² due to non acceptable levels of PAN/TAN data errors		
6. Corporation Bank			
7. State Bank of Patiala			
8. Allahabad Bank			

2.32 Further, branches of Punjab National Bank (15 branches), Oriental Bank of Commerce (2), Vijaya Bank (8) and State Bank of India (1) which were not in the authorized as well as in the de-authorized list were collecting taxes.

2.33 We attempted to examine whether the flow of information from banks to ITD through TIN (OLTAS) was complete with reference to large scale non reconciled amount lying in suspense.

2.34 We found that the percentage of number of branches not submitting OLTAS data is high for Oriental Bank of Commerce (6.6%), Bank of Maharashtra (9.12%), Indian Bank (10.27 %) and Punjab & Sind Bank (38.86 %).¹³

¹⁰ As per NSDL fortnightly report ended 31.03.2011

¹¹ For the month of September 2011

¹² In September 2011 for Indian Bank; March 2009 for Corporation Bank; November 2008 for State Bank of Patiala and March 2012 for Allahabad Bank

¹³ Department of Govt. & Bank Accounts (Government Accounts Division), Reserve Bank of India. The issue was discussed in high level meeting on banking transactions of Government in May,2012.

2.35 In view of the above situation, we could not derive an assurance as to whether all taxes collected through the banking system were reflected in Government Accounts. Hence, we approached RCC, NCC and ZAO authorities for clarity on the possible reasons for non reconciliation.

2.36 RCC stated that they were unable to generate reconciliation statements¹⁴ due to technical problems and the matter had been raised with the vendor, TCS for rectification.

2.37 ZAO stated (April 2012) that reasons for non reconciliation between RBI and RCC, New Delhi may be obtained from the concerned RCC. The concerned RCC informed that the matter may be taken up with NCC. The reply from NCC is awaited (June 2012).

2.38 *The Board stated (September 2012) that the issue of de-authorized branches collecting taxes shall be taken up with the Pr CCA to see as to how the same could be resolved in future. The reconciliation process has been augmented by providing various reports in OLTAS module for RCC. RCC Delhi has since been able to generate Annexure E report.*

OLTAS interaction with AST

2.39 OLTAS makes the Challan credits available to AST. This is at variance with the System Requirement Specification (SRS) of AST, wherein it was provided that IRLA would provide payment details of each assessee to AST. AST would then raise tax, interest, and penalty demands and post to IRLA. However, we found that IRLA does not directly get credit details from OLTAS, and it is AST which interacts with OLTAS for checking tax credits, and then posts the same to IRLA.

2.40 *The Board stated (September 2012) that IRLA gets direct credit from OLTAS only in case of regular assessment Challans where the Challan amount matches with the demand amount available for PAN, AY in IRLA.*

Key risks examined

2.41 We considered the following key risks in this regard:

- a. whether tax credits are provided only after confirming the presence of the backing Challan in OLTAS.

¹⁴ Annexure E report gives bank wise, date wise, major head wise differences in amount in respect of challan and refunds between RCC and ZAO.

- b. that the credit offered is not in excess of the amount deposited.
- c. that the Challan is not utilised more than once for giving tax credit.
- d. that adequate checks are exercised while altering Challan details, especially when making changes in the payee PAN details as recorded in OLTAS.

Un-posted Credits in OLTAS increased the risk of undue availment by the assesseees. Multiple credits to the same Challans led to inadmissible credits indicating inadequacies in ITD system.

Large amount of Un-posted Credits lying in OLTAS

2.42 As per system documentation, all Challans are to be posted directly to IRLA in case of credits of assesses, and to TDS_IRLA in case of Challans deposited by TDS Deductors. We found that non TDS payments were lying unposted in OLTAS as given below:

Table: 2.5 Posting status of challans (Non-TDS)

Assessment Year	Posted (P)	UnPosted (I/R/Null ¹⁵)	Crore ₹
			Total
AY 08	1,41,283	1,15,918 (45%)	2,57,201
AY 09	1,55,298	63,693 (29%)	2,18,991
AY 10	1,44,170	1,06,408 (42%)	2,50,577
Total	4,40,750	2,86,019 (39%)	7,26,769

2.43 Un-posted credits, besides going against system documentation, raise the risk of misuse of credits for the same amount to other assesseees. ITD needs to closely monitor un-posted credits to prevent their misuse.

