

Status of improvement of efficiency through the ‘Restructuring’ of the Income Tax Department

1.1 Introduction

1.1.1 Reform of tax administration is an integral part of tax reforms. With this background, the Central Board of Direct Taxes (the Board) proposed to the Union Cabinet in July 2000, a scheme of restructuring of the Income tax department to improve **efficiency** and **effectiveness** through induction of technology.

1.1.2 An exponential increase in volume of work over the years was considered to have led to problems such as

- increase in pendency of income tax assessments.
- increase in number of stop filers.
- increase in arrears of taxes.
- increase in the number of taxpayers per Commissioner of Income Tax (CIT).
- deterioration in span of control at other levels that undermined efficiency and effectiveness.
- increase in average delay in issue of refunds resulting in huge outgo of interest
- virtually inoperative existing manual system due to unprecedented growth in tax payers and large volumes of work breeding inefficiency, harassment to tax payers and corruption, and
- deteriorating career prospects of officers in the Indian Revenue Service at a fast pace making them lag behind other comparable Central Services.

1.2 Proposal

1.2.1 It was felt, after an ‘in-house’ exercise undertaken in the department (Mishra Committee Report, 1998), that any meaningful improvement in tax administration could come only through a ‘comprehensive global solution’ that provided for full-scale induction of information technology. This would improve taxpayer service, provide a user-friendly environment and enable handling of growing volumes of workload.

1.2.2 The proposal aimed, therefore, to restructure the department, retrain and reorient its personnel through

- functionalization, to increase productivity,
- increase in the number of officers rationalizing the span of control for better supervision, control and management of workload,
- improvement of tax payer services and

- reorientation, retraining and redeployment of surplus staff by increasing the levels of existing work norms and providing appropriate incentives like promotions commensurate with increased productivity.

1.2.3 Accordingly, the proposal involved creation/abolition of various posts in the department. Overall strength of the department, consisting of 57,989 posts before restructuring, was to be decreased to 55,234 after restructuring resulting in net decrease of 2,755 posts. The number of officers in higher cadres was increased whereas in the lower cadres, the number was decreased as shown in **Table 1** below:

Post	Strength before restructuring	Strength after restructuring	Increase in strength
CCIT	36	116	80
CIT	402	698	296
Addl CIT	339	469	130
JCIT	453	647	194
DCIT	1033	1240	207
ACIT	648	734	86
ITO	3261	4207	946
Total	6172	8111	1939

1.2.4 As the total number of tax payers had gone up from 160 lakh as on 1 April 1997 to 250 lakh as on 1 April 2000, the effective span of control would be over 1 lakh tax payers per CIT, 33,000 per Range and 6,600 per Ward. The proposal apparently recognized the fact that the number of employees need not increase continuously with increase in number of taxpayers and that the additional workload would be handled through greater computerization, increase in productivity and rationalization of work practices. Productivity per employee was proposed to be increased from 265 registered taxpayers as on 1 April 1997 to 400 on 1 April 2001, 600 as on 1 April 2004, 900 as on 1 April 2007 and 1,350 on 1 April 2010. Thus, the same number of employees was expected to provide quality service to a much larger number of taxpayers. The term 'productivity' and how to measure and verify the same were not defined or described in the proposal to the Cabinet.

1.2.5 Redressal time of grievances of tax payers at the first level of appeals viz. CIT (Appeals) was sought to be reduced from 18 months to 6 months in line with internationally accepted norms. It was projected that this would release substantial tax revenue locked in appeals and reduce uncertainty for taxpayers.

1.2.6 Besides strengthening and augmenting the representation of the department in each bench of ITAT*, addition of new Directorates, creation of additional posts of ministerial staff in areas of record management and reduction

* ITAT – Income Tax Appellate Tribunal

in posts of peons, it was proposed that internal work study norms for the long run would be recast based on cost of collection per registered tax payer and number of registered tax payers per employee.

1.2.7 Finally, direct tax laws, rules, administrative rules and guidelines were decided to be amended or relaxed as found necessary after following prescribed procedure in order to give full effect to the proposals.

