

Chapter I: Direct Taxes Administration

This chapter gives an overview of the direct taxes administration, revenue trends in direct taxes collection and tax administration process in the Income Tax Department (ITD).

1.1 Direct Taxes

This Audit Report covers levy and collection of direct taxes. The direct taxes covered in this report are discussed below:

- a) **Corporation Tax (CT):** Corporation Tax is a direct tax imposed on the net income or profit that enterprises make from their businesses. Companies, both public and privately registered in India under the Companies Act 1956/2013, are liable to pay Corporation Tax. This tax is levied at specific rates according to the provisions of the Income Tax Act, 1961.
- b) **Income Tax (IT):** Income Tax is a direct tax imposed on the net income or profit that persons other than companies make from their earnings or gains, at specific rates according to the provisions of the Income Tax Act, 1961.
- c) **Other Direct Taxes (ODTs):** Direct Taxes other than Corporation Tax and Income Tax, for example, Securities Transaction Tax (STT)², Wealth Tax³, etc.

1.2 Organizational Structure

The Department of Revenue (DoR) of the Ministry of Finance (MoF) functions under the overall direction and control of the Secretary (Revenue) and co-ordinates matters relating to all the direct and indirect Union Taxes through two statutory boards namely, the Central Board of Direct Taxes (CBDT) and the Central Board of Indirect Taxes and Customs (CBIC), constituted under the Central Board of Revenue Act, 1963. Matters relating to the levy and collection of direct taxes are looked after by the CBDT.

As on 31 March 2020, the overall staff strength and working strength of the Income Tax Department (the ITD) was 76,241⁴ and 45,750 respectively. The sanctioned and working strength of the officers⁵ was 10,858 and 9,333

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

3 Tax chargeable on the net wealth comprises certain assets specified under section 2(ea) of the Wealth Tax Act, 1957.

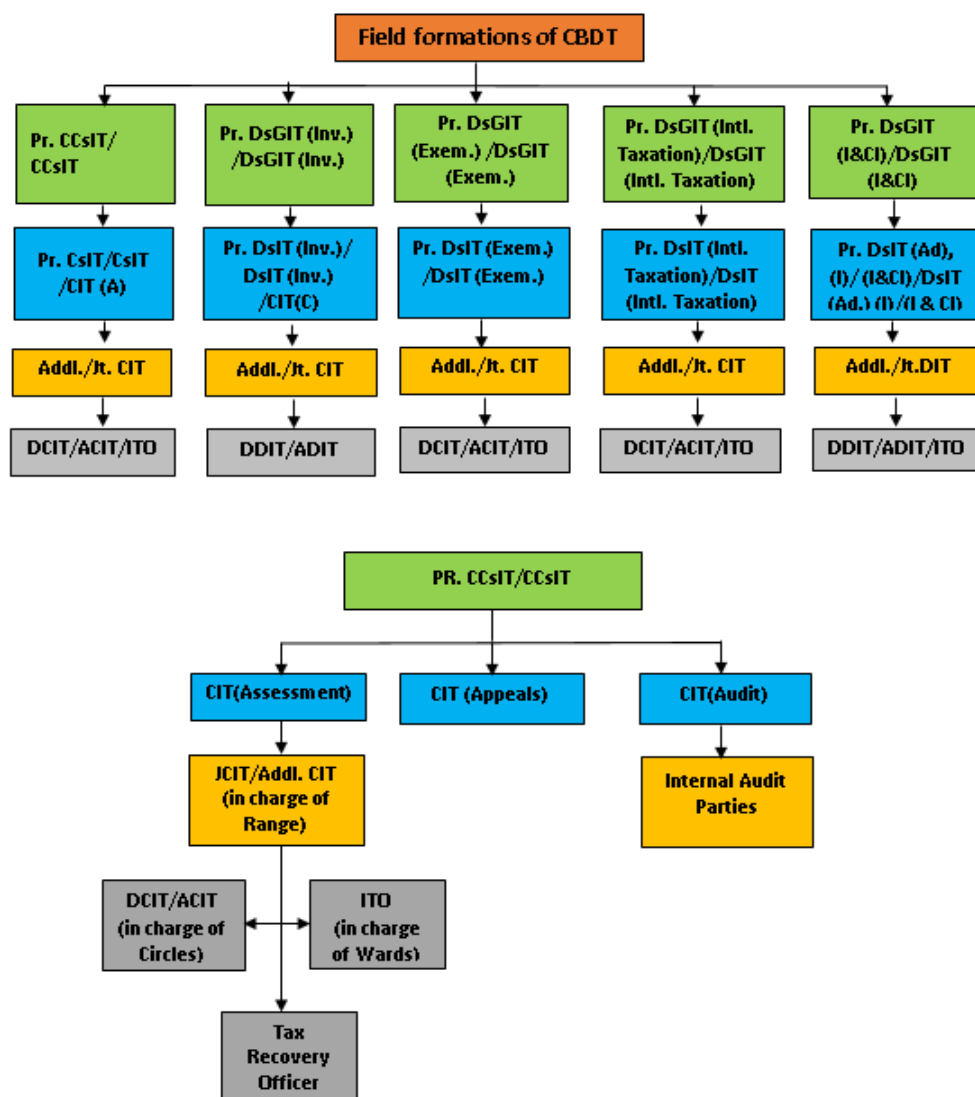
4 The figures do not include sanctioned strength of (i) EDP, (ii) OL (Official Language) Division, (iii) Reserves (iv) other posts and (v) posts allocated under central Pool (under Delhi CCA).

