

## Chapter I: Direct Taxes 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 below shows the summary of resources of the Union Government for the financial year (FY) 2018-19 and FY 2017-18.

Table 1.1: Resources of the Union Government	₹ in crore)	
	FY 2018-19	FY 2017-18
<b>A. Total Revenue Receipts</b>	25,67,917	23,64,148
<i>i. Direct Taxes Receipts</i>	11,37,718	10,02,738
<i>ii. Indirect Taxes Receipts including other taxes<sup>3</sup></i>	9,42,747	9,16,445
<i>iii. Non-Tax Receipts</i>	4,86,389	4,41,383
<i>iv. Grants-in-aid &amp; contributions</i>	1,063	3,582
<b>B. Miscellaneous Capital Receipts<sup>4</sup></b>	94,979	1,00,049
<b>C. Recovery of Loans &amp; Advances<sup>5</sup></b>	30,257	70,639
<b>D. Public Debt Receipts<sup>6</sup></b>	67,58,482	65,54,002
<b>Receipts of Government of India (A+B+C+D)</b>	<b>94,51,635</b>	<b>90,88,838</b>

Source: Union Finance Accounts of respective years. Direct Tax receipts and Indirect Tax receipts including other taxes have been worked out from the Union Finance Accounts. Total Revenue Receipts include ₹ 7,61,454 crore in FY 2018-19 and ₹ 6,73,005 crore in FY 2017-18 directly assigned to states.

**1.1.2** In FY 2018-19, the increase in receipts of Government of India have mainly been contributed by increase in public debt receipts and in total revenue receipts. Direct Taxes accounted for 44.3 *per cent* of total revenue receipts in FY 2018-19, growing by 13.5 *per cent* over the last year's receipts.

### 1.2 Nature of Direct Taxes

**1.2.1** Direct taxes levied by the Parliament mainly comprise,

- i. Corporation Tax** levied on income of the companies;
- ii. Income Tax** levied on income of persons (other than companies);

3 Indirect taxes levied on goods and services such as customs duty, excise duty, service tax, Central Goods and Services Tax, Integrated Goods and Services Tax etc.;

4 This comprises of value of bonus share, disinvestment of public sector and other undertakings and other receipts;

5 Recovery of loans and advances made by the Union Government;

6 Borrowings by the Government of India internally as well as externally;

- iii. **Other direct taxes** including Securities Transactions Tax<sup>7</sup>, Wealth Tax<sup>8</sup> etc.

1.2.2 Table 1.2 provides a snapshot of direct taxes administration.

Table 1.2: Direct Taxes Administration					
	2014-15	2015-16	2016-17	2017-18	2018-19
<b>₹ in crore</b>					
1. Direct taxes collection	6,95,792	7,42,012	8,49,801	10,02,738	11,37,718
a. Corporation Tax	4,28,925	4,53,228	4,84,924	5,71,202	6,63,571
b. Income Tax	2,58,374	2,80,390	3,40,592	4,08,202	4,61,652
c. Other Direct Tax	8,493	8,394	24,285	23,334	12,495
2. Refunds	1,12,163	1,22,596	1,62,582	1,51,639	1,61,037
<b>Number in lakh</b>					
3. Actual returns filed by					
a. Non-corporate Assesseees	360.6	398.0	436.9	537.9	619.8
b. Corporate Assesseees	6.8	6.9	7.1	8.0	8.5
4. Revenue expenditure (₹ in crore)	4,148	4,689	5,623	6,172	7,168

Source: Sl. no. 1 and 4 – Union Finance Accounts; Sl. no. 2 - Pr. CCA, CBDT; Sl. no. 3 – CBDT

1.2.3 Table 1.3 below gives the details of non-corporate assesseees in different categories of income.

Table 1.3: Non-Corporate Assesseees						(Figures in lakh)
Financial Year	A <sup>9</sup>	B <sub>1</sub> <sup>10</sup>	B <sub>2</sub> <sup>11</sup>	C <sup>12</sup>	D <sup>13</sup>	Total
2014-15	76.32	216.31	46.11	21.80	0.01	360.55
2015-16	55.93	264.47	52.94	24.69	0.01	398.04
2016-17	54.17	290.16	61.85	30.69	0.02	436.89
2017-18	61.16	360.63	79.04	37.05	0.02	537.90
2018-19	68.08	403.35	103.36	44.96	0.03	619.78

Source: CBDT; These figures are based on actual returns filed during the respective year.