1.3 Proposed impact or benefits of restructuring

1.3.1 **Standardization of Work norms:-** As work norms were to be standardized for all employees with reference to the number of tax payers, every employee was expected to assume ownership of organizational goals resulting in higher productivity and effectiveness. No mention was made in the proposal as to when and with respect to which data, the work norms would be standardized.

1.3.2 **Downsizing:-** There was to be downsizing of income tax bureaucracy by 4.75 percent. Stagnation was expected to be reduced at all levels, which was to improve employee morale and prepare the department for induction of technology.

1.3.3 **Cost Implications:-** By applying incremental cost method*, a saving of Rs 3.05 crore in the short run, on salaries and wages under the 'current' rates of DA and rules for other perquisites as a result of the proposal was projected. Accordingly, no additional expenditure was provided under this head. It was also mentioned that by adopting the 'Mean Pay Method', based on mean pay in each scale for estimating the costs of creating new posts, the financial implication of restructuring was estimated at Rs. 42 crore. Vacancies were proposed to be filled by promotion and not by direct recruitment and, therefore, there was to be much less immediate financial impact. It was concluded that even if the proposal did result in an estimated financial burden of Rs. 42 crore under the 'Mean Pay method', this should be viewed as cost incidental to the process of modernization and induction of technology. Over a period of time, it was felt that there would be a marginal increase in expenditure, in relation to overall tax collection, incremental tax collection and the 'existing' wage bill. It was expected that consequent to modernization and computerization, average cost of collection would fall in spite of the estimated financial cost of restructuring. The mechanism of working out the cost of collection and the allocation of appropriate 'weightage' to pre assessment collection that did not exactly test the investigation or assessment or recovery skills of the officers of the department, were not spelt out in the proposal to the Cabinet.

* Incremental cost method:- pay drawn on promotion minus pay drawn immediately before promotion

1.3.4 **Productivity**:-Based on the workload relating to tax payers registered as on 1 April 1997, it was proposed that there would be an estimated 200 per cent increase in productivity at organizational level. Here also, the meaning of 'productivity', the method of monitoring or verifying the increase, if any, were not mentioned in the proposal to the Cabinet.

1.3.5 **Additional Revenue Gains**:- Consequent to restructuring, the Department was expected to be well placed to deal with key areas of non-compliance. This, in turn, was to have led to an '**immediate**' impact on revenues due to the enhanced ability to deal with 'stop-filers' estimated at Rs.2800 crore. Another Rs.6000 crore was estimated to be the additional impact on revenues from disposal of pending assessments. Increase in the number of first appellate authorities and Tax Recovery Officers (TRO) were expected to contribute an estimated Rs.7500 crore to the revenues. Interest burden on refunds was projected to come down by Rs.350 crore per annum with early issue of refunds. The long run impact in increased tax buoyancy was expected to be much more. The definition of 'immediate' impact on revenues was conspicuous by its absence in the proposal to the Cabinet.

1.3.6 **Chain System of Internal Audit**: A new chain system of internal audit was separately introduced in December 2001 by the Board in the field offices ostensibly with a view to strengthening the internal check of assessments and refunds besides expanding on coverage and involving personnel from all assessment circles. Prior to restructuring, the 'Internal Audit' set up, consisting of Internal Audit Parties (IAP) and Special Audit Parties (SAP) was a separate entity within the Department. New system of internal audit was introduced after approval of the scheme of restructuring by the Cabinet, under the administrative powers of the Board.

1.4 **Conditions of approval**

The Cabinet approved the proposal of the Board/Department of Revenue on 31 August 2000 subject to the following conditions:-

- An 'MOU' should be entered into between the Government and the Board in regard to increased revenue generation.
- In order to reduce public harassment and ensure accountability, specific steps needed to be taken to strengthen the vigilance and accounting machinery in the Board, and
- The redeployed manpower needed to be fully trained in computer technology within a period of five years so as to improve the tax administration.