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

respectively. The revenue expenditure of the ITD for the year 2019-20 was ₹ 7,052 crore⁶.

The organizational structure of the CBDT is given in Chart 1.1 below:

Chart 1.1: Organisational set up of field formation of CBDT



1.3 Resources of the Union Government

1.3.1 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) 2019-20 and FY 2018-19.

6 Union Finance Accounts for FY 2019-20.

Table 1.1: Resources of the Union Government	₹ in crore)	
	FY 2019-20	FY 2018-19
A. Total Revenue Receipts [#]	25,98,761	25,67,917
i. Direct Taxes Receipts	10,50,686	11,37,718
ii. Indirect Taxes Receipts including other taxes ⁷	9,59,374	9,42,747
iii. Non-Tax Receipts	5,88,328	4,86,389
iv. Grants-in-aid & contributions	373	1,063
B. Miscellaneous Capital Receipts ⁸	50,349	94,979
C. Recovery of Loans & Advances ⁹	18,647	30,257
D. Public Debt Receipts ¹⁰	73,01,387	67,58,482
Receipts of Government of India (A+B+C+D)	99,69,144	94,51,635

Source: Union Finance Accounts of respective years.

Note: Direct tax receipts and Indirect Tax receipts including other taxes have been worked out from the Union Finance Accounts.

Total Revenue Receipts include ₹ 6,50,677 crore in FY 2019-20 and ₹ 7,61,454 crore in FY 2018-19 directly assigned to states.

In FY 2019-20, increase in receipts of Government of India have mainly been contributed by increase in public debt receipts. Direct taxes accounted for 40.4 per cent of total revenue receipts in FY 2019-20, shrinking by 7.6 per cent over the last year's receipts.

1.3.2 Table 1.2 below provides a snapshot of direct taxes administration.

Table 1.2: Direct Taxes Administration								
Financial Year	Direct Tax Collection (₹ in crore)				Refunds (₹ in crore)	Actual Returns Filed by (Number in lakh)		Revenue expenditure (₹ in crore)
	Corporate Tax	Income Tax	Other Direct Taxes	Total		Non-corporate Assesseees	Corporate Assesseees	
2015-16	4,53,228	2,80,390	8,394	7,42,012	1,22,596	398.0	6.9	4,689
2016-17	4,84,924	3,40,592	24,285	8,49,801	1,62,582	436.9	7.1	5,623
2017-18	5,71,202	4,08,202	23,334	10,02,738	1,51,835	537.9	8.0	6,172
2018-19	6,63,571	4,61,652	12,495	11,37,718	1,61,037	619.8	8.5	7,168
2019-20	5,56,876	4,80,348	13,462	10,50,686	1,83,431	639.4	8.4	7,052

Source: Union Finance Accounts and Pr. CCA; CBDT

Despite decrease of 7.6 per cent in the direct tax collection in FY 2019-20 as compared to FY 2018-19, there was an increase of 13.9 per cent in refunds issued during FY 2019-20 as compared to FY 2018-19.

7 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.;

8 This comprises of value of bonus shares, disinvestment of public sector and other undertakings and other receipts;

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

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

1.4 Direct Taxes – Trends and composition

1.4.1 Table 1.3 below gives the relative growth of direct taxes (DT) with reference to Gross Tax Revenues¹¹ (GTR) and Gross Domestic Product (GDP) during FY 2015-16 to FY 2019-20.

