

Highlights

The Comptroller and Auditor General of India conducts the audit of receipts of the Union Government under section 16 of the Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act, 1971. This Report primarily discusses compliance to the provisions of the Income Tax Act, 1961 and the associated rules, procedures, directives etc. as applied to all aspects related to the administration of direct taxes. The Report is organised into four chapters, the highlights of which are described below:

Chapter I: Direct Taxes Administration

Direct taxes receipts of Union Government in the financial year (FY) 2019-20 amounting to ₹ 10,50,686 crore decreased by 7.6 *per cent* over the FY 2018-19 (₹ 11,37,718 crore). Direct taxes represented 5.2 *per cent* of the gross domestic products (GDP) in FY 2019-20. The share of direct taxes in gross tax revenue decreased to 52.3 *per cent* in FY 2019-20 from 54.7 *per cent* in FY 2018-19.

Despite decrease in the direct tax collection in FY 2019-20, there was an increase of 13.9 *per cent* in refunds issued during FY 2019-20 (₹ 1,83,431 crore).

Of the two major components of direct taxes, collections from Corporation Tax decreased by 16.1 *per cent*, from ₹ 6.63 lakh crore in FY 2018-19 to ₹ 5.57 lakh crore in FY 2019-20. Collections from Income Tax increased by 4.0 *per cent* from ₹ 4.62 lakh crore in FY 2018-19 to ₹ 4.80 lakh crore in FY 2019-20.

The number of non-corporate assesseees increased from 6.20 crore in FY 2018-19 to 6.39 crore in FY 2019-20, registering an increase of 3.16 *per cent*. The number of corporate assesseees decreased from 8.46 lakh in FY 2018-19 to 8.38 lakh in FY 2019-20, registering a decrease of 0.9 *per cent*.

The arrears of demand increased from ₹ 12.3 lakh crore in FY 2018-19 to ₹ 16.2 lakh crore in FY 2019-20. The net collectible demand increased to ₹ 38,734 crore in FY 2019-20 as compared to ₹ 14,593 crore in FY 2018-19. The Department indicated that more than 97.6 *per cent* of uncollected demand would be difficult to recover.

The number of appeals pending with CIT (Appeals) increased from 3.4 lakh in FY 2018-19 to 4.6 lakh in FY 2019-20. The amount locked up in these cases was ₹ 8.8 lakh crore in FY 2019-20.

The CBDT raised the monetary limit for filing appeals by the Department before ITAT, High Court and Supreme Court from ₹ 20 lakh to ₹ 50 lakh, ₹ 50 lakh to ₹ one crore and ₹ one crore to ₹ two crore respectively. The total

cases pending decreased marginally by 8.1 *per cent* i.e. from 1.35 lakh cases in FY 2018-19 to 1.24 lakh in FY 2019-20.

Chapter II: Audit Mandate, Products and Impact

Section 16 of the CAG's DPC Act authorises CAG to audit all receipts of the Government of India and to satisfy himself that the rules and procedures are designed to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed.

We audited 1,888 out of total 6,249 assessment units during the FY 2019-20 and issued 16,193 audit observations. We found mistakes even in 805 assessments which the Internal Audit had already checked.

As of 31 March 2020, there were 54,177 pending audit observations with revenue effect of ₹ 1.31 lakh crore for want of replies from the ITD.

We issued 577¹ high value cases to the Ministry and CBDT during August 2020 to December 2020 seeking their response within six weeks of receipt of the same. However, we received replies from the Ministry/CBDT only for 43 high value cases (July 2021).

Out of these cases, the ITD had either completed or initiated remedial action in 491 cases (85 *per cent of all cases*) having a tax effect of ₹ 3,597.06 crore.

The ITD did not produce 19,388 out of 2,79,939 records (6.92 *per cent*) requisitioned by us during FY 2019-20, of which 1,488 records (1,479 records pertains to Tamil Nadu) pertaining to the same assesseees were not produced in three or more consecutive audit cycles.

In the last three years, the ITD recovered ₹ 525.98 crore from demands raised to rectify the errors at the instance of audit.

Chapter III: Corporation Tax

We pointed out 356 high value cases pertaining to Corporation Tax with tax effect of ₹ 12,476.53 crore. We classified these cases in four broad categories viz.

- (a) Quality of assessments (134 cases);
- (b) Administration of tax concessions/exemptions/deductions (157 cases);
- (c) Income escaping assessment due to errors (51 cases) and
- (d) Over-charge of tax/interest (14 cases).

1 One DP is having observation on both under assessment and over assessment for two AYs, hence considered as two cases in other places of the Report.

Out of 356 high value cases cited we have illustrated 38 instances of significant errors/irregularities in corporation tax assessments involving tax effect of ₹ 3,976.56 crore. The irregularities illustrated in this chapter include: incorrect allowance of deduction under section 10AA of the Act to an assessee at inadmissible rate of 100 *per cent* instead of 50 *per cent* in the sixth year of operations involving tax effect of ₹ 1,262.76 crore; income not assessed in case of a banking company, on account of balance under Foreign Currency Translation Reserve (FCTR), involving tax effect of ₹ 774.72 crore; omission to levy tax on unexplained cash credit in lieu of share premium of ₹ 467.70 crore involving tax effect of ₹ 155.36 crore (excluding interest); and incorrect allowance of pre-paid taxes of ₹ 65.66 crore instead of available credit of ₹ 1.01 crore on account of TDS paid by the assessee and errors in levy of interest involving tax effect of ₹ 95.04 crore.

Chapter IV: Income Tax

We pointed out 222 high value cases of income tax with tax effect of ₹ 416.60 crore. We classified these cases in four broad categories as follows:

- (a) Quality of assessments (166 cases);
- (b) Administration of tax concessions/exemptions/deductions (18 cases);
- (c) Income escaping assessments due to errors (29 cases); and
- (d) Over charge of tax/interest (nine cases).

Out of 222 high value cases cited, we have illustrated 39 instances of significant errors/irregularities in income tax assessments involving tax effect of ₹ 251.85 crore. The irregularities illustrated in this chapter include: incorrect allowance of unpaid taxes of ₹ 45.60 crore and non-levy of interest involving tax effect of ₹ 68.12 crore; incorrect levy of interest of ₹ 21.60 crore on account of non-filing of return within the due date, short payment of tax and default in payment of advance tax; incorrect allowance of brought forward loss of ₹ 26.44 crore involving tax effect of ₹ 12.32 crore; and incorrect computation of demand payable of ₹ 103.22 crore instead of correct payable demand of ₹ 115.53 crore involving short levy of tax of ₹ 12.31 crore.

