

Chapter I

Direct Tax Administration

1.1 Resources of the Union Government

1.1.1 The Government of India's resources include all revenues received by the Union Government, all loans raised by issue of treasury bills, internal and external loans and all moneys received by the Government in repayment of loans. Tax revenue resources of the Union Government consist of revenue receipts from direct and indirect taxes. Table 1.1 presents a summary of receipts of the Union Government, which amounted to ₹ 52,83,774 crore¹ for FY 12. Union Government's own receipts were ₹ 12,20,597 crore including gross tax receipts of ₹ 8,89,118 crore. This constituted only 23.10 *per cent* of the total receipts. The remaining 76.90 *per cent* receipts came through borrowings.

Cr. ₹.	
Table 1.1: Resources of the Union Government	
A. Total Revenue Receipts	11,65,691
i. Direct Tax Receipts	4,93,987
ii. Indirect Tax Receipts including other taxes	3,95,131
iii. Non-Tax Receipts including Grants-in-aid & contributions	2,76,573
B. Miscellaneous Capital Receipts	18,088
C. Recovery of Loan & Advances	36,818
D. Public Debt Receipts	40,63,177
Receipts of Government of India (A+B+C+D)	52,83,774
Note: Total Revenue Receipts include ₹ 2,55,414 crore, share of net proceeds of direct and indirect taxes directly assigned to states.	

1.1.2 Revenue receipts come from both tax and non-tax sources. Tax revenue comprises proceeds of taxes and duties levied by the Union Government, *viz.* taxes on income and expenditure, customs, union excise duties, etc.

1.2 Nature of Direct Taxes

1.2.1 Direct taxes levied by the Parliament mainly comprise:

- **Corporation Tax** levied on income of the companies and business organizations.
- **Income Tax** levied on income of persons, other than companies, namely, individuals or Hindu Undivided Families (HUFs), firms, co-operative societies, trusts, bodies of individuals, association of persons and every artificial juridical person based on one's residential status.
- **Other direct taxes** including Wealth Tax², Securities Transactions Tax³ etc. Other direct taxes also include Fringe Benefit Tax, Banking Cash

¹ Source: Union Finance Accounts of FY 12.

² Tax chargeable on the net wealth comprises certain assets specified under section 2(ea) of the Wealth Tax Act.

³ Tax on the value of taxable securities purchased and sold through a recognized stock exchange in India. However, no rebate under section 88E is allowable w.e.f. AY 10.

Transaction Tax, Expenditure Tax, Interest Tax, Hotel Receipts Tax and Estate Duties; all of which have now been abolished.

1.3 Functions and responsibilities of the department

1.3.1 The overall responsibility for the administration of direct taxes lies with the Department of Revenue (DOR), Ministry of Finance which functions through Central Board of Direct Taxes (CBDT)/Income Tax Department (ITD). *Appendix-1* gives brief background of the key functions, role and responsibilities of DOR/CBDT.

1.3.2 The overall staff strength of the ITD is 57,793. The sanctioned and working strength of the officers⁴ as on 31 March 2012 is 8,638 and 7,251 respectively. The organizational structure of CBDT is shown in *Appendix-2*.

1.4 Growth of Direct Taxes - Trends and composition

1.4.1 Table 1.2 below gives the relative growth of direct taxes (DT) during FY 03 to FY 12. We find that share of direct taxes to GTR increased from 38.42 *per cent* (₹ 0.83 lakh crore) to 55.56 *per cent* (₹ 4.94 lakh crore) during the period. During the same period, Gross Domestic Product⁵ (GDP) grew by 15.20 *per cent* and GTR by 17.07 *per cent*. Direct taxes have, therefore, retained a pre-dominant position, which is a healthy sign and indicative of progressive tax system in the country.

Table 1.2: Growth of Direct Taxes

Year	DT	GDP	DT as per cent of GDP	GTR	DT as <i>per cent</i> of GTR
FY 03	83,089	25,30,663	3.28	216,266	38.42
FY 04	105,089	28,37,900	3.70	254,348	41.32
FY 05	132,771	32,42,209	4.10	304,958	43.54
FY 06	165,216	36,93,369	4.47	366,152	45.12
FY 07	230,195	42,94,706	5.36	473,512	48.61
FY 08	312,217	49,87,090	6.26	593,147	52.64
FY 09	333,857	56,30,063	5.93	605,298	55.16
FY 10	377,594	64,77,827	5.83	624,527	60.46
FY 11	445,995	77,95,313	5.72	793,307	56.22
FY 12	493,987	89,74,947	5.50	889,118	55.56

1.4.2 Table 1.3 below gives the growth of direct taxes and its major components i.e. Corporation Tax (CT) and Income Tax (IT)⁶ in absolute terms and in comparison to GDP during FY 03 to FY 12. CT grew by 24.60 *per cent* and IT by 19.02 *per cent*. During the same period, growth of corporate assessee's base was 2.35 *per cent* and non-corporate assessee's base was 2.87 *per cent*.