Table 1.3: Growth of Direct Taxes					
Financial Year	DT	GTR	GDP	DT as per cent of GTR	DT as per cent of GDP
(₹ in crore)					
2015-16	7,42,012	14,55,891	1,35,76,086	51.0	5.5
2016-17	8,49,801	17,15,968	1,51,83,709	49.5	5.6
2017-18	10,02,738	19,19,183	1,67,73,145	52.2	6.0
2018-19	11,37,718	20,80,465	1,90,10,164	54.7	6.0
2019-20	10,50,686	20,10,060	2,03,39,849	52.3	5.2

Source: DT and GTR - Union Finance Accounts, GDP-Central Statistical Office (CSO), Ministry of Statistics and Programme Implementation; GDP for FY 2019-20 – Press note released by CSO on 31 May 2020.

1.4.2 Though the DT decreased by 7.6 per cent in FY 2019-20 as compared to FY 2018-19, there was marginal decrease (2.4 per cent) in the share of DT to GTR in FY 2019-20 as compared to FY 2018-19. DT was 5.2 per cent of GDP during FY 2019-20 as compared to 6.0 per cent in FY 2017-18 and FY 2018-19.

1.4.3 Table 1.4 below gives the growth of direct taxes and its major components i.e. Corporation Tax (CT) and Income Tax (IT) during FY 2015-16 to FY 2019-20.

Table 1.4: Growth of direct taxes and its major components								
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
(₹ in crore)								
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
2019-20	10,50,686	(-) 7.6	5,56,876	(-) 16.1	4,80,348	4.0	2,03,39,849	7.0

Source: Union Finance Accounts

1.4.4 There was a decrease of 16.1 per cent in Corporation Tax in FY 2019-20 as compared to an increase of 16.2 per cent in FY 2018-19, whereas Income Tax increased by 4.0 per cent in FY 2019-20 as compared to an increase of 13.1 per cent in FY 2018-19. By contrast, growth of GDP was 7.0 per cent.

1.4.5 There are different stages of direct taxes collection such as Tax Deducted at Source (TDS), Advance Tax, Self-Assessment Tax (SAT) and Regular

¹¹ It includes all direct and indirect taxes.

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.

1.4.6 Table 1.5 below shows the collection of Corporation and Income Tax under different stages during FY 2015-16 to FY 2019-20.

Table 1.5: Collection of Corporation and Income Tax								
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)
(₹ in crore)								
1.	2.	3.	4.	5.	6.	7.	8.	9.
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	1,05,093	11,31,239
2018-19	4,50,769	5,27,529	84,174	10,62,471	82.6	99,032	1,24,757	12,86,260
2019-20	4,80,383	4,67,315	85,099	10,32,797	84.6	67,620	1,20,233	12,20,650

Source: Pr. CCA, CBDT.

Note: The other receipts include surcharge and cess. The figures of collection include refunds also. In FY 2019-20, there is a difference of ₹ 5.0 crore in collection of Income Tax as compared with the Union Finance Accounts.

1.4.7 Table 1.5 above shows that the voluntary compliance by assessee (pre assessment stage) accounted for 84.6 per cent in FY 2019-20 against 81.2 per cent in FY 2015-16 of the total collections of Corporation and Income Tax, whereas collection through regular assessment (post assessment) which was 7.5 per cent of total collection in FY 2015-16 decreased to 5.5 per cent in FY 2019-20.

1.4.8 Table 1.6 below gives the details of non-corporate assessee in different categories of income.

Table 1.6: Non-Corporate Assessee						
Financial Year	A ¹²	B ₁ ¹³	B ₂ ¹⁴	C ¹⁵	D ¹⁶	Total
(Figures in lakh)						
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
2019-20	75.05	409.15	104.53	50.63	0.01	639.37