2.44 *The Board stated (September 2012) that functionality has been provided in "ITD application to upload such returns through ITD-ONLINE TMS" and "Manual Upload of offline Scrutiny Orders". Once such returns get uploaded through this functionality, respective Challans will be marked as POSTED in OLTAS.*

¹⁵ I: In Error, R: Ready to post and Null: Blank

Status of Challans not changed even after posting

2.45 We found that the status of the challan on which credits have been afforded to assessees was not being changed to 'Posted' in all cases.

2.46 At All India level 12.6 % of the Challans relating to the period 2008-10 had their status as other than posted, though credit had been provided to the tax payer.

Table 2.6 Status of Challans not changed even after posting

Assessment Year	Total Credits in OLTAS	Posted in IRLA(P)	UnPosted (I/R/Null ¹⁶)	Crore ₹
				Gap Amount*
AY 08	1,81,889	1,41,496 (78%)	26,876 (15%)	13,517 (7%)
AY 09	1,89,296	1,55,501 (82%)	32,143 (17%)	1,652 (1%)
AY 10	1,50,877	1,44,796 (96%)	6,758 (5%)	-678 (-1%)
Total	5,22,062	4,41,794 (85%)	65,777 (12%)	14,491 (3%)

* Difference between amount credited in IRLA and those in OLTAS. This represents missing challans.

2.47 ITD in its reply (September and December 2011) to cases pertaining to RCC, Delhi accepted the finding and stated that the main factors responsible for a high percentage of un-posted Challans were (a) cases being processed on the standalone Tax Management System software apart from the centralized AST system; (b) unsatisfactory quality of tax payment data from banks and (c) AOs being permitted to give direct credit¹⁷.

2.48 Though OLTAS was introduced in FY 05, the system is not able to address the movement of credits to its logical destination (viz. IRLA). ITD has not taken any measures to correct the same.

¹⁶ I: In error, R Read for Posting, Null: Blank

¹⁷ As per AST Instruction No. 10 issued by DGIT (System) in August 2002, direct entry of challans for prepaid taxes was allowed.

2.49 The problem with data quality from banks is to be seen in the light of quarterly reports by NSDL with regard to errors at collection branch level.

Table: 2.7 OLTAS Data Quality Statistics

	OLTAS Data Quality Statistics				
	No. of Branches which have collected Challans	Total Challans by all branch	% of branches having valid PANs		
100% valid PANs			>95-<100% valid PANs	>90-<95% valid PANs	
P A N	11,683	1,807,771	53.36	36.10	7.01
T A N	11,090	602,383	87.47	8.40	2.10

Source: NSDL fortnightly MIS Report 16-31 March 2011

2.50 Thus, on one hand NSDL is reporting data quality in excess of 90 per cent of the Challans whereas ITD on the other hand is stating that Challans can not be posted into IRLA due to poor quality of Challan data.

2.51 *The Board stated (September 2012) that the number of suspense Challans (without valid PAN/TAN) out of annual Challans of more than 3 crore has improved from 7.33 lakh (during FY 08) to 0.12 lakh (during FY 13). Even with the improvement in data quality, the direct posting of Challans in IRLA is not feasible because of the legacy data issues and issues relating to major overhaul in system design and architecture of ITD application. Existing IT applications are being phased out, as ITD is in the process of development of new ITBA Software where the concerned issues will be considered thoroughly.*

Posting of Regular Demand and Collection to IRLA

2.52 IRLA captures data of tax payable and taxes paid in respect of each assessee. We found that a large amount of monies paid as regular assessment tax was not being transferred into the respective IRLA.