⁴ CCIT/DGIT, CIT/DIT, Addl. CIT/JCIT, DCIT/ACIT and ITOs

⁵ GDP is based on current market prices with base year 2004-05 as provided by Central Statistics Organisation as on January 2013 and as shown in Economic Survey 2012-13.

⁶ *Appendix-3* shows rates of tax for corporate and non-corporate assesseees for AY 03 to AY 12.

Table 1.3: Growth of Direct Tax receipts and its major components

Year	Direct Taxes	per cent growth over previous year	CT	per cent growth over previous year	IT	Cr. ₹. per cent growth over previous year
FY 03	83,089	-	46,172	-	36,866	-
FY 04	105,089	26.48	63,562	37.66	41,387	12.26
FY 05	132,771	26.34	82,680	30.08	49,268	19.04
FY 06	165,216	24.44	101,277	22.49	55,985	13.63
FY 07	230,195	39.33	144,318	42.50	75,093	34.13
FY 08	312,217	35.63	192,911	33.67	102,659	36.71
FY 09	333,857	6.93	213,395	10.62	106,075	3.33
FY 10	377,594	13.10	244,725	14.68	122,417	15.41
FY 11	445,995	18.12	298,688	22.05	139,102	13.63
FY 12	493,987	10.76	322,816	8.08	164,525	18.28

Year	as per cent to GDP		
	Direct Taxes	CT	IT
FY 03	3.28	1.82	1.46
FY 04	3.70	2.24	1.46
FY 05	4.10	2.55	1.52
FY 06	4.47	2.74	1.52
FY 07	5.36	3.36	1.75
FY 08	6.26	3.87	2.06
FY 09	5.93	3.79	1.88
FY 10	5.83	3.78	1.89
FY 11	5.72	3.83	1.77
FY 12	5.50	3.60	1.83

1.4.3 Table 1.4 below shows growth of direct tax collection through different modes {Tax deducted at source (TDS), advance tax, self assessment tax, regular assessment tax} in respect of both corporation and income tax. Collection through advance tax, self assessment tax and TDS is largely indicative of degree of voluntary compliance in the system. Collection of tax through regular assessment mode occurs on assessment.

1.4.4 Voluntary compliance declined for corporate (from 84 to 79 per cent) as well as non-corporate (from 94 to 90 per cent) assessees during FY 03 to FY 12. During the same period, average annual growth of corporate and non-corporate assessees' base was 6.7 per cent and 3.0 per cent respectively.

1.4.5 Table 1.4 shows that advance tax increased marginally from 51.87 per cent of the total corporate collection in FY 11 to 52.47 per cent in FY 12. Regular tax fell from 11.80 per cent of the total corporate collection in FY 11 to 10.05 per cent in FY 12.

Table 1.4: Corporate assessee's collections

Year	TDS	Advance Tax	Self Assessment Tax	Cr. ₹.	
				Regular Assessment Tax	Collections
FY 03	8,961	40,625	3,026	8,926	62,950
FY 04	11,934	49,004	5,184	13,477	82,231
FY 05	14,654	73,934	4,815	2,888	1,05,189
FY 06	26,908	68,013	5,549	18,624	1,24,837
FY 07	29,048	96,568	6,954	24,725	1,74,935
FY 08	44,148	128,105	11,455	18,518	2,23,941
FY 09	60,088	122,697	18,451	12,633	2,42,304
FY 10	60,850	148,791	20,159	24,995	2,88,162
FY 11	68,313	184,263	23,056	41,916	3,55,266
FY 12	91,974	208,886	13,632	40,030	3,98,116

Note: The above figures were received from the Pr. CCA, CBDT during the respective year. The figures of collection also include other receipts including surcharge & cess.

as per cent to collections

Year	TDS	Advance Tax	Self Assessment Tax	Regular Assessment Tax	
FY 03	14.24	64.54	4.81		14.18
FY 04	14.51	59.59	6.30		16.39
FY 05	13.93	70.29	4.58		2.75
FY 06	21.55	54.48	4.44		14.92
FY 07	16.61	55.20	3.98		14.13
FY 08	19.71	57.20	5.12		8.27
FY 09	24.80	50.64	7.61		5.21
FY 10	21.12	51.63	7.00		8.67
FY 11	19.23	51.87	6.49		11.80
FY 12	23.10	52.47	3.42		10.05

1.4.6 Table 1.5 below shows that TDS collections came down from 63.26 per cent of total non-corporate collection in FY 11 to 58.83 per cent in FY 12. Advance tax increased from 17.82 per cent of total non-corporate collection in FY 11 to 23.51 per cent in FY 12.