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

12 Category 'A' assessee – Assessments with income/loss below ₹ two lakh;

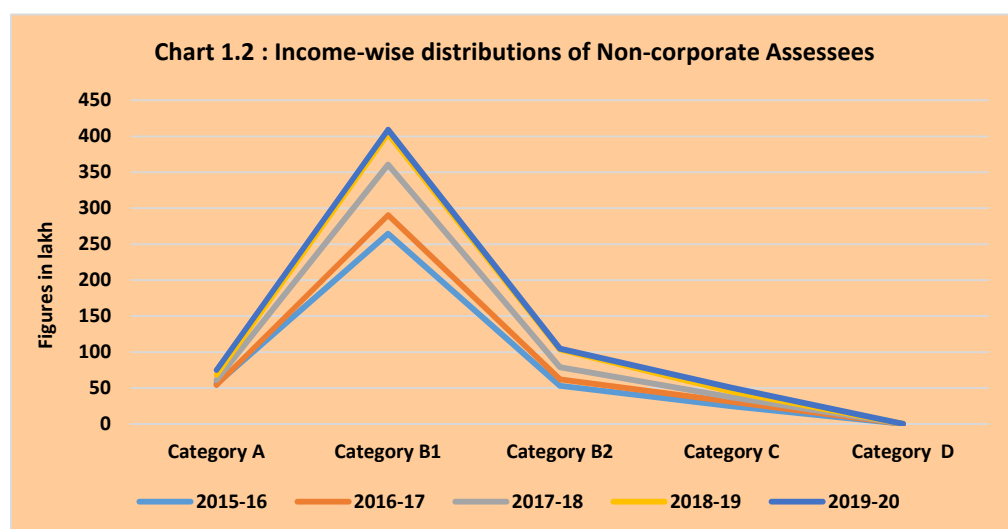
13 Category 'B₁' assessee (lower income group) - Assessments with income/loss of ₹ two lakh and above; but below ₹ five lakh;

14 Category 'B₂' assessee (higher income group) - Assessments with income/loss of ₹ five lakh and above; but below ₹ 10 lakh;

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

16 Category 'D' assessee – Search and seizure assessments;

The number of non-corporate assessees registered an increase of 3.16 per cent in FY 2019-20 in comparison to an increase of 15.2 per cent in FY 2018-19. As can be seen from the Table 1.6 above and Chart 1.2, there has been an increase of 10.2 per cent and 12.6 per cent in Category 'A' and Category 'C' respectively during FY 2019-20 in comparison to FY 2018-19. However, the increases in these categories were 11.3 per cent and 21.3 per cent during FY 2018-19 in comparison to the previous year. There was an increase of 60.6 per cent in non-corporate taxpayers during FY 2015-16 to FY 2019-20 whereas during the same period tax collection from non-corporate taxpayers increased by 71.3 per cent. Thus, growth in tax collection was more than the growth in non-corporate taxpayers.



1.4.9 Table 1.7 below gives details of Corporate Assessees belonging to the different categories of income.

Financial Year	A ¹⁷	B ₁ ¹⁸	B ₂ ¹⁹	C ²⁰	D ²¹	Total	Assessees having income above ₹ 25 lakh (Figures in lakh)
2015-16	3.08	1.59	0.50	1.71	0.00 [^]	6.88	0.76
2016-17	3.14	1.65	0.53	1.81	0.00 [#]	7.13	1.44
2017-18	3.57	1.85	0.58	1.99	0.00 ^{\$}	7.99	1.31
2018-19	3.66	2.00	0.61	2.19	0.00 [@]	8.46	1.45
2019-20	3.48	2.00	0.63	2.27	0.00 [*]	8.38	1.52

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

[^] 337 assesseees, [#] 134 assesseees, ^{\$} 195 assesseees, [@] 146 assesseees, ^{*} 223 assesseees

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

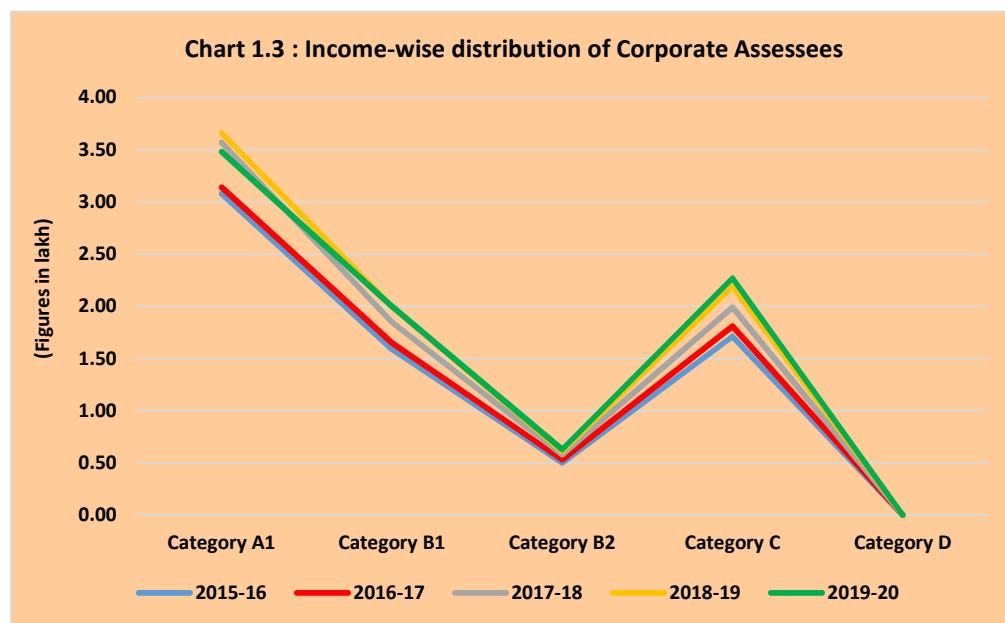
18 Category 'B₁' assesseees (lower income group) – Assessment with income/loss of ₹ 50,000 and above; but below ₹ five lakh;