The number of non-corporate assesseees registered an increase of 15.2 per cent in FY 2018-19 in comparison to increase of 23.1 per cent in FY 2017-18. As can be seen from the Table 1.3 above and Chart 1.1, there has been increase of 11.8 per cent, 30.8 per cent and 21.3 per cent in Category 'B<sub>1</sub>', Category 'B<sub>2</sub>' and Category 'C' during FY 2018-19 in comparison to FY 2017-18. However, the increases in these categories were 24.3 per cent, 27.8 per cent and 20.7 per cent during FY 2017-18 in comparison to the previous year. There was an increase

7 Tax on the value of taxable securities purchased and sold through a recognized stock exchange in India.

8 Tax chargeable on the net wealth comprises certain assets specified under section 2(ea) of the Wealth Tax Act, 1957. The Wealth Tax has been abolished through the Finance Act, 2015.

9 Category 'A' assesseees – Assessments with income/loss below ₹ two lakh;

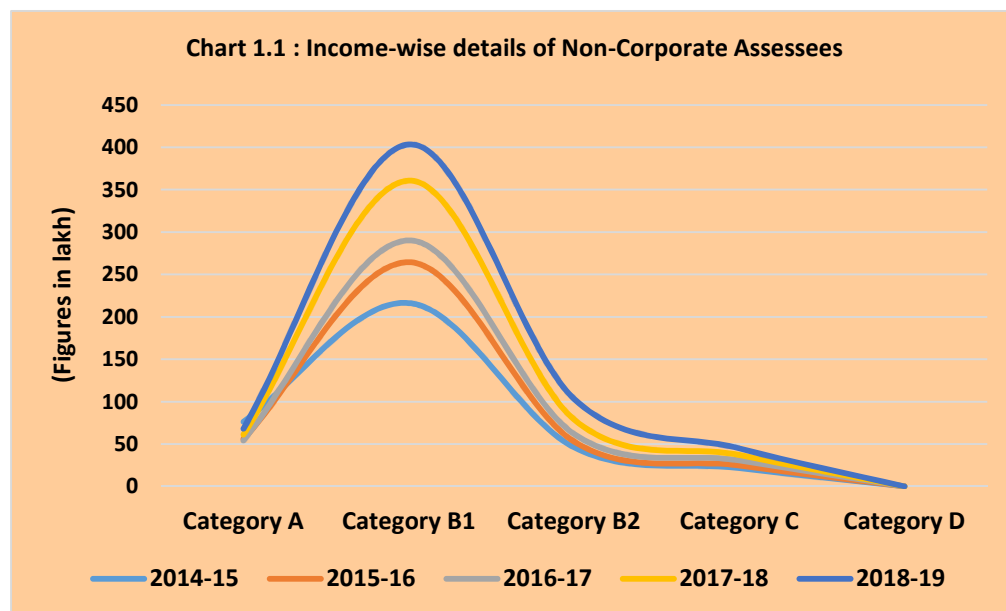
10 Category 'B<sub>1</sub>' assesseees (lower income group) - Assessments with income/loss above ₹ two lakh and above; but below ₹ five lakh;

11 Category 'B<sub>2</sub>' assesseees (higher income group) - Assessments with income/loss above ₹ five lakh and above; but below ₹ 10 lakh;

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

13 Category 'D' assesseees – Search and seizure assessments;

of 71.9 per cent in non-corporate taxpayers during FY 2014-15 to FY 2018-19 whereas during the same period tax collection from non-corporate taxpayers increased by 78.7 per cent. Thus, growth in tax collection was more than the growth in non-corporate taxpayers.



**1.2.4** Table 1.4 below gives the details of corporate assesseees belonging to the different categories of income.

Financial Year	A <sup>14</sup>	B <sub>1</sub> <sup>15</sup>	B <sub>2</sub> <sup>16</sup>	C <sup>17</sup>	D <sup>18</sup>	Total	Assesseees having income above ₹ 25 lakh	Working companies as per RoC as on 31 <sup>st</sup> March
2014-15	3.20	1.51	0.48	1.56	0.00 <sup>*</sup>	6.75	0.69	10.16
2015-16	3.08	1.59	0.50	1.71	0.00 <sup>^</sup>	6.88	0.76	10.82
2016-17	3.14	1.65	0.53	1.81	0.00 <sup>#</sup>	7.13	1.44	11.11
2017-18	3.57	1.85	0.58	1.99	0.00 <sup>\$</sup>	7.99	1.31	10.49
2018-19	3.66	2.00	0.61	2.19	0.00 <sup>@</sup>	8.46	1.45	11.56

Source: CBDT. These figures are based on actual returns filed during the respective year.