1.5. Audit objectives

Audit undertook the review with a view to ascertaining

- the extent of achievement of promised 'immediate' revenue gains
- the status of fulfillment of conditions laid down by the Cabinet while according approval
- the extent of improvement in efficiency after restructuring in areas such as assessments, issue of refunds, disposal of appeals, increased revenue generation, quality of assessments, effectiveness of anti-tax evasion measures, widening of tax base, number of tax payers serviced/handled, tax payer grievances and so on,
- whether there were verifiable and documented means of ensuring that the achievements are objectively measured, recorded and internally verified,
- that all direct and indirect costs involved in implementation of the scheme of restructuring have been properly and adequately accounted for and all expenditure has been incurred with the sanction of the competent authority in accordance with the prescribed procedure, and
- the extent of improvement, consequent to the change in or augmentation of the system of internal control and monitoring mechanism.

1.6 Audit methodology

1.6.1 Consultation with Ministry/CBDT

The Secretary, Ministry of Finance, Department of Revenue and the Board were informed in December 2003 about the selected review **topics** for Audit Report 13 of 2005 of the Comptroller and Auditor General of India requesting them to issue suitable instructions to field formations in the Income Tax Department to produce relevant records to audit teams from the field offices for examination and study.

1.6.2 In February 2004, references were made to the Board to make available their relevant records relating to the scheme of restructuring for audit scrutiny. Comments of the Board were also sought (13 February 2004) on certain basic and essential aspects of the scheme. These aspects included

- status of implementation and monitoring of the scheme of restructuring,
- mechanism of monitoring progress and achievements,
- status of fulfillment of conditions subject to which Cabinet approved the scheme,
- status of realisation of immediate or short term benefits promised in the scheme,
- status of induction of technology,
- details of placement of manpower and training,
- details and position of improvement in efficiency and performance in various areas, and constraints faced in implementation of the scheme.

1.6.3 Reply was received from the Board in August 2004. It was stated that all activities of the department were being monitored by the respective Members of the Board within the sphere of their responsibilities. While giving details of status of implementation of the scheme, only overall and all India position regarding collection of taxes, arrear collections, refunds, appeals and status of induction of technology were given. These details have been analysed in the succeeding paras on related aspects. However, nothing was mentioned in the reply about the status of fulfillment of conditions laid down by the Cabinet and constraints faced by the department, if any, in implementing the scheme.

1.6.4 A reference was also made to the Secretary to Government of India, Ministry of Finance, Department of Revenue in August 2004 seeking the status of fulfillment of these conditions. Reply has not been received.

1.7 Offices selected for review

Nine field offices as detailed below, were selected for study and examination of the relevant and concerned records. The selection was done on the basis of their contribution to the total collections from direct taxes. In the financial year 2002-03, contribution from these states was Rs.73,765.89 crore and formed 89 per cent of the total collection of Rs.83,088.57 crore from direct taxes. The selected offices were:-

- Andhra Pradesh
- Delhi
- Gujarat
- Karnataka
- Madhya Pradesh
- Maharashtra
- Tamil Nadu
- Uttar Pradesh, and
- West Bengal

1.8 Period covered

Audit attempted to examine the relevant records of the department for the period 1999-2000 to 2003-04, i.e., two years prior to and two years after the restructuring, including the year of restructuring.

1.9 CsIT/Units selected for review

CsIT were selected on the basis of revenue collection. Within the selected CsIT, selection of DCIT/ACIT was 100 percent and that of ITO, one under each CIT was done on random basis as indicated in **Table 2** below:-

Table 2: Selection of units for review

States	Total CsIT	CsIT selected for review	CsIT who made available records	CsIT who did not respond	Total no. of units (DCIT/ACIT/ITO/TRO)	Total no. of units selected for review
Andhra Pradesh	30	14	14	-	252	68
Delhi	20	20	17	3	331	23
Gujarat	58	3	3	NIL	487	9
Karnataka	36	7	7	NIL	60	19
Madhya Pradesh	7	4	4	NIL	149	32
Maharashtra	46	27	22	-	690	50
Tamil Nadu	10	5	5	NIL	177	36
Uttar Pradesh	16	8	8	-	284	40
West Bengal	31	9	9	-	130	42

1.10 Cases selected not produced to audit

1.10.1 Records and returns identified for requisition were essentially monitoring reports, periodical returns to Board, assessment records and statistical data on recovery, appeals and refunds.