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

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

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

The number of corporate assessees registered a decrease of 0.9 *per cent* in FY 2019-20 in comparison to an increase of 5.9 *per cent* in FY 2018-19. There was an increase of 21.8 *per cent* in corporate taxpayers during FY 2015-16 to FY 2019-20 whereas during the same period tax collection from corporate taxpayers increased by 22.9 *per cent*. Thus, growth in tax collection was more than the growth in corporate taxpayers.



1.5 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 1.8 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 2019-20.

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
	Total	6,05,605	1,20,681	19.9	3,82,493	41,901	11.0
2017-18	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
	December 2017	1,84,392	17,180	9.3	1,09,388	14,915	13.6

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	March 2018	2,27,400	31,315	13.8	1,54,714	8,831	5.7
	Total	6,80,340	1,09,138	16.0	4,50,899	42,697	9.5
2018-19	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
	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
	Total	7,69,399	1,05,828	13.8	5,16,861	55,209	10.7
2019-20	June 2019	70,435	64,894	92.1	92,449	11,209	12.1
	September 2019	1,78,463	17,404	9.8	1,11,951	17,481	15.6
	December 2019	1,20,124	28,009	23.3	98,494	30,792	31.3
	March 2020	1,87,853	11,235	6.0	1,77,449	2,407	1.4
	Total	5,56,876	1,21,542	21.8	4,80,343	61,889	12.9

Source: Pr. CCA, CBDT

As can be seen from the Table 1.8 above, 48.7 per cent, 39.8 per cent, 47.9 per cent and 92.1 per cent of the gross collection of Corporation Tax during the first quarters of FY 2016-17, FY 2017-18, FY 2018-19 and FY 2019-20 respectively were refunded against the previous year's collection, during the same quarter. Further, 42.5 per cent, 40.8 per cent, 57.7 per cent and 53.4 per cent of the total refund amount of Corporation Tax pertaining to the previous year's collection was refunded during the first quarters of FY 2016-17, FY 2017-18, FY 2018-19 and FY 2019-20 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.

1.6 Tax Administration Process

Tax Administration Process in the Income Tax Department involves allotment of permanent account number (PAN); filing of income tax returns (ITRs); processing of ITRs; scrutiny of ITRs; rectification of mistakes; income escaping assessments; revision of assessment orders; appeal process; determination of refund; generation of demand; collection of taxes; penalty and prosecution etc. Table 1.9 below gives details of the processes involved in the Income Tax Department. Flow chart in *Appendix-1.1* shows these processes.