Table: 2.8 Regular Demand Challans in OLTAS deposited during FY 08-11

Crore ₹				
Assessment Year	Posted (P)	UnPosted (I/R/A/Null)	Grand Total	Unposted %
AY 09	453	35,134	35,587	98.73%
AY 10	42	6,272	6,314	99.33%
AY 11	11	450	461	97.72%
Total	506	41,855	42,361	98.81%

2.53 It can be seen from above table that 98.8 percent of challans pertaining to regular demand are in unposted state. We view the low posting of regular demands to ledger a serious cause of concern. ITD is not recording the demands raised during regular/scrutiny assessment. It is also not recording payments in IRLA. As a result, ITD is not in a position to know the status of taxes paid/payable or refunds through IRLA.

2.54 *The Board stated (September 2012) that for tackling issues related to management of demand, an AO Portal has been created at CPC. All AOs were directed to upload all arrear demand to CPC-F.A.S. Uploading of demand was one of the action points of Annual Action Plan of 2011. The Board also stated that CPC-FAS will eventually replace IRLA. Problems are on account of changes in technology since 1996 when the present modules were first written. Thereafter the final working infrastructure was made operational only in 2009-10.*

Inadmissible credit due to multiple use of same challan

2.55 OLTAS needs to have system controls to ensure that a challan is utilised only once. In our sample of RCC Delhi of 109564 assessees¹⁸, we noticed 174 tax credits wherein the underlying challans had been used twice. These transactions involved a total credit of ₹ 158.99 Crore. Details of some transactions are given below:

Table: 2.9 Multiple use of same challan

Assessee	Assessment Year	Amount (lakh ₹)	No of Challans
Bausch & Lomb Eye Care (I)(P) Ltd.	2010-11	210.13	2
AWB India Pvt.Ltd.	2009-10	122.99	1
Sharda Motor Industries Ltd.	2008-09	50.53	1

¹⁸ where returned income was more than ₹ 9 lakh, for returns processed in the Assessment Years 2008 to 2010

2.56 While the number of such transactions (174) is not material when compared to the total number of credit transactions processed by the system (24,34,811), the failure of this critical control is a cause for concern, and the reasons for the same needs to be investigated.

2.57 At an all India level, we found multiple uses of Challans with same CIN (Challan Identification Number) in other RCCs also. Data on multiple use of CIN amounting to ₹ 719.16 crore is given below:

Table 2.10 Multiple use of single challan

Assessment Year	Amount (Crore ₹)	Number of Challans
AY 09	425.19	18,158
AY 10	267.89	3,620
AY 11	26.08	1,202
Grand Total	719.16	22,980

2.58 *The Board stated (September 2012) that the 20,593 CINs amounting to ₹ 571.74 crore are identified, where the credit has been given multiple times by AO manually. This is outside the control of system matching and governed by instruction No. 10 of 2002. They have identified 3089 instances amounting to ₹ 153.3 crore, where the credit has been given multiple times either in AST or CPC. Complete verification in respect of these cases is still pending and revenue loss is not quantifiable as yet.*

2.59 *System checks have been introduced and bug in CPC-AST interface has been fixed to prevent dual consumption of same challan.*

Availability of accurate and up-to-date PAN/TAN database at the banks

2.60 An important control for ensuring accuracy of data is correct quoting of PAN/TAN by the banking system. RBI has instructed collecting banks to use bulk verification facility from TIN-NSDL site to ensure correctness of PAN. It has advised banks to incorporate software features to highlight incorrect or structurally invalid PAN/TAN.

2.61 We sought to verify whether all collecting branches had access to this crucial information as the entire system of tax collection and assessments veered around this unique identifier. We could not derive an assurance that the banking system indeed had real time data on PAN/TAN.

2.62 ITD replied that fourteen major banks handling more than 90 per cent of challans have registered with Tax Information Network (NSDL) for using PAN/TAN verification services.

2.63 *The Board (September 2012) stated that PAN validation facility has been provided to banks on real time basis through TIN-NSDL site; Common Business Number (CBN) application software; and e-filing server.*

Individual Running Ledger Account System (IRLA)

IRLA is unable to generate important MIS reports hampering effective tax planning and evaluating the performance of ITD.