1.10.2 Records and returns of Income Tax offices in Ahmedabad, Allahabad/Lucknow, Bangalore, Bhopal/Indore, Chennai, Delhi, Hyderabad, Kolkata/Durgapur, Mumbai, Nagpur and Pune were selected for test check.

1.10.3 On an average, 50 percent of total scrutiny cases, 2 percent of total summary cases, 10 per cent of total appeal cases (minimum 100 cases) and 10 per cent of highest value refund cases were selected for test check and statistical data.

1.10.4 Details of cases selected for test check are given in **Appendix 1**.

1.10.5 In these selected states, 20,018 scrutiny, 46,856 summary, 6,567 appeal and 14,522 refund cases were selected and requisitioned for the purpose of review. The department did not produce 6,576 scrutiny cases, 16,015 summary cases, 1,331 appeal cases and 5,304 refund cases.

1.10.6 Audit also compared and analysed the data available in its earlier Audit Reports furnished by the Board with the current data made available by the Board for arriving at some indicators of its performance relating to both 'pre' and 'post' restructuring periods.

1.11 Meetings with departmental authorities

1.11.1 A number of meetings were held with departmental authorities at various levels in Delhi by the Principal Director/Director, Direct Taxes to ascertain the position regarding implementation of the restructuring scheme, monitoring and verification system worked out by the department to watch the results of the scheme, internal control and record management system developed by the department for the purpose and other related issues like production of records etc.

1.11.2 At the draft review report stage, an Exit Conference of Member (A&J) of the Board and Principal Director (Direct Taxes), office of the Comptroller and Auditor General of India was held to discuss the audit conclusions and recommendations proposed to be included in the Audit Report. The results of the discussion have been incorporated in this report at appropriate places.

1.11.3 In the initial meetings, the department could not provide information as to how implementation and results of the restructuring were being monitored and measured, who was the monitoring authority, what was the controlling system and other related issues. In one such meeting, it was reported that a three-member committee consisting of three CsIT, was formed to look after the implementation of the scheme of restructuring. Later this committee was stated to have been disbanded and all the records sent to Deputy Secretary, Ad VII section under Member (Personnel), of the Board. However, in a meeting with Ad VII section, only one main file (note portion and correspondence portion) regarding proposal of restructuring with related details and Cabinet approval was made available. No other files and records were stated to be available with Ad.VII section.

1.12 Audit findings

1.12.1 Staff position

One reason for restructuring of the department, as stated in the Cabinet Note, was poor career management and promotion prospects resulting in demoralization of officers in the Indian Revenue Service making them lag behind other comparable Central Services. At the same time, downsizing of the Income Tax bureaucracy was estimated at 4.75 percent. Accordingly, various posts were created/abolished in the department. Though, there was expected to be an overall decrease of 2,755 posts in the staff strength of the department, in real terms the sanctioned strength of the supervisory, assessing, appellate and recovery officers increased whereas in the lower cadres the sanctioned strength decreased. Details are given in **Appendix 2.**

1.12.2 As per the proposal submitted to the Union Cabinet, on an average, for every CCIT there should have been 6.02 CsIT and for every CIT, there should have been 10.45 Addl.CsIT/JCIT/ DCIT/ACIT/ITO.

1.12.3 Audit attempted to verify the position in selected charges. In Andhra Pradesh, Madhya Pradesh, Maharashtra and Uttar Pradesh charges, the number of CsIT per CCIT and the number of Addl.CsIT/JCIT/DCIT/ACIT/ITO per CIT were closer to the figures proposed to the Union Cabinet. However, these ratios were substantially different in the charges of Delhi (4 & 8.61), Gujarat (8.87 & 8.49), Karnataka (6 & 10.63) and West Bengal (6.4 & 8.5).