Table 1.9 Tax Administration Process	
Permanent Account Number (PAN)	Every person ²² who is required to file an Income Tax Return (ITR) under the provisions of section 139A of the Income Tax Act, 1961 (the Act) and has not been allotted a Permanent Account Number shall, within such time, as may be prescribed, apply to the ITD for allotment of a PAN.
Return of income	Under section 139 of the Act, every person, if his total income or the total income of any other person in respect of which he is assessable under this Act during the previous year exceeded the maximum amount which is not chargeable to Income Tax, shall, furnish a return of his income or the income of such other person during the previous year, within the prescribed timeline and in the prescribed form and verified in the prescribed manner and setting forth such other particulars as may be prescribed. CBDT has prescribed different forms of ITR for different categories of assessees. Assesseees are required to file returns of income electronically {Rule 12(3) of the Income Tax Rules, 1962}.
Summary processing {Section 143(1), 143(1A), 143(1B)}	<p>During Summary processing, ITRs are checked for arithmetical accuracy, internal consistency etc. Further, addition of income appearing in Form 26AS or Form 16A or Form 16 which has not been included in computing the total income in the return is also made.</p> <p>The summary processing takes place with the available data in the ITR and without calling for records and information from the assessee. Thus, summary processing is non-intrusive in nature. After processing, if there is any demand due from the assessee, it is intimated through demand notices. In case of excess payment of tax, refunds are issued through the Refund Banker Scheme, except in some exceptional cases wherein refund is allowed in manual mode.</p>
Scrutiny Assessment	<p>The Income Tax Returns filed by the assessee are selected for detailed scrutiny through Computer Aided Scrutiny Selection (CASS). Some cases are also selected manually by the Assessing Officer as per CBDT guidelines. The Act provides for two types of regular scrutiny assessments: (a) Assessment under Section 143(3) which is framed after affording opportunity to the assessee and taking all relevant facts and responses of the assessee on record. (b) Assessment under Section 144 (Best Judgment Assessment) is framed when, despite notices, the assessee does not respond and forgoes the opportunities to file a response. In addition to the above, scrutiny block assessments are conducted in cases of search cases (section 153A/153C).</p> <p>In scrutiny assessment, the Assessing Officer (AO) retrieves all records and information related to the assessee available with the ITD and additionally calls for record and Information from the assessee to satisfy himself that no income has been unaccounted and tax has been computed correctly. The Act prescribes time lines for issue of notices and completion of assessment proceedings. The AO finalises the assessment proceedings.</p>
Rectification of mistake	The Act also provide for subsequent rectification of assessment orders <i>suo-moto</i> or on the request of the assessee (section 154).

22 Company, Firm, Individual, HUF, Trusts, Association of Persons, Body of Individuals, Co-operative Societies, Local Authority, Artificial Juridical Person, Government Agency.

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Income escaping assessment	If the AO has reason to believe that any income chargeable to tax has escaped assessment for any assessment year, he may assess or reassess such income and also any other income chargeable to tax which comes to his notice subsequently in the course of the reassessment subject to the provisions of the Act (section 147).
Revision of orders	The Principal Commissioner of Income Tax may revise an assessment order under section 263/264 if he considers any order passed by the AO is erroneous, subject to provisions of the Act.
Tax Deduction and Collection Account Number (TAN)	TAN or Tax Deduction and Collection Account Number is a 10-digit alpha numeric number required to be obtained under section 203(A) of the Act, by all persons who are responsible for deducting or collecting tax.
Pre-assessment Collection	Every assessee is legally expected to assess his Income Tax liabilities and pay Advance Tax (section 207) and Self-Assessment Tax (section 140A), subject to provisions of the Act. The law also requires certain paying authorities in the public and private sectors (TDS deductors) to deduct a certain percentage of payment made to individuals or corporate etc. and deposit the same in the Government's account. Another way of collecting tax is through designated authorities called Tax Collected at Source (TCS) authorities who collect tax from certain individuals/ corporate getting certain contracts/lease rights from public authorities. The collection of Income Tax through these four mechanisms - Advance Tax, Self-Assessment Tax, TDS and TCS is called pre-assessment mode of tax collections.
Appeal Process	An aggrieved assessee can appeal to the Commissioner of Income Tax (Appeals) against the order of an AO, who shall comply with the directions given in the appellate order. Further, appeal is also permitted to be made on questions of fact and law to the Income Tax Appellate Tribunal against the orders passed by appellate authorities. An appeal can be preferred to the High Court under section 260A if any issue has not been considered or wrongly considered by the Appellate Tribunal and also to the Supreme Court under section 261 in any case which the High Court certifies to be a fit one for appeal thereto.
Refund	Where the amount of tax paid exceeds the amount of tax payable, the assessee is entitled to a refund of the excess amount. Simple interest at the prescribed rate is payable on the amount of such refund. Refund is also admissible alongwith interest, as a result of any order passed in appeal or other proceedings.
Recovery of tax arrears	On receipt of demand from the AO, the assessee is required to pay within 30 days or any other time limit prescribed by the AO. If the recovery is not affected within a year of raising the demand, the AO is required to send the details of arrear cases to the Tax Recovery Officer (TRO) for drawing up of Tax Recovery Certificates (TRC) after ensuring that all possible measures have been taken for recovery of demand.
Penalty and Prosecution	In order to ensure compliance of the provisions of the Act and to have a deterrent effect for violations, the Act provides for exhaustive procedures for the imposition of penalty and initiation of prosecution. The levy of many penal provisions is discretionary in nature and can be waived off by the competent authority.

