

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 and five observations with a tax effect of Rs. 1,971.33 crore were issued to the Ministry as individual draft paragraphs, including 388 observations involving tax effect of Rs. 530.62 crore that has arisen from local audit conducted in earlier years. Eight hundred and sixty two observations involving tax effect of Rs. 1,770.30 crore have been included in this report. There was loss of revenue of Rs. 911.27 crore due to not taking remedial action in time in 2,265 cases.

Recovery of Rs. 305.63 crore was made at the instance of audit in respect of 2517 cases during 2005-06.

Out of a target of 12.78 lakh cases for disposal during 2005-06 only 4.72 lakh cases were seen by internal audit leaving a balance of 63.07 percent.

Department did not produce 39,663 cases or 67 percent of cases not produced during earlier audits and requisitioned again in 2005-06 to audit which included 110 cases not produced in three or more consecutive audit cycles in Andhra Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Orissa and Rajasthan charges. Consequently, audit of such cases could not be carried out.

Chapter II: Tax Administration

Total collections from direct taxes increased from Rs. 69,198 crore in 2001-02 to Rs. 1,65,216 crore in 2005-06 at an average annual rate of growth of 19.73 percent. In the case of corporate assesseees, 74.98 percent of gross collections was made at pre-assessment stage, of which 53.37 percent was by way of advance tax. In the case of non-corporate assesseees, 90.64 percent of the gross collection was made at pre-assessment stage, of which 51.89 percent was by way of TDS. Total number of assesseees grew from 2.62 crore to 2.98 crore during 2001-02 to 2005-06 at a compound annual growth rate of 3.24 percent which was lower than 4.28 percent during 2000-01 to 2004-05. The number of cases selected for scrutiny during 2005-06 was lower at 2.03 lakh as compared to 2.46 lakh in 2004-05. The percentage of assessments completed in summary manner decreased as a result of which the total pendency increased from 22.57 per cent in 2004-05 to 31.18 per

cent in 2005-06. Uncollected amount of Rs. 95,387 crore out of total demand of Rs. 2,60,603 crore comprised demand of Rs. 58,385 crore of earlier years and current demand of Rs. 37,002 crore outstanding as on 31 March 2006. The outstanding demand in corporation tax increased from Rs. 39,204 crore to Rs. 55,098 crore and that in income tax decreased from Rs. 83,977 crore to Rs. 40,289 crore during the year 2005-06 as compared to previous year. The percentage of recovery of certified demand to TROs has declined from 16 percent during 2004-05 to about 14 percent during 2005-06. The working strength of TROs however, also decreased to 329 from 356 during 2005-06.

Chapter III: Corporation Tax

Receipts from corporation tax amounted to Rs. 1,01,277 crore which constituted 61.30 percent of the total collection from direct taxes during 2005-06. The number of corporate assesseees as on 31 March 2006 was 3.93 lakh which represented an increase of 3.42 percent over the previous year. In respect of corporate assesseees, 653 audit observations involving under charge of tax of Rs. 1893.21 crore and 12 observations involving over charge of tax of Rs. 17.10 crore on account of various irregularities in assessments, such as, mistakes in adoption of correct figures, applying incorrect rate of tax and non-levy of surcharge, mistakes in computation of business income, allowing unentitled expenditure or provision and claims, incorrect computation of capital gains, carry forward and set off of losses, incorrect allowance of reliefs and exemptions, excess or irregular refunds and non levy/short levy of interest were issued to the Ministry of Finance for their comments. Six hundred twenty cases involving undercharge of tax of Rs. 1,697.76 crore and 12 observations involving overcharge of Rs. 17.10 crore have been included in this chapter. The Ministry accepted observations in 248 cases involving tax effect of Rs. 307.17 crore, till the date of preparation of this report.

Chapter IV: Income Tax

Receipts from income tax amounted to Rs. 55,985 crore which constituted 33.89 percent of the total collection from direct taxes in 2005-06. The number of income tax assesseees as on 31 March 2006 was 2.94 crore, which represented an increase of 9.70 percent over the previous year. One hundred and seventy four audit observations involving revenue effect of Rs. 50.88 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 allowance of liabilities, mistakes in computation of business income, incorrect allowance of depreciation, incorrect computation of capital gains, allowing income to escape assessment, carry forward and set off of losses, incorrect allowance of deduction in respect of export profits, irregular refunds, short/non-levy of interest, over assessment/overcharge, omission to levy penalty and mistake in summary assessments have been included in this chapter. Ministry of Finance accepted

observations in sixty five cases involving tax effect of Rs. 18.77 crore till the date of preparation of this report.

Chapter V: Other Direct Taxes

Fifty six cases of irregularities involving tax effect of Rs. 5.18 crore on account of various irregularities in wealth tax and interest tax assessments such as mistakes in valuation of assets, non inclusion of taxable assets in the net wealth, wealth escaping assessment, non correlation of assessment records, mistakes in levy of interest, mistakes in application of rates of tax and mistakes in assessment of chargeable interest have been included in this chapter.

Ministry of Finance accepted observations in 27 cases involving tax effect of Rs. 2.34 crore till the date of preparation of this report.