\* 256 assesseees; ^ 337 assesseees, # 134 assesseees, \$ 195 assesseees @ 146 assesseees

The corporate assesseees registered an increase of 5.9 per cent in FY 2018-19 in comparison to increase of 12.1 per cent in FY 2017.18. There was an increase

14 Category 'A' assesseees – Assessment with income/loss below ₹ 50,000;

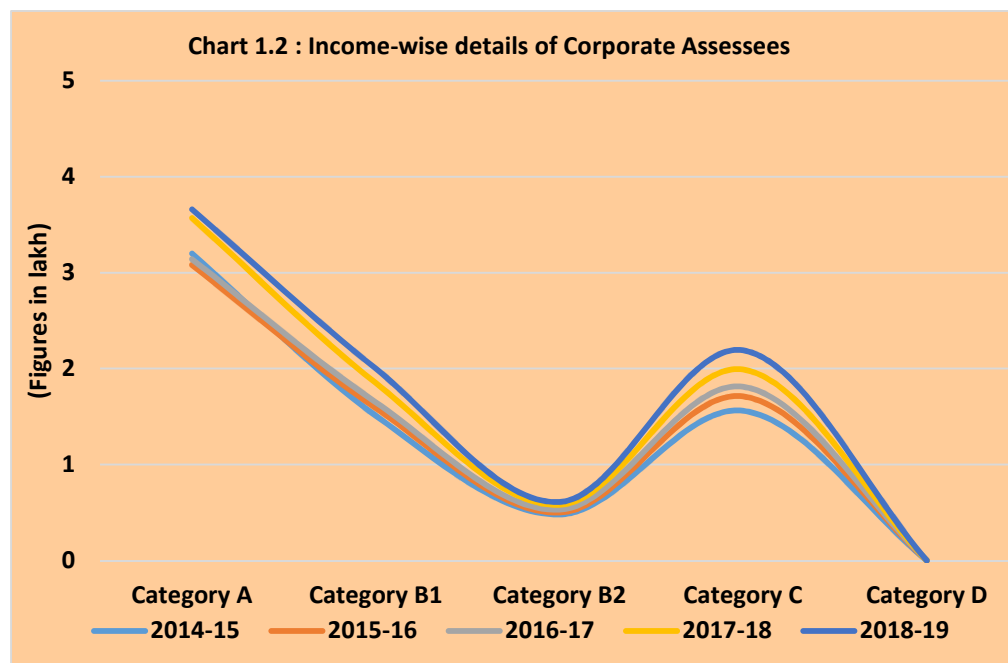
15 Category 'B1' assesseees (lower income group) – Assessment with income/loss of ₹ 50,000 and above; but below ₹ five lakh;

16 Category 'B2' assesseees (higher income group) - Assessment with income/loss above ₹ five lakh and above; but below ₹ 10 lakh;

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

18 Category 'D' assesseees – Search and seizure assessment;

of 25.3 *per cent* in corporate taxpayers during FY 2014-15 to FY 2018-19 whereas during the same period tax collection from corporate taxpayers increased by 54.7 *per cent*. Thus, growth in tax collection was more than the growth in corporate taxpayers.



**1.2.5** A comparison of the figure on total working companies as per the Registrar of Companies (ROCs)<sup>19</sup> data with the total filers as per the ITD would suggest that ensuring compliance by identifying non-filers by the ITD was not effective. As in FY 2017-18, there were 10.49 lakh companies registered with ROC, against which it is observed that in FY 2018-19, 8.5 lakh companies only filed income tax returns. Though all working companies (whether profit earning or loss incurring) are required by the provision of the Income Tax Act, 1961 (the Act) to file their return of income, 19.4 *per cent* of such working companies registered with ROC in FY 2017-18 did not file their returns of income against 28.0 *per cent* in FY 2016-17.

### 1.3 Functions and responsibilities of the CBDT

**1.3.1** The Central Board of Direct Taxes (CBDT) under the Department of Revenue (DOR) in the Ministry of Finance provides essential inputs for policy and planning in respect of direct taxes in India. At the same time, it is also responsible for administration of direct taxes laws through Income Tax Department (ITD). ITD deals with matters relating to levy and collection of direct taxes and the issues of tax evasion, revenue intelligence, widening of tax-base, providing tax payers services, grievance redressal mechanism etc.

<sup>19</sup> Source: Ministry of Corporate Affairs, Statistics Division, New Delhi.

**1.3.2** As on 31 March 2019, the overall staff strength and working strength of the ITD was 76,243 and 46,264 respectively. The sanctioned and working strength of the officers<sup>20</sup> was 10,858 and 9,706 respectively. The revenue expenditure of ITD for the year 2018-19 was ₹ 7,168 crore<sup>21</sup>.

#### 1.4 Budgeting of Direct Taxation

**1.4.1** 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). Comparison of budget estimates with the corresponding actuals is an indicator of quality of fiscal management. Actuals may differ from the estimates because of unanticipated and random external events or methodological inadequacies or unrealistic assumptions about critical parameters.