1.7 Budgeting of Direct Taxation

1.7.1 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 the 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.

1.7.2 Table 1.10 below shows the details of Budget Estimates (BE), Revised Estimates (RE) and Actual collection of direct taxes during FY 2015-16 to FY 2019-20.

Table 1.10: Budget Estimates, Revised Estimates vis-à-vis Actual collection of direct taxes							
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
							(₹ in crore)
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
2019-20	13,35,000	11,70,000	10,50,686	(-) 2,84,314	(-) 1,19,314	(-) 21.3	(-) 10.2

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

1.7.3 The variation between RE and actual collection ranged from (-) 10.2 per cent to 0.3 per cent of RE during the period from FY 2015-16 to FY 2019-20. The variation between the RE and actual is higher in the FY 2019-20 as compared to FYs 2015-16 to 2018-19.

1.8 Revenue impact of tax incentives

1.8.1 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.

1.8.2 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.

1.8.3 The Union Receipt Budget depicts a statement of revenue impact of major incentives on corporate taxpayers and non-corporate taxpayers based on returns filed electronically. Table 1.11 below shows the revenue impact of major tax incentives for FY 2015-16 to FY 2019-20.

Table 1.11: Revenue Impact of Tax Incentives				
Financial Year	Total Revenue impact of tax incentives	Revenue impact as <i>per cent</i> of		
		GDP	Direct Taxes	Gross Tax Receipts
(₹ in crore)				
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	2,06,113	1.1	18.1	9.9
2019-20	2,30,415	1.2	21.9	11.4

Source: Respective Receipt Budget.

Note: The figures of revenue impact of tax incentives are actuals except for FY 2019-20 (projected). These do not cover Charitable Institutions. However, the amount applied by Charitable Institutions was ₹ 5,29,126 crore in respect of 1,98,806 electronically filed returns till 30 November 2019.

As reported in the Receipts Budget for the FY 2020-21, the effective rate of Corporation Tax for FY 2018-19 was 27.8 *per cent*, as against the average statutory rate of 34.6 *per cent*.

1.8.4 The major tax incentives given to corporate and non-corporate assesseees in FY 2019-20 were deductions on account of certain investments and payments under section 80C (₹ 71,965 crore), accelerated depreciation under section 32 (₹ 56,586 crore), deduction of export profits to SEZ units under section 10AA (₹ 24,301 crore), deductions to undertakings in generation/transmission and distribution of power under section 80-IA (₹ 14,468 crore) and deductions under sections 35(1), (2AA) and (2AB) for expenditure on scientific research (₹ 8,319 crore). The Effective Tax Rate (ETR) for companies²³ was 27.81 *per cent* in FY 2018-19 (29.49 *per cent* in FY 2017-18), as against the average statutory rate of 34.58 *per cent*.

1.8.5 The revenue impact of tax incentives has increased by 66.2 *per cent* from ₹ 1,38,658 crore in FY 2015-16 to ₹ 2,30,415 crore in FY 2019-20. Though the tax incentives increased in absolute terms by 11.8 *per cent* in FY 2019-20 as compared to FY 2018-19, increase in the share of revenue impact of tax incentives in DT and GTR was 3.8 *per cent* and 1.5 *per cent* respectively. Revenue impact of tax incentives was 1.2 *per cent* of GDP during FY 2019-20 as compared to 1.1 *per cent* in FY 2018-19 and FY 2017-18.

23 Source: Receipts Budget 2021-22

1.9 Tax debt – Uncollected demand

1.9.1 Table 1.12 below gives the trend of arrears of demand pending during the period FY 2015-16 to FY 2019-20.

Table 1.12: Arrears of Demand						
Financial Year	Arrears of earlier year's demand	Arrears of current year's demand	Total arrears of demand	Demand difficult to recover [#]	Demand difficult to recover (in Per cent)	Net collectible demand
						(₹ in crore)
2015-16	6,67,855	1,56,356	8,24,211	8,02,256	97.34	21,955
2016-17	7,33,229	3,11,459	10,44,688	10,29,725	98.57	14,963
2017-18	7,36,975	3,77,207	11,14,182	10,94,023	98.19	20,159
2018-19	9,46,190	2,87,888	12,34,078	12,19,485	98.82	14,593
2019-20	11,25,314	4,93,640	16,18,954	15,80,220	97.61	38,734

Source: Directorate of Income Tax (Organisation & Management Services), Demand & Collection report (CAP-1) for the month of March of the respective FY. [#] This includes current year demand also.