Table 1.5: Non-Corporate assessee's collections

Year	TDS	Advance Tax	Self Assessment Tax	Cr. ₹.	
				Regular Assessment Tax	Collections
FY 03	27,607	8,533	3,388	1,819	42,119
FY 04	31,021	9,709	4,668	2,538	48,454
FY 05	29,319	16,100	5,229	3,118	55,273
FY 06	31,698	19,071	6,069	3,488	62,457
FY 07	41,641	24,659	6,871	5,671	81,697
FY 08	60,593	30,015	9,670	7,202	112,910
FY 09	68,142	20,635	12,328	8,704	116,225
FY 10	84,885	24,626	12,349	8,279	136,551
FY 11	100,356	28,275	13,831	9,922	158,632
FY 12	106,705	42,640	14,016	11,482	181,383

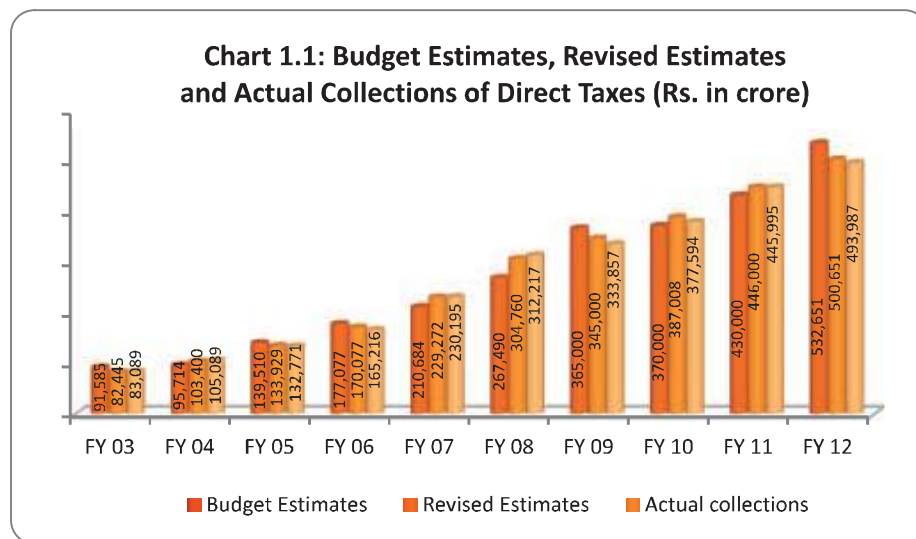
Note: The above figures were received from the Pr. CCA, CBDT during the respective year. The figures of collection also include other receipts including surcharge & cess.

Year	TDS	Advance Tax	as per cent to collections	
			Self Assessment Tax	Regular Assessment Tax
FY 03	65.55	20.26	8.04	4.32
FY 04	64.02	20.04	9.63	5.24
FY 05	53.04	29.13	9.46	5.64
FY 06	50.75	30.53	9.72	5.58
FY 07	50.97	30.18	8.41	6.94
FY 08	53.66	26.58	8.56	6.38
FY 09	58.63	17.75	10.61	7.49
FY 10	62.16	18.03	9.04	6.06
FY 11	63.26	17.82	8.72	6.25
FY 12	58.83	23.51	7.73	6.33

1.4.7 CBDT stated (April 2013) that it could not be assumed that collection through advance tax, self assessment tax and TDS is largely indicative of voluntary compliance and it was actively pursuing to ensure compliance of TDS provisions and bring in more tax payers in the net.

1.5 Budgeting of Direct Taxation

1.5.1 The Budget reflects the Government's vision and intent. The revenue budget consists of the revenue receipts of the Government (tax revenues and other revenues) and the expenditure met from these revenues. Comparison of budget estimates with the corresponding actual is an indicator of quality of fiscal prudence. Chart 1.1 below indicates Budget Estimates (BE), Revised Estimates (RE) and actual collections of direct taxes.



1.5.2 The actual collection of direct taxes exceeded the budget estimates in all the years except in FY 03, FY 05, FY 06, FY 09 and FY 12. The extent of actual collection exceeding the budget estimates ranged from 2.0 per cent in FY 10 to 16.7 per cent in FY 08. The revised estimates were found realistic during FY 03 to FY 12 as variation in actual collection ranged from (-) 3.23 per cent to 2.45 per cent of revised estimates. Table 1.6 below shows the details.

Table 1.6: Budget Estimates, Revised Estimates vis-à-vis Actual

Year	BE	RE	Actual	Cr. ₹.			
				Actual minus BE	Actual minus RE	Difference as per cent of BE	Difference as per cent of RE
FY 03	91,585	82,445	83,089	(-) 8,496	644	(-) 9.28	0.78
FY 04	95,714	103,400	105,089	9,375	1,689	9.79	1.63
FY 05	139,510	133,929	132,771	(-) 6,739	(-) 1,158	(-) 4.83	(-) 0.86
FY 06	177,077	170,077	165,216	(-) 11,861	(-) 4,861	(-) 6.70	(-) 2.86
FY 07	210,684	229,272	230,195	19,511	923	9.26	0.40
FY 08	267,490	304,760	312,217	44,727	7,457	16.72	2.45
FY 09	365,000	345,000	333,857	(-) 31,143	(-) 11,143	(-) 8.53	(-) 3.23
FY 10	370,000	387,008	377,594	7,594	(-) 9,414	2.05	(-) 2.43
FY 11	430,000	446,000	445,995	15,995	(-) 5	3.72	0.00
FY 12	532,651	500,651	493,987	(-) 38,664	(-) 6,664	(-) 7.26	(-) 1.33

Note: BE and RE figures are as per respective Receipts Budget and Actual are as per respective Finance Accounts.