**1.4.2** Table 1.5 below shows the details of Budget Estimates (BE), Revised Estimates (RE) and Actual collection of Direct Taxes during FYs from 2014-15 to FY 2018-19.

Table 1.5: Budget Estimates, Revised Estimates vis-à-vis Actual collection of Direct Taxes							(₹ in crore)	
Financial Year	Budget estimates	Revised estimates	Actual	Actual minus budget estimates	Actual minus Revised estimates	Difference as per cent of budget estimates	Difference as per cent of Revised estimates	
2014-15	7,36,221	7,05,628	6,95,792	(-) 40,429	(-) 9,836	(-) 5.5	(-) 1.4	
2015-16	7,97,995	7,52,021	7,42,012	(-) 55,983	(-) 10,009	(-) 7.0	(-) 1.3	
2016-17	8,47,097	8,47,097	8,49,801	2,704	2,704	0.3	0.3	
2017-18	9,80,000	10,05,000	10,02,738	22,738	(-) 2,262	2.3	(-) 0.2	
2018-19	11,50,000	12,00,000	11,37,718	(-) 12,282	(-) 62,282	(-) 1.1	(-) 5.2	

Source : BE and RE figures are as per respective Receipt Budget and Actual are as per respective Finance Accounts

**1.4.3** The variation between RE and actual collection ranged from (-) 5.2 per cent to 0.3 per cent of RE during the period from FY 2014-15 to FY 2018-19. The variation between RE and actuals were higher during FY 2018-19 as compared to BE and actuals.

#### 1.5 Growth of Direct Taxes

**1.5.1** Table 1.6 below gives the relative growth of direct taxes (DT) with reference to Gross Tax Receipts<sup>22</sup> (GTR) and Gross Domestic Products (GDP) during FY 2014-15 to FY 2018-19.

20 Pr. CCIT/Pr. DGIT, CCIT/DGIT, Pr. CIT/Pr. DIT, CIT/DIT, Addl. CIT/Addl. DIT/JCIT/JDIT, DCIT/DDIT/ACIT/ADIT and ITOS.

21 Union Finance Accounts for FY 2018-19.

22 It includes all direct and indirect taxes.

Financial Year	DT	GTR	DT as per cent of GTR	GDP	DT as per cent of GDP
2014-15	6,95,792	12,45,135	55.9	1,25,41,208	5.5
2015-16	7,42,012	14,55,891	51.0	1,35,76,086	5.5
2016-17	8,49,801	17,15,968	49.5	1,51,83,709	5.6
2017-18	10,02,738	19,19,183	52.2	1,67,73,145	6.0
2018-19	11,37,718	20,80,465	54.7	1,90,10,164	6.0

Source: DT and GTR - Union Finance Accounts, GDP-Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation; GDP for FY 2018-19 – Press note released by CSO on 31 May 2019.

**1.5.2** Though the DT increased by 13.5 *per cent* in FY 2018-19 as compared to FY 2017-18, there was increase (2.4 *per cent*) in the share of DT to GTR in FY 2018-19 as compared to FY 2017-18. DT was 6.0 *per cent* of GDP during FY 2018-19 and FY 2017-18 as compared to 5.6 *per cent* in FY 2016-17.

**1.5.3** Table 1.7 below gives the growth of direct taxes and its major components i.e. Corporation Tax (CT) and Income Tax (IT) during FY 2014-15 to FY 2018-19.

Financial Year	Direct Taxes	Per cent growth over previous year	Corporation Tax	Per cent growth over previous year	Income Tax	Per cent growth over previous year	GDP	Per cent growth over previous year
2014-15	6,95,792	9.0	4,28,925	8.7	2,58,374	8.6	1,25,41,208	10.5
2015-16	7,42,012	6.6	4,53,228	5.7	2,80,390	8.5	1,35,76,086	8.3
2016-17	8,49,801	14.5	4,84,924	7.0	3,40,592	21.5	1,51,83,709	11.8
2017-18	10,02,738	18.0	5,71,202	17.8	4,08,202	19.9	1,67,73,145	10.5
2018-19	11,37,718	13.5	6,63,572	16.2	4,61,652	13.1	1,90,10,164	13.3

Source: Union Finance Accounts

**1.5.4** There was growth of 16.2 *per cent* in Corporation Tax and 13.1 *per cent* in Income Tax in FY 2018-19 as compared to growth of 17.8 *per cent* in Corporation Tax and 19.9 *per cent* in Income Tax in FY 2017-18. Growth of DT (13.5 *per cent*) and corporation tax (16.2 *per cent*) was more than the growth of GDP in 2018-19 which was 13.3 *per cent*.