1.9.2 Though total arrears of demand in FY 2019-20 amounted to ₹ 16,18,954 crore, increasing by 31.2 per cent as compared to FY 2018-19 (₹ 12,34,078 crore), however, demands classified as 'difficult to recover' decreased marginally to 97.6 per cent of the total arrears of demands in FY 2019-20 as compared to 98.8 per cent in FY 2018-19 due to an increase in net collectible demand. Audit noted that the Demand & Collection Report prepared by the Income Tax Department for the month of March of the respective FYs has analysed various factors viz. no assets/inadequate assets for recovery, cases under liquidation/BIFR, assessee not traceable, demand stayed by Courts/ITAT/IT authorities, TDS/prepaid taxes mismatch etc. leading to an estimation of the demands difficult to recover. Further, Audit noted that the demand categorized as "difficult to recover" by the ITD appeared to include the majority of the arrears of current year's demand.

1.10 Litigation Management

1.10.1 Table 1.13 below gives the trend of disposal and pendency of appeal cases before CIT(Appeals) during FY 2015-16 to FY 2019-20.

Table 1.13: 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
					(₹ in crore)
					(Number in lakh)
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
2019-20	5.57	0.99	4.58	82.2	8,83,331

Source: CBDT

1.10.2 The amount locked up in appeal cases with CIT (Appeals) is more than the revenue deficit of the Government of India in FY 2019-20.

1.10.3 Table 1.14 below gives the position of appeal cases pending with the Income Tax Appellate Tribunals (ITATs)/High Courts and Supreme Court during FY 2015-16 to FY 2019-20.

Financial Year	ITATs		High Courts		Supreme Court		Total	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
	(₹ in crore)							
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 [#]	1,35,169	2,10,833
2019-20	88,016	NA [@]	31,745	3,09,237	4,526	NA [@]	1,24,287	3,09,237

Source: CBDT;

[@] amount in respect of appeals filed in ITATs and the Supreme Court by the Department as well as assesseees are not available.

[#] amount in respect of appeals filed in the Supreme Court by the assesseees not available

1.10.4 The CBDT vide their circular no. 17 of 2019 dated 8 August 2019 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 number of pending cases 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.

1.11 Tax Evasion

1.11.1 Search and Seizure²⁴ and Survey²⁵ 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 1.15 below shows the details of search and seizure operations and surveys conducted and the undisclosed income admitted/detected during FY 2015-16 to FY 2019-20.

Financial Year	Number of groups searched	Undisclosed income admitted (in search & seizure)	Number of surveys conducted	Undisclosed income detected (in surveys)
	(₹ in crore)			
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
2019-20	984*	10,370*	12,720	22,244

Source: Investigation Wing, CBDT; * provisional

²⁴ Search and Seizure is carried out under section 132 of the Act to unearth any undisclosed income or valuables.

²⁵ 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.

1.11.2 During FY 2019-20, undisclosed income admitted during search & seizure decreased by 44.2 *per cent* and undisclosed income detected during survey increased by 37.9 *per cent* as compared to the respective figures in FY 2018-19.

1.12 Effectiveness of Internal Audit

1.12.1 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 1,62,509 cases in FY 2019-20 as against 1,62,467 cases audited in FY 2018-19.

1.12.2 Table 1.16 below shows details of Internal Audit observations raised, settled and pending for the period of the five years from FY 2015-16 to FY 2019-20.

Table 1.16: Details of Internal Audit observations								
Financial Year	Opening balance [^]		Addition		Settled		Pending	
	Cases	Amount	Cases	Amount	Cases	Amount	Cases	Amount
(₹ in crore)								
2015-16	19,137	8,023	13,148	6,463	12,891	2,205	9,394	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
2019-20	31,024	11,388	14,887	4,088	10,084	1,206	35,827	14,270

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

1.12.3 Out of 9,164 major finding cases²⁶ raised by Internal Audit, the Assessing Officers (AOs) acted upon only in 1,469 cases (16.0 *per cent*) in FY 2019-20 in comparison to 1,923 cases (24.6 *per cent*) out of 7,818 cases in FY 2018-19. Follow up of the internal audit observations by the AOs need to be improved.

²⁶ 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.

