

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 sixty one observations with a tax effect of Rs. 1,749.97 crore were issued to the Ministry as individual draft paragraphs, including 542 observations involving revenue impact of Rs. 1,085.32 crore that has arisen from local audit conducted in earlier years. Nine hundred and eighteen observations involving revenue impact of Rs. 1,663.50 crore have been included in this report. There was loss of revenue of Rs. 1,354.33 crore due to timely remedial action not being taken in 3,593 cases.

Application of statistical sampling techniques revealed that most likely estimates of proportion of scrutiny and non-scrutiny assessments with mistakes in Maharashtra were 7 percent and 1 percent respectively whereas those in Delhi were 12 percent and 7 percent for assessments completed during 2005-06. The total revenue effect of audit observations observed in the sample of the assessments completed during 2005-06 in Maharashtra and Delhi were Rs. 5,247.47 crore and Rs. 2,407.17 crore respectively, which were 8.65 percent and 9.19 percent of the total direct taxes revenue collection in the respective state for the financial year 2005-06.

Recovery of Rs. 1,462.16 crore was made at the instance of audit in respect of 1,348 cases during 2006-07.

Out of a target of 12.33 lakh cases for disposal during 2006-07 only 3.67 lakh cases were seen by internal audit, leaving a balance of 70.27 percent.

Department did not produce to audit 69,054 cases or 54 percent of cases not produced during earlier audits and requisitioned again in 2006-07 which included 213 cases not produced in three or more consecutive audit cycles in Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Orissa and Tamil Nadu charges. Consequently, these cases could not be audited.

Chapter II: Tax Administration

Total collections from direct taxes increased from Rs. 83,088 crore in 2002-03 to Rs. 2,30,181 crore in 2006-07 at an average annual rate of growth of 27.33 percent. In the case of corporate assesseees, 75.78 percent of gross collections was

made at pre-assessment stage, of which 55.20 percent was by way of advance tax. In the case of non-corporate assessees, 89.55 percent of the gross collection was made at pre-assessment stage, of which 50.96 percent was by way of TDS. Total number of assessees grew from 2.85 crore to 3.13 crore during 2002-03 to 2006-07 at a compound annual growth rate of 2.40 percent which was lower than the growth rate of 3.24 percent during 2001-02 to 2005-06. The number of cases selected for scrutiny during 2006-07 was higher at 3.41 lakh as compared to 2.03 lakh in 2005-06. There has been a progressive decline in completion of assessments from 89.87 percent in 2002-03 to 66.44 percent in 2006-07, and a corresponding increase in pendency over the last five years. The decrease in the number of officers deployed on assessment duty could be one of the reasons for the increased pendency. Uncollected amount of Rs. 1,17,370 crore out of the total demand of Rs. 3,37,007 crore in respect of corporation tax/income tax and wealth tax comprised demand of Rs. 86,203 crore of earlier years and current demand of Rs. 31,167 crore outstanding as on 31 March 2007. The outstanding demand of corporation tax increased from Rs. 55,098 crore in 2005-06 to Rs. 64,683 crore in 2006-07 and that for income tax from Rs. 40,289 crore to Rs. 51,771 crore. For wealth tax, the outstanding demand decreased from Rs. 9,491 crore in 2005-06 to Rs. 916 crore during 2006-07. Since the wealth tax collection during 2006-07 was only Rs. 240.33 crore, this sharp reduction seems inexplicable and merits investigation by the Ministry. The percentage of recovery of certified demand increased from 14 percent of total certified demand during 2005-06 to about 24 percent during 2006-07.

Chapter III: Corporation Tax

Receipts from corporation tax amounted to Rs. 1,44,318 crore which constituted 62.71 percent of the total collection from direct taxes during 2006-07. The number of corporate assessees as on 31 March 2007 was around 4 lakh which represented an increase of 1.80 percent over the previous year. In respect of corporate assessees, 665 audit observations involving undercharge of tax of Rs. 1,573.64 crore and 21 observations involving overcharge of tax of Rs. 95.74 crore on account of various irregularities in assessments, such as mistakes in computation, carry forward and set off of loss, implementation of appellate orders, computation of income under special provisions, allowance of depreciation, deductions not supported by actual payment, capital/non business expenditure, mistakes in adoption of correct figures/arithmetical errors, provisions, prior period expenses/deductions not admissible, reliefs, exemptions and deductions under chapter VIA, refunds/interest on refunds, non levy/short levy of interest, income not assessed, mistakes in summary assessments and the assessments involving overcharge of tax were issued to the Ministry of Finance for their comments. Six hundred twenty four cases involving undercharge of tax of Rs. 1,480.60 crore and 21 observations involving overcharge of Rs. 95.74 crore have been included in this chapter. The Ministry has accepted observations in 204 cases involving revenue impact of Rs. 712.44 crore, till the date of preparation of this report.

Chapter IV: Income Tax

Receipts from income tax amounted to Rs. 75,079 crore which constituted 32.62 percent of the total collection from direct taxes in 2006-07. The number of income tax assesseees as on 31 March 2007 was 3.09 crore, which represented an increase of 5.10 percent over the previous year. One hundred and eighty audit observations involving revenue impact of Rs. 43.64 crore on account of various irregularities in income tax assessments such as mistake in computation of business income, incorrect allowances of deduction to undertakings engaged in developing and building housing projects, incorrect allowance of deductions in respect of export profits, application of incorrect rate of tax, non/short levy of interest, incorrect of computation of capital gains, incorrect allowance of liabilities, irregular refunds, mistake in adoption of correct figures, incorrect carry forward and set off of losses, incorrect allowance of depreciation, income not assessed, mistakes in summary assessments and cases of overassessment/overcharge have been included in this chapter. The Ministry has accepted audit observations in 66 cases involving revenue impact of Rs. 12.80 crore till the date of preparation of this report.

Chapter V: Other Direct Taxes

Sixty nine cases of irregularities involving revenue impact of Rs. 33.94 crore on account of various irregularities in wealth tax and interest tax assessments such as mistakes in wealth not assessed due to non correlation of records of different taxes, non/short levy of interest, non inclusion of taxable assets in the net wealth and mistakes in assessment of chargeable interest have been included in this chapter. The Ministry has accepted observations in 25 cases (22 in wealth tax and three in interest tax) involving revenue impact of Rs. 4.66 crore (Rs. 34.48 lakh in wealth tax and Rs. 4.31 crore in interest tax) till the date of preparation of this report.