**1.5.5** There are different stages of direct taxes collection such as Tax Deducted at Source (TDS), advance tax, self assessment tax, and regular assessment tax in respect of both Corporation and Income tax. The pre-assessment collection through TDS, advance tax and self assessment tax is indicative of voluntary compliance in the system. The collection of tax through regular assessment stage occurs post assessment.

**1.5.6** Table 1.8 below shows the collection of Corporation and Income Tax under different stages during FY 2014-15 to FY 2018-19.

Table 1.8: Collection of Corporation and Income Tax								(₹ in crore)
Financial Year	TDS	Advance Tax	Self assessment tax	Pre-assessment collection (Col. 2+3+4)	Percentage of total pre-assessment collection	Regular Assessment Tax	Other receipts	Total Collection (Col. 5+7+8)
1.	2.	3.	4.	5.	6.	7.	8.	9.
2014-15	2,59,106	3,26,525	52,050	6,37,681	79.8	80,189	81,589	7,99,459
2015-16	2,87,412	3,52,899	54,860	6,95,171	81.2	63,814	96,940	8,55,925
2016-17	3,43,144	4,06,769	68,160	8,18,073	82.8	74,138	95,887	9,88,098
2017-18	3,80,641	4,70,242	83,219	9,34,102	82.6	92,044	1,04,897	11,31,043
2018-19	4,50,769	5,27,529	84,174	10,62,471	82.6	99,032	1,24,757	12,86,260

Source: Pr. CCA, CBDT. The other receipts include surcharge and cess. The figures of collection comprises of refunds also.

**1.5.7** Table 1.8 shows that the voluntary compliance by assesseees (pre assessment stage) accounted for 82.6 per cent in 2018-19 against 79.8 per cent in 2014-15 of the total collections of Corporation and Income Tax in FY 2018-19 whereas collection through regular assessment (post assessment) which was 10 per cent of total collection in 2014-15 reduced to 7.7 per cent in 2018-19. This shows that voluntary compliance by the assesseees which was showing increasing trend during FY 2014-15 to FY 2016-17, has remained stable thereafter.

### 1.5.8 Trend of refunds

When the amount of tax paid exceeds the amount of tax payable, the assesseees are entitled for a refund of the excess amount. The ITD releases this refund to the assesseees from time to time. Table 1.9 below shows the quarterly trend of refunds made and revenue collection in respect of Corporation Tax and Income Tax during FY 2016-17 to FY 2018-19.

Table 1.9: Quarterly trend of refunds								(₹ in crore)
FY	Quarter ending	Corporation Tax			Income Tax			
		Gross collection	Refunds	Percentage of refunds with reference to collection	Gross collection	Refunds	Percentage of refunds with reference to collection	
2016-17	June 2016	1,05,330	51,320	48.7	74,081	7,257	9.8	
	September 2016	1,49,278	16,499	11.1	90,935	13,526	14.9	
	December 2016	1,57,724	24,232	15.4	93,954	13,946	14.8	
	March 2017	1,93,273	28,630	14.8	1,23,523	7,172	5.8	
	<b>Total</b>	<b>6,05,605</b>	<b>1,20,681</b>	<b>19.9</b>	<b>3,82,493</b>	<b>41,901</b>	<b>11.0</b>	

**Report No. 11 of 2020 (Direct Taxes)**

	June 2017	1,11,789	44,530	39.8	87,685	11,269	12.9
	September 2017	1,56,759	16,113	10.3	99,112	7,682	7.8
2017-18	December 2017	1,84,392	17,180	9.3	1,09,388	14,915	13.6
	March 2018	2,27,400	31,315	13.8	1,54,714	8,831	5.7
	<b>Total</b>	<b>6,80,340</b>	<b>1,09,138</b>	<b>16.0</b>	<b>4,50,899</b>	<b>42,697</b>	<b>9.5</b>
	June 2018	1,27,468	61,078	47.9	98,049	12,834	13.1
	September 2018	1,90,200	12,848	6.8	1,27,210	16,823	13.2
2018-19	December 2018	1,94,177	10,468	5.4	1,21,069	16,503	13.6
	March 2019	2,57,554	21,434	8.3	1,70,533	9,049	5.3
	<b>Total</b>	<b>7,69,399</b>	<b>1,05,828</b>	<b>13.8</b>	<b>5,16,861</b>	<b>55,209</b>	<b>10.7</b>

Source: Pr. CCA, CBDT

As can be seen from the Table 1.9 above, 48.7 per cent, 39.8 per cent and 47.9 per cent of gross collection of Corporation Tax during first quarter of FY 2016-17, FY 2017-18 and FY 2018-19 respectively was refunded against the previous year's collection, during the same quarter. Further, 42.5 per cent; 40.8 per cent and 57.7 per cent of total refund amount of Corporation Tax pertaining to previous year's collection was refunded during first quarters of FY 2016-17, FY 2017-18 and FY 2018-19 respectively. It is also noticed that refunds as a percentage of gross collection are higher in case of Corporation Tax as compared to Income Tax. The possible reason for this higher refund could be exaggerated demands raised by the department during the previous financial years to meet their revenue collection targets. The issue of exaggerated demands has also been raised in Chapter V of our Compliance Audit Report no. 40 of 2017. The ITD may examine the issue.