1.6 Incorrect accounting of interest on refunds

1.6.1 Interest payment⁷ is a charge on the Consolidated Fund of India and is, therefore, payable through a proper budgetary mechanism. Accordingly, Minor Head “Interest on Refunds” is to be operated under the Major Head “2020-Collection of Taxes on Income and Expenditure”. However, no budget provision for ‘Interest on Refund’ was made in the Budget Estimates for FY 12 and the expenditure on interest on refunds amounting to ₹ 6,486 crore was treated as reduction in revenue. Accounting of interest on refund as reduction in revenue is incorrect as this interest was never collected. PAC while examining the paragraph⁸ also agreed with the view of CAG that interest is an item of expenditure and should not be reduced from the Gross tax collection.

1.6.2 CBDT stated (April 2013) that the matter is being followed up as per directions of PAC with the Ld. Attorney General to give a clarification so that appropriate policy decision is taken expeditiously.

1.7 Tax expenditure

1.7.1 The main objective of any tax system is to raise revenues necessary to fund government expenditures. The amount of revenue raised is determined to a large extent by tax base and tax rates. It is also a function of a range of measures - special tax rates, exemptions, deductions, rebates, deferrals and credits—that affect the level and distribution of tax. These measures are called “tax preferences”.

1.7.2 The Income-tax Act, inter-alia, provides for tax preferences to promote savings by individuals; exports; balanced regional development; creation of infrastructure facilities; scientific research and development; cooperative sector, and accelerated depreciation for capital investment.

⁷ We had earlier commented that the Government was following an incorrect procedure of accounting for interest paid on refunds in Audit Reports of 2004, 2005, 2006, 2007, 2008, 2009, 2009-10, 2010-11 and 2011-12

⁸ Paragraph no. 4.1.1 of Report no. 1 of 2011-12 – Union Government – Accounts of the Union Government (Civil)

Most of these tax benefits can be availed of by both corporate and non-corporate taxpayers.

1.7.3 The Fiscal Responsibility and Budget Management Act 2003, requires that the Central Government shall take suitable measures to ensure greater transparency in its fiscal operations in public interest and minimize, as far as practicable, secrecy in the preparation of annual financial statement and demand for grants. The 13th Finance Commission also recommended adoption of more transparent methodology in calculating tax expenditure and its disclosure.

1.7.4 Union Receipt Budget depicts statement of tax expenditure since FY 06 which estimates some major taxes only. These estimates are based on returns filed electronically by corporate and non-corporate assessees in recent years. The revenue foregone on account of tax exemptions is increasing in absolute terms over the years (except FY 11) but tax expenditure as a percentage of GDP and Direct Taxes is declining after FY 08 as shown in Table 1.7.

Table 1.7: Tax Expenditure

Year	Total Tax expenditure	Tax expenditure as <i>per cent</i> of			Cr. ₹.
		GDP	DT	GTR	
FY 06	49,800	1.35	30.14	13.60	
FY 07	77,177	1.80	33.53	16.30	
FY 08	100,256	2.01	32.11	16.90	
FY 09	104,471	1.86	31.29	17.26	
FY 10	118,023	1.82	31.26	18.90	
FY 11	94,738	1.22	21.24	11.94	
FY 12	101,140	1.13	20.47	11.38	

Note: The figures are as per Receipts Budget.

1.7.5 Tax expenditure statement in Union Receipt Budget 2013-14 in respect of corporate assessees is based on sample data of 4.95 lakh corporate returns (FY 12) filed upto November 2012 electronically. The sample is substantially less than 8.0 lakh working companies⁹ in the country registered with Registrar of Companies (ROC) as on 31 March 2012. Similarly, the sample of non-corporate assessees is also based on returns filed electronically upto November 2012.

1.7.6 The effective tax rate (ETR) is the rate of tax incident on corporate assessees after availing all tax expenditures. ETR for companies¹⁰ was 22.85 *per cent* in FY 12 (down from 24.10 *per cent* in FY 11) against statutory tax rate of 32.44 *per cent*.

1.7.7 CBDT stated (April 2013) that the same is due to large number of loss making companies and reduction in surcharge from 7.5 *per cent* to 5 *per cent*. It is not established whether these factors were sufficient to account for substantial drop in ETR, and indicates growing tax preferences to corporate sector.