2.64 IRLA is a central ledger accounting system for assessee related transactions viz. demand, collection and refund. Prior to introduction of IRLA, this requirement was being met through separate registers like Current Demand and Collection Register, Arrear Demand and Collection Register, Stay Register, Installment Register, Write off Register etc. Multiple registers add to the management effort and cost. IRLA is to interact with OLTAS for information on credits, and with AST for recording demand and refund.

Generation of MIS Reports

2.65 One of the objectives of computerization is generating MIS Reports to assist tax administration. ITD has prescribed¹⁹ various MIS reports which would provide information to CBDT and for performance evaluation by the Government. Two important reports are CAP-I and CAP-II.

Inaccurate preparation of CAP-I Reports

2.66 CAP-I report deals with demands, collections, disputed demands and demands which are difficult to collect. The monthly report prepared by AO is to be generated from IRLA module. We found that as information capturing in IRLA module was incomplete, CAP-I reports prepared through them were inaccurate.

2.67 ITD replied that CAP-I reports generated from ITD Applications is complete with regard to summary orders. Since most of the scrutiny

¹⁹ Chapter 10, Manual of Office Procedure, Volume-III Miscellaneous

orders are passed outside the system, CAP-I cannot give a complete picture of Demand and Collection.

Manual Generation of CAP-II Report

2.68 CAP-II report deals with status of workload and achievement inter alia covering assessments, action on audit observations, appeals, new cases added, surveys and deployment of officers. We found that as much of the information depicted in CAP-II is not recorded in AST, it is not being generated from AST module.

2.69 The report of MIS advisory group on reducing reporting burden in the Income Tax Department²⁰ has recommended the reorganisation of crucial statistical reports so as to make them informative and accurate using the IT systems of ITD. Further, Results Framework Document (RFD) enforced by the Cabinet Secretariat is the framework under which the performance of ITD shall be evaluated. Under RFD, performance agreements need to be entered into for quantification of deliverables. This would require an accurate robust MIS, which is yet to be met by ITD Applications.

Follow up on previous Audit Reports

2.70 We had pointed out²¹ that deficiencies in IRLA were hampering the generation and utilization of MIS Reports. Even after consolidation of regional database into a national database, national level MIS are not forthcoming with acceptable level of accuracy. Hence the burden of AOs for preparing MIS reports manually continues.

2.71 *The Board stated (September 2012) that generation of desired comprehensive MIS will be possible only when every functionality is on the system. Most of the data required in CAP-I gets generated with the help of systems. With the introduction of ITBA, ITD expects further improvement in this regard.*

²⁰ Approved by the CBDT in April 2011

²¹ C & AG's Audit Report No. 10 of 2006 on Performance Audit of Assessment Information Systems of the Income Tax Department

Electronic Tax Deduction at Source System (eTDS)

Huge amounts of TDS are lying unclaimed in ITD system which indicates that all corresponding income of assessee has not been offered to tax.

2.72 Tax deduction at source (TDS) is one of the important means of pre-assessment collection of tax. All TDS returns are received in ITD in electronic format through TIN (NSDL) and are processed through eTDS module. eTDS makes available the deductees TDS particulars to AST when the income tax returns of deductees are being summarily processed. eTDS returns are validated based on challan particulars available in OLTAS.

Non verification of certificates issued under section 197

2.73 Section 197 of the Income Tax Act, provides that in case of payments covered under certain sections²², AO may issue certificate for deduction of tax at a lower or nil rate.

2.74 The issue of non-provision of online verification of such certificates was pointed out in the C & AG Audit Report²³. Ministry, while accepting the audit observation stated (December 2008) that appropriate changes are being planned in TDS module.

2.75 Till FY 10 the certificates under section 197 were being issued manually. Since May 2010²⁴ it is mandatory to issue certificates under section 197 through the system. Certificates could also be generated manually in exigent circumstances but data regarding the same had to be captured in the system within 7 days of issue. During the years 2009-10 and 2010-11, ITD has issued 34972 and 308795 certificates respectively through system.

