

Highlights

This Report discusses important issues in direct taxes using data from Finance Accounts, departmental accounts, departmental MIS, Economic Survey and findings of compliance audits.

Share of direct taxes in gross tax receipts increased from 38.42 *per cent* (₹ 0.83 lakh crore) in FY 03 to 55.56 *per cent* (₹ 4.94 lakh crore) in FY 12 indicating progressive tax system.

Two major components of Direct taxes viz. Corporation Tax increased from ₹ 46,172 crore in FY 03 to ₹ 322,816 crore in FY 12 and Income Tax increased from ₹ 36,866 crore in FY 03 to ₹ 164,525 crore in FY 12.

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

We noticed that 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. However, the revised estimates were found realistic.

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.

The uncollected demand increased from ₹ 124,274 crore in FY 08 to ₹ 408,418 crore in FY 12, of which 94 *per cent* was difficult to recover in FY 12.

Scrutiny Assessments pending for disposal increased to 4.05 lakh in FY 12 from 3.92 lakh in FY 11. Out of total 7.75 lakh scrutiny assessment cases, the Department had disposed off 3.7 lakh (47.7 *per cent*) cases in FY 12.

Appeals pending with CIT(A) increased from 1.30 lakh in FY 08 to 2.31 lakh in FY 12. Only 75,518 appeals (24.7 *per cent*) were disposed off by the CIT(A) in FY 12. The amount locked up in appeal cases with CIT(A) was ₹ 2.42 lakh crore in FY 12.

We noticed that number of pending direct refund cases has gone up from 8.3 lakh in FY 08 to 12.5 lakh in FY 12.

Internal Audit Wing of the Income Tax Department completed 61.8 *per cent* of the targeted audits in FY 12.

ITD recovered ₹ 2,680.97 crore in the last five years (including ₹ 1,538 crore in FY 12) from demands raised to rectify the errors in assessments that we pointed out.

ITD completed 5.50 lakh scrutiny assessments in FY 12, of which we checked 2.96 lakh cases. The incidence of errors in assessment checked in audit was 0.18 lakh which averaged to six *per cent*.

This Report discusses 455 high value and important cases issued to the Ministry. Of these, the Ministry accepted 311 cases (68 *per cent*). In 31 cases, Ministry did not accept the audit observation. In 113 cases, we were yet to receive the response as of May 2013.

The accretion in pendency in replies to audit findings each year has resulted in pile-up of 66,819 cases involving revenue effect of ₹ 49,887 crore as of 31 March 2012.

During FY 12, 3907 cases with tax effect of ₹ 1,083 crore became time-barred for remedial action.

We pointed out 325 high value cases pertaining to corporation tax with tax effect of ₹ 2,271.32 crore. We classified these cases in four broad categories namely quality of assessments involving tax effect of ₹ 486.02 crore (88 cases), administration of tax concession/ exemption/ deduction involving tax effect of ₹ 1,412.72 crore (162 cases), income escaping assessments due to omissions involving tax effect of ₹ 337.52 crore (66 cases) and over-charge of tax/interest involving ₹ 35.06 crore (nine cases).

We pointed out 115 high value cases pertaining to Income tax with tax effect of ₹ 593.30 crore. We classified these mistakes in four broad categories namely quality of assessments involving tax effect of ₹ 516.47 crore (40 cases), administration of tax concession/ exemption/ deduction involving tax effect of ₹ 53.90 crore (41 cases), income escaping assessments due to omissions involving tax effect of ₹ 18.94 crore (27 cases) and over-charge of tax/interest involving ₹ 3.99 crore (seven cases). Besides, we also pointed out 15 cases of Wealth Tax involving tax effect of ₹ 35.19 lakh.