⁹ Source: Ministry of Corporate Affairs (R & A Division)

¹⁰ Source: Receipts Budget 2013-14

1.8 Monitoring of outcome of Tax Expenditure

1.8.1 There is a need to periodically examine/assess the efficiency and effectiveness of tax expenditures as it involved risks. There is also lack of clarity regarding ownership of these expenditures as they enter tax statutes with inter-ministerial consultations but without definite follow up responsibility.

1.8.2 In response to audit enquiry whether any such monitoring was taking place to assess impact of tax benefits, *CBDT stated (March 2013) that DoR carried out annual exercise of estimating the revenue foregone on account of tax incentives which was reflected in the revenue foregone statement. However, they conceded that the results of impact of such incentives on any particular sector or area are to be monitored by the Ministry, which does not send any regular feedback to DOR.* Audit concern, therefore is not misplaced, that this area of importance is not being adequately monitored to give an assurance of the impact of benefits accrued from extending tax benefits.

1.9 Administration of Tax concessions/exemptions/deductions

1.9.1 In our compliance audit, we regularly check how ITD has been administering tax exemptions, which are driven by policy postulates to incentivize growth. We have during the course of audit of field formations of ITD during FY 12, observed that the assessing officers have irregularly extended benefits of tax exemptions to beneficiaries that are not entitled to the same. Details are enumerated in paragraphs 3.3.1 and 4.3.1 of Chapters III and IV respectively. In these cases, we noticed 162 cases pertaining to corporate assesseees who enjoyed ineligible concessions/exemptions/deductions amounting to ₹ 1,412.72 crore and 41 cases pertaining to non-corporate assesseees who derived benefit totalling ₹ 53.9 crore.

1.10 Widening and deepening of tax base

1.10.1 The Department has different mechanisms available to enhance the assessee base which includes survey, information sharing with other tax departments and third party information available in annual information returns. Automation also facilitates greater cross linking¹¹. Most of these mechanisms are available at the level of the assessing officers. ITD also undertook major IT initiatives during last one decade which they could leverage for widening and deepening of tax base.

1.10.2 Table 1.8 and 1.9 below gives the details of non-corporate and corporate assesseees in different categories.

¹¹ Information about non-filers of TDS returns from e-TDS, Annual comparative figures of TDS deposited by big corporate & non-corporate deductors, linking TAN data in order to ensure better compliance from them, linking tax returns with the PAN data base and linking return submitted by deductors on TDS deductions with the returns of the deductee.

Table 1.8: Non-Corporate Assesseees

Year	Figures in lakh					
	A ¹²	B ¹³	B ¹⁴	C ¹⁵	D ¹⁶	Total
FY 03	255.25	16.94	4.95	0.88	2.98	281.00
FY 04	265.46	17.99	3.68	1.05	0.12	288.30
FY 05	243.63	18.30	4.66	1.22	0.14	267.95
FY 06	258.98	20.74	6.48	5.62	2.13	293.95
FY 07	273.30	20.91	6.96	5.79	2.00	308.96
FY 08	287.90	31.38	10.09	2.18	0.10	331.65
FY 09	278.36	31.15	10.93	2.67	0.12	323.23
FY 10	283.72	35.64	14.58	3.11	0.12	337.17
FY 11	271.29	38.36	17.78	4.49	0.12	332.04
FY 12	267.68	60.26	21.23	6.57	1.87	357.61

Table 1.9: Corporate Assesseees

Year	Figures in lakh						Assesseees having income above ₹ 25 lakh	Number of working companies as per RoC as on 31 st March
	A ¹⁷	B ¹⁸	B ¹⁹	C ¹⁵	D ¹⁶	Total		
FY 03	1.83	0.84	0.45	0.39	0.14	3.65	NA	NA
FY 04	2.00	0.81	0.44	0.44	0.03	3.72	NA	NA
FY 05	2.05	0.76	0.43	0.54	0.02	3.80	NA	NA
FY 06	1.99	0.78	0.46	0.68	0.02	3.93	NA	NA
FY 07	2.05	0.78	0.47	0.68	0.02	4.00	0.10	7.44
FY 08	3.16	0.70	0.51	0.59	0.02	4.98	0.08	7.69
FY 09	1.67	0.59	0.48	0.51	0.03	3.28	0.07	7.50
FY 10	1.84	0.65	0.61	0.56	0.02	3.68	0.09	8.40
FY 11	1.69	0.76	0.67	0.62	0.02	3.76	0.22	7.20
FY 12	2.95	0.91	0.96	1.00	0.03	5.85	0.14	8.01

1.10.3 Assessee base²⁰ for non-corporates has shown annual average growth of 3.03 per cent during FY 03 to FY 12 whereas corporate assesseees' base grew to 6.7 per cent during this period. The 'C' category non-corporate assesseees decreased sharply from 5.79 lakh in FY 07 to 2.18 lakh in FY 08 and increased gradually to 6.57 lakh in FY 12. However, number of corporate assesseees having income above ₹ 25 lakh came down from 0.22 lakh in FY 11 to 0.14 lakh in FY 12. The number of corporate assesseees is different from the number of companies registered with ROC. The department has failed to reconcile the differences.