#### **1.5.9 Breach of Article 114(3) of the Constitution of India-Expenditure incurred on interest on refunds of taxes by the CBDT without appropriation**

Article 114(3) of Constitution of India stipulates that no money shall be withdrawn from the CFI except under appropriation made by the legislature. Payment of interest on refunds of excess tax is a charge on the CFI and can be made only if authorized under appropriation made by law. Further, as per Article 266(3) of the Constitution, until provided in the Appropriation law passed by Parliament, there is no legal authority to withdraw 'interest' on excess tax collected/refunds from the CFI. In addition, Rule 8 of DFPRs describes 'interest' as the primary unit of appropriation for classification of interest expenditure.

The Department of Revenue/Central Board of Direct Taxes (CBDT) has been classifying interest on refunds of excess tax as reduction in revenue in violation of the above mentioned constitutional provisions. This incorrect practice has been commented upon repeatedly in CAG's Audit Reports on Union



Government Accounts as well as in CAG's Reports on Direct Taxes, but no corrective action has been taken by the Department.

Audit observed that this issue was examined by the Public Accounts Committee (PAC). In its 66<sup>th</sup> Report (15<sup>th</sup> Lok Sabha 2012-13) the PAC had disapproved withdrawal of moneys out of CFI for interest payments on income tax refunds without Parliamentary approval. Subsequently, in their follow-up Report (96<sup>th</sup> Report of 15<sup>th</sup> Lok Sabha 2013-14 dated 31 January 2014) after considering the revised opinion of the Ld. Attorney General of 06 May 2013 and later testimony to it, the Committee concluded that the Constitution leaves no doubt about the manner of authorization of expenditure or withdrawal of moneys from and out of the CFI and hence the Department of Revenue has no option other than seeking *ex ante* approval under Articles 114 and 115(1)(a) or seeking *ex post facto* approval of Parliament under Article 115(1)(b) of the Constitution.

Audit noted that despite the position taken by PAC on the matter and the issue being repeatedly pointed out in the audit reports of the CAG the practice of not making budget provision for interest on refunds in the Budget Estimates and not seeking Parliament's approval for the payments continued in the financial year 2018-19. During the year expenditure on interest on refunds amounting to ₹ 20,566.33 crore was incurred and such payment was shown as reduction in Revenue.

The Department in its replies (January 2017 and January 2019) has continued to reiterate the opinion of Ld. AG of 06 May 2013, that the refund of excess tax and interest thereon is not an expenditure within the meaning of Article 112. The Department also stated that based on the above mentioned opinion of the Ld. AG, the Department with the approval of the Finance Minister, has not accepted the recommendations contained in the 96<sup>th</sup> Report of the PAC (15<sup>th</sup> Lok Sabha).

Audit however, observed that PAC had already considered the opinion of the Ld. AG while making its recommendations and noted that the Ld. AG had deposed that "an opinion ultimately is an opinion and it is for the Committee to decide what the correct procedure is".

## **1.6 Revenue impact of tax incentives**

**1.6.1** The primary objective of any tax law and its administration is to raise revenues for the purpose of funding government expenditure. The revenues raised are primarily dependent upon the tax base and effective tax rate. The determinant of these two factors is a range of measures which includes special tax rates, exemptions, deductions, rebates, deferrals and credits. These

measures are collectively called as “tax incentives or tax preferences”. These are also referred to as tax expenditure.

**1.6.2** The Income Tax Act, 1961 (the Act), *inter alia*, provides for tax incentives to promote exports, balanced regional development, creation of infrastructure facilities, employment, rural development, scientific research and development, growth of the cooperative sector and encourages savings by individuals and donations for charity. Most of these tax benefits can be availed of by both corporate and non-corporate taxpayers.

**1.6.3** The Union Receipt Budget depicts statement of revenue impact of major incentives on corporate taxpayers and non-corporate taxpayers based on returns filed electronically. Table 1.9 shows the revenue impact of major tax incentives for FY 2014-15 to FY 2018-19.