2.76 We found that, while processing eTDS/TCS returns²⁵, information regarding certificates issued under section 197 was not being used for matching data provided by the deductor in TDS return.

2.77 ITD confirmed (June 2011) that bulk processing does not cross link certificates issued under section 197 with the eTDS returns filed by

²² sections 192, 193, 194, 194A, 194C, 194D, 194G, 194H, 194I, 194J, 194K, 194LA and 195

²³ No. PA 25 of 2009 (Performance Audit)

²⁴ Instruction No. 4/2010 dated 25-5-2010

²⁵ In bulk through running a scheduler at Primary Data Centre,

deductors. Necessary changes and linkages would be put in place while implementing the direct taxes code.

2.78 *The Board stated (September 2012) that it has been decided to add separate column for capturing the certificate reference number issued by AO under section 197 of the Act. The process flow for the same has been included in the new CPC (TDS) application for processing of TDS statements which will be live during 2012-13.*

Tax deducted at source and tax credits claimed

2.79 We found that between 2006-07 and 2010-11, the difference between TDS available (as per TDS module) vis a vis TDS claimed in ITRs amounted to ₹ 43268 crore as follows:

Table 2.11 TDS Claims

Creore ₹				
Year	Number of Cases	Amount claimed in ITRs	Amount as per TDS module	Difference
FY 07	278382	218.62	758.27	539.65
FY 08	3539045	1102.05	14026.36	12924.31
FY 09	2603229	15027.25	24518.70	9491.45
FY 10	3146039	24034.17	35114.70	11080.53
FY 11	3097733	27295.57	36527.64	9232.07
Total	12664428	67677.66	110945.67	43268.01

2.80 We sought to analyse the possible reasons for unclaimed taxes in TDS module and their possible implications for revenue administration. Non claim by assessee may indicate corresponding incomes have been offered to tax while assessee has forgotten to claim tax credit or incomes have not been offered to tax.

2.81 The first situation depicts failure of ITD in tax payers' services i.e. affording due credits for TDS whereas the second situation if left unaddressed would lead to a serious shortfall in safeguarding government revenues. This also represents an opportunity lost for widening and deepening of tax base by data analytics. Given the substantial gap, Ministry may like to strengthen its data analysis for harnessing the potential of all the IT modules as well as data compiled from various sources.

2.82 *The Board (September 2012) stated that the difference may be on account of TDS claims of income tax returns processed on standalone TMS software or TDS claims at variance with TDS credits available in ITD systems. ITD has initiated action in the case of non filers (Corporate and Non corporate) based on the data analysis.*

2.83 Recommendations

Ministry may

- a) link up tax payment details available in different modules.
- b) enforce the system of reconciliation of financial transactions as large amounts are lying in suspense or un-posted in the system.
- c) ensure comprehensive recording of all transactions.
- d) take steps to factor in the impact of legacy issues like unabsorbed depreciation and carry forward of losses during summary processing.
- e) ensure that results of scrutiny assessments are entered in the system so that business requirements of ITD are adequately met.
- f) like to reconcile the contradiction between the data accuracy levels reported by NSDL and the claims of ITD so that assesseees are given due tax credits.
- g) like to explore a checker system matching the fourth and fifth characters representing status and first letter of the name/surname at the time of entry into OLTAS or at the time of entry (initial validation) into TIN/NSDL so as to improve the quality of data.
- h) strengthen the entire chain of tax collection and reporting especially in respect of banking system so that the interest of tax payers are also adequately addressed. Tax collection data need to be reliable and reconciled between the different reference points.
- i) strengthen IT systems and iron out the incongruence between critical IT modules viz. OLTAS, AST, e-TDS and IRLA so that the intended results are delivered.
- j) address the issue of collection of taxes through de-authorized bank branches.
- k) take immediate steps to capture complete information in IRLA.
- l) address the system inadequacies in eTDS module preventing cross linking of TDS certificates (for short/non deduction of tax) with TDS returns.