1.10.4 CBDT stated (April 2013) that data of corporate assesseees work of reconciliation is under process.

¹² Category 'A' assesseees – Assessments with income/loss below ₹ 2 lakh;

¹³ Category 'B' assesseees (lower income group) - Assessments with income/loss above ₹ 2 lakh and above; but below ₹ 5 lakh;

¹⁴ Category 'B' assesseees - Assessments with income/loss above ₹ 5 lakh and above; but below ₹ 10 lakh;

¹⁵ Category 'C' assesseees - Assessments with income/loss of ₹ 10 lakh and above;

¹⁶ Category 'D' assesseees – Search and seizure assessments.

¹⁷ Category 'A' assesseees – Assessments with income/loss below ₹ 50,000;

¹⁸ Category 'B' assesseees (lower income group) – Assessments with income/loss of ₹ 50,000 and above; but below ₹ 5.00 lakh;

¹⁹ Category 'B' assesseees (higher income group) – Assessments with income/loss of ₹ 5.00 lakh and above but below ₹ 10.00 lakh;

²⁰ Source: Directorate of Income Tax (Legal & Research), Research & Statistics Wing

1.11 Income escaping assessment

1.11.1 Any sound tax administration system aims to take positive steps to prevent evasion of taxes by assessees, assess the tax receivables in the best interest of revenue and strive to widen and deepen the tax base to bring under its ambit untaxed or under taxed assessees. In our Compliance Audit for FY 12, we noticed several cases where such efforts on the part of the department were found wanting.

1.11.2 We have reported in Chapter-III, 66 cases of corporate assessees whose income was not assessed/under assessed with tax effect of ₹ 337.52 crore (refer paragraph 3.4.1) and 27 cases of non-corporate assessees whose income was under assessed to the tune of ₹ 18.94 crore (refer paragraph 4.4.1). Besides, we noticed 803 cases of omission in implementing provisions of TDS/TCS in compliance audit during FY 12 with tax effect of ₹ 629.69 crore (refer paragraph 2.6.4, *Appendix-7*), thereby failing to check escapement of income.

1.12 Tax debt - Uncollected demand

1.12.1 The uncollected demand²¹ is rising despite clear provisions in the Act to enforce collection and recovery of outstanding demand viz. attachment and sale of assessee's movable and immovable property, appointment of a receiver for the management of assessee's properties and imprisonment. Tax demands remain irrecoverable for a long period in spite of exercise of the powers of recovery conferred under the Act. Table 1.10 below gives the trend of uncollected demand pending during the period FY 08 to FY 12.

Table 1.10: Position of Uncollected Demand

Year	Demand of earlier year's pending collection	Current year's demand pending collection	Total demand pending	Demand difficult to recover (per cent)	Cr. ₹
FY 08	86,859	37,415	124,274	NA	
FY 09	93,344	107,932	201,276	187,575 (93.19 %)	
FY 10	181,612	47,420	229,032	212,758 (92.89 %)	
FY 11	202,859	88,770	291,629	271,143 (92.98 %)	
FY 12	265,040	143,378	408,418	387,614 (94.91 %)	

1.12.2 Out of total pending demand, the Department indicated that more than 94 per cent is difficult to recover in FY 12. The Department indicated various factors viz. inadequate assets for recovery, cases under liquidation/BIFR, assessee not traceable, demand stayed by various authority etc. leading to demand difficult to recover.

1.12.3 *CBDT clarified (April 2013) that demand difficult to recover was not irrecoverable and that a single case of Hassan Ali Khan Group has created this exceptional situation.*

²¹ Source: CAP-I

1.12.4 Defaults in payment of tax are referred to Tax Recovery Officers (TROs) who draw up a certificate specifying the amount of arrears due from the assesseees and proceed to recover the amount. The recovery mechanism is deficient as certified demand remaining uncollected increased to ₹ 1.14 lakh crore in FY 12 from ₹ 0.16 lakh crore in FY 03.

1.12.5 *CBDT attributed (April 2013) this to acute shortage of manpower hampering effective follow up of recovery proceedings.*

1.13 Strategic Plan of ITD (2011-15)

1.13.1 The Department has prepared a strategic plan called Vision 2020 with measurable goals and activities during 2011-15. The actionable points *inter alia* include estimating tax base and developing a revenue forecasting model, instituting study on tax leakages, setting up research unit, developing data warehouse and business intelligence model, taking initiatives in international taxation and surveillance.

1.13.2 The Prime Minister in September 2009 approved a new mechanism for 'Performance Monitoring and Evaluation System' (PMES) for all Government Ministries/Departments in India. Under this system, each Central Government/ Department is required to prepare a Results Framework Documents (RFD). The High power Committee chaired by Cabinet Secretary decided (March 2011) to include the responsibility Centres under DOR in phase III of the RFD System. Accordingly, ITD prepared its RFD for FY 13. ITD also prepared its RFD for FY 11 though it was not mandatory.

