OVERVIEW

Chapter I: Introduction

The Comptroller and Auditor General of India conducts the audit of revenues from direct taxes of the Union Government under section 16 of the Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act, 1971.

Nine hundred thirty-one observations with a tax effect of Rs.1852.65 crore were issued to the Ministry as individual draft paragraphs, consisting of 450 observations involving tax effect of Rs.1129.39 crore that had arisen from local audit conducted in earlier years. Eight hundred eighty five observations involving tax effect of Rs.1761.12 crore have been included in this report. In addition, a limited test check in audit to assess the status and adequacy of follow up action in selected post VDIS 1997 assessments based on the comments in Audit Report No.12A of 2000, revealed short levy of tax of Rs.228.55 crore in only 1081 cases.

Although the manpower for internal audit had increased by 1079 percent after introduction of the new chain system, there was a shortfall of 62.47 percent with reference to total auditable cases. Revenue of Rs.109.52 crore was lost in 1755 cases as remedial action was not taken in time.

Department did not produce 25,227 cases representing 70.35 percent of cases not produced during earlier audits and requisitioned again in 2003-04, to audit which included 69 cases not produced in 3 or more consecutive audit cycles in Andhra Pradesh, Karnataka, Madhya Pradesh, Orissa, Tamilnadu and Maharashtra charges. Consequently, audit of such cases could not be carried out.

Chapter II: Tax Administration

Total collections from direct taxes increased from Rs.57,959 crore in 1999-00 to Rs.1,05,089 crore in 2003-04 at an annual rate of 18.02 percent. Pre assessment collections amounted to 80.42 percent in the case of corporate assessees and 93.70 percent in the case of non corporate assesses, of gross collections in 2003-04. Total number of assessees increased at an annual rate of 10.06 percent from 1.99 crore in 1999-00 to 2.92 crore in 2003-04. Disposal of scrutiny assessments increased to 51 percent of the assessments due as compared to 19 percent in 2002-03 but disposal of summary cases had come down to 79 percent of total summary assessments due for disposal as compared to 92 percent in 2002-03. Uncollected amount of Rs.88,017 crore of the total demand of Rs.1,93,106 crore as on 31 March 2004 comprised demand of Rs.57,064 crore of earlier years and Rs.30,953 crore pertaining to 2003-04. Percentage of recovery of demand declined to 19 percent during 2003-04 as compared to 22 percent in 2002-03. Eighty one percent of the certified amount remained uncollected at the end 2003-04 as compared to 78 percent in 2002-03.

Chapter III: Corporation Tax

Receipts from corporation tax amounted to Rs.63,561 crore which constituted 60 percent of the total collection from direct taxes during 2003-04. The number of corporate assessees as on 31 March 2004 was 3,72,483 which represented an increase of 2.02 per cent over the previous year. In respect of corporate asseesees, 559 audit observations involving under charge of tax of Rs.1769.97 crore and 15 observations involving over charge of tax of Rs.15.31 crore on account of various irregularities in assessments such as assessees' availing unentitled benefits in summary assessments, mistakes in adoption of correct figures, applying incorrect rate of tax and levy of surcharge, computation of business income, allowing unentitled expenditure or provision and claims, computation of capital gains, carry forward and set off of losses, allowing reliefs and exemptions, excess or irregular refunds and non levy/short levy of interest were issued to the Ministry of Finance for their comments. Five hundred thirty six cases comprising 521 observations involving undercharge of tax of Rs.1679.07 crore and 15 observations involving overcharge of Rs.15.31 crore have been included in this Chapter. The Ministry accepted observations in 43 cases involving tax effect of Rs.54.86 crore, till the date of preparation of this Report.

Chapter IV: Income Tax

Receipts from income tax amounted to Rs.41,387 crore which constituted 39.38 percent of the total collection from direct taxes in 2003-04. The number of income tax assessees as on 31 March 2004 was 2.88 crore, which represented an increase of 2.49 percent over the previous year. One hundred sixty eight audit observations involving revenue effect of Rs.36.70 crore on account of various irregularities in income tax assessments such as adoption of incorrect figures, applying incorrect rate of tax, non-levy of surcharge, incorrect computation of business income, incorrect set off of losses, allowing income to escape assessment incorrect deductions and short/non-levy of interest are included in this Chapter. Ministry of Finance accepted observations in 14 cases involving tax effect of Rs.4.11 crore, till the date of preparation of this Report.

Chapter V: Other Direct Taxes

One hundred and eighty one cases of irregularities involving tax effect of Rs.30.04 crore relating to mistakes in computation of wealth tax, incorrect valuation of assets, non or short levy of interest for defaults in filing return, non levy of tax on deemed gifts, omission to make assessments of interest tax and mistakes in computation of chargeable expenditure are included in this Chapter. Ministry of

Finance accepted observations in 17 cases involving tax effect of Rs.70.57 lakh, till the date of preparation of this Report.

Chapter VI: Status and adequacy of 'follow up' action in selected post – VDIS-1997 assessments.

Audit attempted an evaluation of the status and adequacy of 'follow up' action in selected post VDIS 1997 assessments based on audit comments on VDIS 1997 in the Audit Report 12A of 2000. Audit requisitioned assessment records in respect of 21,853 VDIS declarations that were either "invalid/non-est" or pertained to new assessees, out of which the department could produce only 4906 cases. The limited test check in audit revealed short levy of tax of Rs.228.55 crore in only 1081 cases.

Audit noticed that the action taken by the department to bring such declarants to tax under normal provisions of the Act where certificates were issued even though tax was paid after the lapse of prescribed period of three months from the date of declaration, was inadequate. The department did not have a system to monitor whether the declarants who had declared under VDIS, 1997 had continued to file their income tax and wealth tax returns in subsequent years also.

Audit could not ascertain whether the department had taken action to apply the normal provisions of the Income Tax Act in respect of ineligible persons involved in the 'cobbler scam' or in the 'loan hawala racket' in 9 out of 23 cases produced to audit which involved a tax effect of Rs.35.10 crore.

Only one out of 25 cases of 'multiple' declarations produced to audit had been taxed under normal provisions of the Act.