1.12.4 Above analysis indicates that as compared to the recommended figures, there were relatively larger number of CCsIT and CsIT in Delhi, larger number of CsIT in Gujarat, larger number of Addl.CsIT/JCIT/DCIT/ITOs in Karnataka and lesser number of Addl.CsIT/JCIT/DCIT/ITOs in West Bengal charges.

1.12.5 Position of sanctioned posts pre-restructuring (as on 1 April 2001) and post-restructuring (as on 1 April 2003) of the selected charges are given in **Appendix 3**.

1.12.6 Audit noticed that all posts sanctioned in pursuance of restructuring had not been filled up. In Andhra Pradesh, Delhi, Gujarat, Karnataka, Maharashtra, Madhya Pradesh, Tamil Nadu, Uttar Pradesh and West Bengal charges as many as 3,750 posts from Inspector and below had remained unfilled as on 1 April 2003. Details are given in **Appendix 4**.

1.12.7 In the charges of Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Tamil Nadu and West Bengal, the vacancies as a percentage of sanctioned strength were substantially high and ranged from 11.29 to 18.38.

1.12.8 In Delhi charge, the post restructuring working strength in the cadre of CIT/Addl CIT exceeded the sanctioned strength. No reasons for the excess working strength were given.

1.12.9 Reasons for vacancies were generally stated to be promotion to the higher grade, transfer to other regions and retirement/VRS/death of officers.

1.12.10 Audit could not ascertain as to how posts in large numbers could continue to remain unfilled for long periods of over three years. This indicated that these posts would be redundant and not necessary. Incidentally, according to the instructions of Ministry of Finance in O.M No7 (7)-E (Co-ord)/93 dated 3 May 1993, these posts would be deemed to have been abolished if they continued to remain unfilled for a period exceeding one year.

1.12.11 During 'Exit Conference' the Board stated that vacancies in various cadres were due to factors outside the control of the Board. There were Government of India's instructions for making no fresh recruitments. Staff Selection Commission had not held any examination for fresh recruitments. Judicial proceedings on seniority related issues also contributed to delays. Recruitment rules for all cadres were also being formulated.

1.13 Cost implication

1.13.1 No additional expenditure was specifically provided for implementation of the scheme of restructuring though financial implication, by adopting "Mean Pay Method" was estimated at Rs.42 crore.

1.13.2 Audit noticed that the department had not maintained separate accounts for expenditure relating to its restructuring. To analyse the impact of the restructuring on the expenditure of the department, various sub head wise details were called for. It was, however, intimated by the Board that details of expenditure on office furniture, accommodation, office building, telephone expenses, vehicles and other office expenses could not be provided as no such separate details were maintained.

1.13.3 The Board in their letter dated 20 August 2001 asked all the cadre controlling CCsIT to submit revised estimates of expenditure for budget of 2001-02 including additional funds required under different heads on account of restructuring. Detailed note was also required to be furnished showing the method adopted in working out the additional requirement.

1.13.4 The West Bengal charge in letter dated 18 September 2001 sent to the Board, made a budget proposal of Rs.16.66 crore under the head “office expenses” for the financial year 2001-02 including a sum of Rs.6.11 crore exclusively to meet expenditure relating to restructuring leaving the remaining amount of Rs.10.55 crore for “office expenses general”. An amount of Rs.9.04 crore was sanctioned, without allocating any separate budget for restructuring, which was fully spent during the financial year 2001-02 under the head “office expenses”. It was intimated that expenditure on restructuring was not exclusively monitored.

1.13.5 In CCsIT, Indore and Bhopal charges in Madhya Pradesh, the expenditure under the head ‘office expenses’ increased by 14.61 percent, 35.95 percent, 40.55 percent and 19.14 percent during financial years 2000-01, 2001-02, 2002-03 and 2003-04 respectively over the preceding financial years. This increase was due to booking of expenditure on “Modernisation and Technology” under the head “office expenses”.

1.13.6 The Board, therefore, did not have a mechanism to monitor the progress of its promise of a saving of Rs.3.05 crore on salaries and wages consequent to upgradation of posts after restructuring.