Table 1.9: Revenue impact of tax incentives (₹ in crore)				
Financial Year	Total Revenue impact of tax incentives	Revenue impact as per cent of		
		GDP	DT	GTR
2014-15	1,18,593	0.9	17.0	9.5
2015-16	1,38,658	1.0	18.7	9.5
2016-17	1,55,840	1.0	18.3	9.1
2017-18	1,83,580	1.1	18.3	9.6
2018-19	2,13,225	1.1	18.7	10.3

Note: The figures of revenue impact of tax incentives are actuals except FY 2018-19 (projected). These do not cover Charitable Institutions. However, the amount applied by Charitable Institutions was ₹ 5,03,783 crore in respect of 2,18,787 electronically filed returns till 31<sup>st</sup> March 2019. Source: Respective Receipt Budget.

As reported in the Receipts Budget for the FY 2019-2020, the effective rate of Corporation Tax for the FY 2017-18 was 29.5 per cent, as against the average statutory rate of 34.4 per cent.

**1.6.4** The major tax incentives given in FY 2018-19 were deductions on account of certain investments and payments under section 80C (₹ 75,244 crore), accelerated depreciation under section 32 (₹ 59,474 crore), deduction of export profits to SEZ units under section 10AA (₹ 24,839 crore), deductions to undertakings in generation/transmission and distribution of power under section 80-IA (₹ 15,677 crore), deductions under sections 35(1), (2AA) and (2AB) for expenditure on scientific research (₹ 7,950 crore).

**1.6.5** The revenue impact of tax incentives has increased by 79.8 per cent from ₹ 1,18,593 crore in FY 2014-15 to ₹ 2,13,225 crore in FY 2018-19. Though the tax incentives increased by 16.1 per cent in FY 2018-19 as compared to FY 2017-18, but increase in the share of revenue impact of tax incentives in DT and GTR was 0.4 per cent and 0.7 per cent respectively. Revenue impact of tax incentives was 1.1 per cent of GDP during FY 2018-19 and FY 2017-18 as compared to 1.0 per cent in FY 2015-16 and FY 2016-17.

## 1.7 Arrears of demand

1.7.1 Table 1.10 gives the trend of arrears of demand pending during the period FY 2014-15 to FY 2018-19.

Table 1.10: Arrears of Demand					(₹ in crore)
Financial Year	Arrears of earlier year's demand	Arrears of current year's demand	Total arrears of demand	Demand difficult to recover	Net collectible Demand
2014-15	5,68,724	1,31,424	7,00,148	6,73,032	27,116
2015-16	6,67,855	1,56,356	8,24,211	8,02,256	21,955
2016-17	7,33,229	3,11,459	10,44,688	10,29,725	14,963
2017-18	7,36,975	3,77,207	11,14,182	10,94,023	20,159
2018-19	9,46,190	2,87,888	12,34,078	12,19,485	14,593

Source: Directorate of Income Tax (Organisation & Management Services), Demand & Collection report (CAP-1) for the month of March of respective FY.

1.7.2 Demand & Collection report for the month of March of respective FYs analysed various factors viz. no assets/inadequate assets for recovery, cases under liquidation/BIFR, assessee's not traceable, demand stayed by Courts/ITAT/IT authorities, TDS/prepaid taxes mismatch etc. leading to an estimation of the demands difficult to recover. Demands difficult to recover have been increasing year after year and accounted for 98.8 per cent of the total arrears of demands in FY 2018-19 as against 98.2 per cent in FY 2017-18. Though, total arrears of demand in FY 2018-19 amounted to ₹ 12,34,078 crore, increased by 10.8 per cent as compared to FY 2017-18 (₹ 11,14,182 crore) however, net collectible demand decreased to ₹ 14,593 crore in FY 2018-19 as compared to ₹ 20,159 crore in FY 2017-18 due to increase in demand difficult to recover. Increase in demand difficult to recover in FY 2018-19 was more than the increase in total arrears of demand during the same year by ₹ 5,566 crore.

## 1.8 Disposal of appeal cases

1.8.1 Table 1.11 gives the trend of disposal and pendency of appeal cases before CIT (Appeals) during FY 2014-15 to FY 2018-19.

Table 1.11: Disposal of Appeal Cases by CIT(A)					
Financial Year	Appeal cases due for disposal	Appeal cases disposed of	Appeal cases pending	Pendency in percentage	Amount locked up in Appeal cases
	(Number in lakh)				
2014-15	3.06	0.74	2.32	75.8	3,83,797
2015-16	3.53	0.94	2.59	73.3	5,16,250
2016-17	4.08	1.18	2.90	71.1	6,11,227
2017-18	4.25	1.21	3.04	71.7	5,18,647
2018-19	4.62	1.23	3.39	73.4	5,62,806

Source: CBDT

**1.8.2** The amount locked up in appeal cases with CIT (Appeals) is more than the revenue deficit of the Government of India in FY 2018-19.