1.14 Disposal of Scrutiny assessments

1.14.1 Table 1.11 below gives the trend of disposal and pendency of scrutiny assessment during FY 08 to FY 12. Assessments pending for disposal increased to 4.05 lakh in FY 12 from 3.92 lakh in FY 11.

Table 1.11: Disposal of Scrutiny assessments

Year	Assessments due for disposal	Assessments completed	Assessments pending	(Number)
				Pendency in percentage
FY 08	9,97,813	4,07,239	5,90,574	59.2
FY 09	9,53,767	5,38,505	4,15,262	43.5
FY 10	8,70,620	4,29,585	4,41,035	50.6
FY 11	8,47,196	4,55,212	3,91,984	46.3
FY 12	7,74,807	3,69,320	4,05,487	52.3

1.15 Disposal of Appeal cases

1.15.1 Table 1.12 below gives the trend of disposal and pendency of appeal cases before CIT(Appeals) during FY 08 to FY 12. Appeals pending with CIT(A) increased from 67.2 *per cent* in FY 08 to 75.3 *per cent* in FY 12. The amount locked up in appeal cases also increased to ₹ 2.42 lakh crore (equivalent to 61.4 *per cent* of the revised revenue deficit of Government of India) in FY 12 from ₹ 1.99 lakh crore in FY 09.

Table 1.12: Disposal of Appeal Cases by CIT(A)

Year	Appeals due for disposal	Appeals disposed of	Appeals pending	Pendency in percentage	Amount locked up in Appeals
					Cr. ₹.
		Number			
FY 08	1,94,003	63,645	1,30,358	67.2	-
FY 09	2,24,382	66,351	1,58,031	70.4	1,99,101
FY 10	2,60,700	79,709	1,80,991	69.4	2,20,148
FY 11	2,57,656	70,474	1,87,182	72.6	2,93,548
FY 12	3,06,134	75,518	2,30,616	75.3	2,42,182

1.15.2 The amount locked up in appeals at higher levels (ITAT/ High Court/Supreme Court) was ₹ 1.63 lakh crore in 65,803 cases as on 31 March 2012.

1.16 Demand under dispute

1.16.1 Table 1.13 and 1.14 below lists out demand raised and pending and age-wise analysis of demand not under dispute.

Table 1.13: Demand raised and pending

Items	Cr. ₹.			
	FY 09	FY 10	FY 11	FY 12
Total demand pending at end of the year	201,276	229,032	291,629	408,418
Demand Collectible	13,701	16,274	20,486	20,804
Disputed Demand	53,810	66,534	152,996	208,343
Demand Not under Dispute	39,330	42,950	51,331	48,980

Table 1.14: Age-wise analysis of demand not under dispute

Age	Cr. ₹.			
	FY 09	FY 10	FY 11	FY 12
1 to 2 yr	14,868	18,530	26,814	20,022
2 to 5 yr	12,133	12,941	12,443	11,302
5 to 10 yr	10,464	9,990	10,648	14,424
more than 10 yrs	1,865	1,488	1,425	3,232
Total	39,330	42,950	51,331	48,980

1.16.2 Though pending demands at the end of the year increased twice, demand under dispute increased by around four times from FY 09 to FY 12. Demand not under dispute has increased 1.2 times during this period. This indicates assessee's low satisfaction towards scrutiny assessments completed by AOs.

1.16.3 CBDT stated (April 2013) that increase in demand disputed by around four times from FY 2009 to FY 2012 should not be taken as an indicator of poor quality of scrutiny assessments, rather it is reflective of the fact that issues examined in the course of assessments were either more in number or involved higher amounts so as to be included in assessments being framed. It further stated that additions made in scrutiny assessments are not indicative of satisfaction of the tax payers as the addition made in scrutiny assessments are normally disputed by the tax payers in appeal. This is not supported by concrete data, and in any case points to growing dissatisfaction with the assessment procedure.

1.17 Disposal of refund claims

1.17.1 Table 1.15 below gives the trend of disposal and pendency of direct refund claims during FY 08 to FY 12. Direct refunds pending for disposal decreased to 12.5 lakh in FY 12 from 19.5 lakh in FY 11. There is significant increase in number of disposal of direct refund claims during FY 08 to FY 12.

Table 1.15: Disposal of Direct Refund Claims

(Number in lakh)				
Year	Direct Refunds due for disposal	Direct Refunds disposed of	Direct Refunds pending	Pendency in percentage
FY 08	27.1	18.8	8.3	30.6
FY 09	42.2	26.7	15.5	36.7
FY 10	48.0	28.6	19.4	40.4
FY 11	59.9	40.4	19.5	32.6
FY 12	52.8	40.3	12.5	23.7

1.18 ITD's IT Initiatives

1.18.1 Income Tax Department (ITD) initiated computerization in early 1980s which targeted specific functionalities. By 1993, ITD had a much wide-ranging computerization road map under the umbrella of a comprehensive computerization programme (CCP). The main objectives of IT Applications in Income Tax Department (ITD) were to improve the efficiency and effectiveness of the tax administration and provide management with reliable and timely information towards effective planning as also broaden the tax base.

