

Highlights

This Report discusses trends, composition and systemic issues in direct taxes using data from Finance Accounts, departmental accounts, departmental MIS and findings of compliance audit.

Gross tax receipts (GTR) of Union Government in FY 2012-13 was ₹ 10,36,460 crore which represented 10.25 *per cent* of the GDP. Share of direct taxes in GTR decreased from 55.16 *per cent* (₹ 3.34 lakh crore) in FY 2008-09 to 53.93 *per cent* (₹ 5.59 lakh crore) in FY 2012-13.

Two major components of Direct taxes viz. Corporation Tax increased from ₹ 2.13 lakh crore in FY 2008-09 to ₹ 3.56 lakh crore in FY 2012-13 and Income Tax increased from ₹ 1.06 lakh crore in FY 2008-09 to ₹ 1.97 lakh crore in FY 2012-13.

Voluntary compliance declined for corporate assesseees from 83.1 *per cent* to 77.5 *per cent*; however, it increased for non-corporate assesseees from 87.0 *per cent* to 92.4 *per cent* during FY 2008-09 to FY 2012-13.

We noticed that the actual collection of direct tax exceeded the budget estimates in FY 2009-10 and FY 2010-11. The revised estimates were found realistic in all years as variation in actual collection ranged from (-) 3.23 *per cent* to zero *per cent* of revised estimates.

The revenue forgone on account of tax exemptions is increasing in absolute terms over the years (except FY 2010-11) but tax expenditure as a percentage of GDP, Direct Taxes and GTR is declining.

The uncollected demand increased from ₹ 2.01 lakh crore in FY 2008-09 to ₹ 4.86 lakh crore in FY 2012-13. The Department indicated that more than 96 *per cent* of uncollected demand is difficult to recover in FY 2012-13.

Scrutiny assessments pending for disposal decreased to 2.8 lakh in FY 2012-13 from 4.1 lakh in FY 2011-12. Out of total 5.9 lakh scrutiny assessment cases, the Department had disposed of 3.1 lakh (51.9 *per cent*) cases in FY 2012-13.

Appeals pending with CIT(A) increased from 1.58 lakh in FY 2008-09 to 1.99 lakh in FY 2012-13. Only 85,049 appeals (29.9 *per cent*) were disposed of by the CIT(A) in FY 2012-13. The amount locked up in appeal cases with CIT(A) was ₹ 2.59 lakh crore in FY 2012-13.

We noticed that the number of pending direct refund cases has come down from 15.5 lakh in FY 2008-09 to 11.2 lakh in FY 2012-13.

Internal Audit Wing of the Income Tax Department completed 67.83 *per cent* of the targeted audits in FY 2012-13.

ITD recovered ₹ 270.40 crore in FY 2012-13 from demands raised to rectify the errors in assessments that we pointed out.

ITD completed 2.33 lakh scrutiny assessments in FY 2011-12, of which we checked 2.15 lakh cases. The incidence of errors in assessment checked in audit was 0.17 lakh which averaged to 7.9 *per cent*.

This Report discusses 459 high value and important cases issued to the Ministry. Of these, the Ministry accepted 226 cases (49 *per cent*). In 12 cases, Ministry did not accept the audit observation. In 221 cases, we were yet to receive the response as of February 2014.

The accretion in pendency in replies to audit findings each year has resulted in pile-up of 55,072 cases involving revenue effect of ₹ 55,202 crore as of 31 March 2013.

During FY 2012-13, 2,207 cases with tax effect of ₹ 899.87 crore became time-barred for remedial action.

We pointed out 332 high value cases pertaining to corporation tax with tax effect of ₹ 2,193.75 crore. We classified these cases in four broad categories namely quality of assessments involving tax effect of ₹ 774.41 crore (122 cases), administration of tax concessions/exemptions/deductions involving tax effect of ₹ 1,005.48 crore (146 cases), income escaping assessments due to omissions involving tax effect of ₹ 251.80 crore (36 cases) and over-charge of tax/interest involving ₹ 162.06 crore (28 cases).

We pointed out 110 high value cases pertaining to Income tax with tax effect of ₹ 171.87 crore. We classified these cases in four broad categories namely quality of assessments involving tax effect of ₹ 50.78 crore (38 cases), administration of tax concessions/exemptions/deductions involving tax effect of ₹ 80.06 crore (35 cases), income escaping assessments due to omissions involving tax effect of ₹ 27.22 crore (30 cases) and over-charge of tax/interest involving ₹ 13.81 crore (seven cases). Besides, we also pointed out 17 cases of Wealth Tax involving tax effect of ₹ 188.40 lakh.

We noticed that ITD disposed of an average of 59 *per cent* of the grievances within stipulated period during FY 2011-12. We noticed 7,167 instances of grievances which were pending for disposal by the concerned AOs as on

31 March 2012. The pendency of these grievances ranged from two days to more than 10 years beyond stipulated period of 60 days as on 31 March 2012. The pendency of grievances shows that there are various flaws in the system and in the administrative mechanism. The internal control for monitoring of redressal of grievances in ITD was not proper as prescribed registers/monthly reporting system was deficient.