**1.8.3** Table 1.12 below gives the position of Appeals pending with the Income Tax Appellate Tribunals (ITATs)/High Courts and Supreme Court during FY 2014-15 to FY 2018-19.

Financial Year	ITATs		High Courts		Supreme Court		Total	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
2014-15	37,506	1,45,535	34,281	37,684	5,661	4,654	77,448	1,87,873
2015-16	32,834	1,35,984	32,138	1,61,418	5,399	7,092	70,371	3,04,494
2016-17	37,968	1,43,771	38,481	2,87,818	6,375	8,048	82,806	4,39,637
2017-18	37,353	2,34,999	39,066	1,96,053	6,224	11,773	82,643	4,42,825
2018-19	92,205	NA	38,539	1,36,465	4,425	74,368 <sup>#</sup>	1,35,169	2,10,833

Source: CBDT # amount of appeals filed in Supreme Court by the assessee not available

**1.8.4** The cases pending with ITAT significantly increased in FY 2018-19 to 92,205 in comparison to FY 2017-18 (37,572 cases). The total cases pending at higher levels (ITATs/High Courts/Supreme Court) increased to 1.35 lakh in FY 2018-19 in comparison to 0.82 lakh cases in FY 2017-18.

## 1.9 Search & Seizure and Survey

The Search & seizure<sup>23</sup> and survey<sup>24</sup> are amongst the main evidence collecting mechanisms which are used in cases where credible information about tax evasion is in possession of the ITD. Table 1.14 below shows the details of search & seizure operations and surveys conducted and the undisclosed income admitted/detected during FY 2014-15 to FY 2018-19.

23 Search and Seizure is carried out under section 132 of the Act to unearth any undisclosed income or valuables.

24 Survey is carried out under section 133A and 133B of the Act for collecting any information, which may be useful for ITD in deterring tax evasion.

Table 1.13: Status of search & seizure and survey cases					(₹ in crore)
Financial Year	Number of groups searched	Undisclosed income admitted (in search & seizure)	Number of surveys conducted	Undisclosed income detected (in surveys)	
2014-15	545	10,288	5,035	12,820	
2015-16	447	11,226	4,428	9,700	
2016-17	1,152	15,497	12,526	13,716	
2017-18	577	15,913	13,487	9,634	
2018-19	983	18,594	15,401	16,126	

Source: Investigation Wing, CBDT

During FY 2018-19, undisclosed income admitted during search & seizure increased by 16.8 *per cent* and undisclosed income detected during survey increased by 67.4 *per cent* as compared to the respective figures in FY 2017-18.

### 1.10 Effectiveness of Internal Audit

**1.10.1** Internal audit is an important part of the Departmental control that provides assurance that demands/refunds are processed accurately by the correct application of the provisions of the Act. The internal audit of ITD completed audit of 1,62,467 cases in FY 2018-19 as against 1,89,409 cases audited in FY 2017-18.

**1.10.2** Table 1.14 shows details of internal audit observations raised, settled and pending for each of the five years from FY 2014-15 to FY 2018-19.

Table 1.14: Details of Internal audit observations									(₹ in crore)
Financial Year	Opening balance <sup>^</sup>		Addition		Settled		Pending		
	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount	
2014-15	20,834	8,368	9,927	2,292	15,586	3,805	15,175	6,855	
2015-16	19,137	8,023	13,148	6,463	12,891	2,205	19,394	12,281	
2016-17	19,405	12,283	12,972	2,451	11,256	3,352	21,121	11,382	
2017-18	21,129	11,295	13,297	2,562	9,062	1,283	25,364	12,575	
2018-19	25,408	12,602	16,975	3,147	11,847	4,334	30,536	11,415	

Source: Directorate of Income Tax (Income Tax & Audit); <sup>^</sup>Figures revised after verification by respective CsIT(Audit) subsequent to submission of quarterly statement for the quarter ending March

**1.10.3** Out of 7,818 major finding cases<sup>25</sup> raised by internal audit, the Assessing Officers (AOs) acted upon only in 1,923 (24.6 *per cent*) in FY 2018-19 in comparison to 1,613 cases (25.7 *per cent*) out of 6,267 cases in FY 2017-18. The follow up of the internal audit observations by the AOs need to be improved.

<sup>25</sup> The monetary limit of major internal audit objections has been raised from ₹ Two lakh to ₹ 10 lakh as per instruction no. 6 of 2017 dated 21.7.2017.