1.18.2 The Task Force on Direct Taxes headed by Vijay Kelkar (December 2002) recommended that Tax Information Network (TIN) should be established to computerize vital arteries of the tax assessment and collection system. In pursuance of the Task Force recommendations, the Department had taken number of IT initiatives over the years.

1.18.3 ITD's current system is a result of several years' efforts and it has been continually going through the process of modification. Comprehensive computerization project of ITD contains modules such as Assessee Information System (AIS), Assessment Information System (AST), On line Tax Accounting System (OLTAS), Electronic Tax Deducted System (e-TDS), Individual Running Ledger Accounting System (IRLA), Computer Aided Scrutiny System (CASS) and Enforcement Information System (EFS) for functional areas of ITD. Besides, several other internal management and housekeeping modules such as pay roll System (PAS), Manpower Management System (MMS), Judicial Reference System (JRS), Financial Resource System (FRS), Management Information System (MIS) are also working.

1.18.4 ITD established a Central Processing Centre (CPC) at Bengaluru to process e-filed returns of all India and paper returns of Karnataka and Goa. This CPC became operational in October 2009.

1.19 Effectiveness of Internal Audit

1.19.1 Internal audit is an important part of the Departmental control that provides assurance that demands/refunds are processed accurately by correct application of the provisions of the Act.

1.19.2 The Department introduced a new Internal Audit System w.e.f. June 2007 to have an effective and objective set up of Internal Audit wherein the assessment functions and audit functions are assigned to separate specialized wings. Under each CIT(Audit) there shall be one Addl. CIT who would be responsible for internal audit of high value cases and supervision of the audit work of special audit party (SAP) headed by Dy./Asstt. CsIT and the internal audit party (IAP) headed by ITOs. The minimum number of cases to be audited by each Addl. CIT, SAP and IAP in a year shall be 50; 300; and 1,300 (600 corporate cases & 700 non-corporate cases) respectively.

1.19.3 CBDT stated (April 2013) that the figure of 1300 taken by Audit is erroneous since the target is either 600 corporate or 700 non-corporate cases for each IAP. This is not borne out by the instructions issued by department in 2007, where it is clearly stated that the target for IAP is 600 corporate cases and 700 non-corporate cases.

1.19.4 Internal audit wing had planned 2,91,950 cases for audit during FY 12 based on the working strength of wing. Out of this, 1,80,416 cases were completed, thereby achieving 61.8 per cent of the target. Table 16 shows details of internal audit observations raised, settled and pending for each of the five years from FY 08 to FY 12:

Table 1.16: Details of Audit observations added, settled and pending

Year	Addition during the year		Settled during the year		Pending during the year		Cr. ₹
	Number	Amount	Number	Amount	Number	Amount	
FY 08	8,770	1,858.97	361	484.90	15,097	1,786.98	
FY 09	9,068	1,951.64	2,866	334.47	21,299	3,404.15	
FY 10	14,577	1,224.81	6,434	657.58	29,442	3,971.37	
FY 11	13,494	5,466.88	7,996	921.85	34,940	8,516.40	
FY 12	13,771	1,879.85	14,148	1,118.49	34,563	9,277.76	

1.19.5 The pendency of internal audit observations has more than doubled during the last five years. Departmental response to internal audit needs improvement. Only 3,616 cases (22.9 per cent) having tax effect of ₹ 1.1 lakh crore (10.7 per cent) out of 15,811 cases having tax effect of ₹ 10.3 lakh crore of the major findings²² raised by internal audit were acted upon by the assessing officers in FY 12. The total pendency increased from 6,688 cases having tax effect of ₹ 412.9 crore in FY 07 to 34,563 cases having tax effect of ₹ 9,277.8 crore in FY 12.

²² Audit objection above ₹ 1 lakh in Income tax and above ₹ 30,000 in other taxes

1.19.6 *CBDT in April 2013, while conceding the fact that there was a steady increase in pendency of Internal Audit observations, informed that they have initiated measures to ensure much more substantial disposal of audit objections.*

1.19.7 Moreover, we detected numerous audit observations in the assessments previously audited by Internal Audit. In 3471 assessments audited by the internal audit in FY 12, we pointed out mistakes that were not detected by them. This indicated a need for improvement in the quality of Internal Audit.

1.19.8 Out of 455 paragraphs included in this Audit Report, Internal Audit conducted audit of 34 cases (7.5 *per cent*) but did not detect such mistakes, which indicates the need for improvement in quality of internal audit.

1.19.9 *CBDT assured (April 2013) that all Commissioners of Income Tax (Audit) have been asked to make efforts to improve the quality of audit by Internal Audit, but the performance of IA is impacted by acute shortage of officers and staff at all levels.*