1.14 Computerisation Efforts

1.14.1 The computerisation of Income Tax Department was started in 1994. A review on “Computerisation in the Income Tax Department” has already appeared in Audit Report No.12 of 2000, which remarked as follows:-

- i) Computerisation programme suffered from lack of proper planning. None of the projected milestones could be achieved due to “ad hoc” changes made from time to time in the programme*
- ii) Against the conventional practice, the hardware was procured well before framing of the software design document, leading to improper hardware sizing. Further, bottlenecks such as non-readiness of*

sites/terminal bank's delay in the implementation of software application systems and delayed acquisition of leased lines leading to non-connectivity of PCs with RCC/NCC¹ contributed to an overall slowdown in the implementation of the computerisation programme.

iii) While some progress was made in implementation of TAS² and PAN allotment, the progress in other areas like AIS³, AST⁴, IRLA⁵, TDS, MIS, EFS⁶ and MMS⁷ etc. did not gather momentum despite the hardware and software facilities existing for this.

1.14.2 The Board informed in September 2001 that two standing committees had been formed with Member of the Board as Chairman and CCsIT as members to achieve the implementation of application system. Progress in areas such as processing of returns on AST software, OLTAS⁸, eTDS⁹ etc., appear to have since taken place. The field of computerisation, being technical and a potential subject for separate review has been left out of the purview of the present study.

1.15 Results of promised benefits of restructuring

1.15.1 The department was expected to be well placed to deal with key areas of non-compliance consequent to restructuring, which in turn was to have 'immediate' impact on revenues. The term 'immediate' was not defined. Additional revenue gains of Rs.2,800 crore from dealing with stop filers, Rs.6000 crore from disposal of pending assessments, Rs.7500 crore by increasing the number of first appellate authorities and TROs and Rs.350 crore from reduced burden of interest on refunds were estimated.

1.15.2 Audit attempted an analysis of each area of such additional revenue gain from a test check of records produced by the department. Results of the analysis are given below.

1.16 Collection from direct taxes.

1.16.1 The Board intimated in August 2004 that the collection of Direct Tax revenue had increased from Rs.68,613 crore in 2001-02 to Rs.1,05,049 crore in 2003-04 which translated into an increase of Rs.36,436 crore (53 percent growth) over a period of three years after restructuring of the Department. While on the face of it, this is correct, a much deeper and careful analysis is required to appreciate the extent of improvement in efficiency that can be entirely attributed to the gains from restructuring. It also needs to be noted that pre assessment

¹ Regional Computer Centre/National Computer Centre

² Tax Accounting System

³ Assessee Information System

⁴ Assessment Information System

⁵ Individual Running Ledger Account

⁶ Enforcement Information System

⁷ Manpower Management System

⁸ Online Tax Accounting System

⁹ Electronic Tax Deduction at Source

collections such as TDS, advance tax and self assessment tax contribute as much as 85 per cent of total collection which do not directly test either the investigative or assessment or recovery skills of the assessing or supervising or higher officers of the department. Audit attempted an analysis of these aspects despite various constraints as mentioned in paragraph 1.11 above.

1.16.2 Details of Direct Taxes collections for the period from 1991-92 to 2003-04 are given in **Table 3** below:

(Rs. in crore)

Table 3: Direct Taxes Collections

Year	Pre-assessment collections			Post assessment collections		Total collection	Refunds	Net collection
	TDS	Advance Tax	Self Asstt	Regular Asstt	Other Receipts			
1991-92	5976	8467	1177	1568	803	17990	3408	14582
1992-93	6209	9918	2038	2114	884	21164	3655	17509
1993-94	7283	11908	2407	3097	683	24566	5387	19179
1994-95	9604	14495	2414	3013	1011	30537	4686	25851
1995-96	13946	16349	2814	5769	1196	40073	7999	32074
1996-97	15334	19679	3289	5532	2528	46363	9562	36801
1997-98	13788	21061	4245	4954	1637	45685	8568	37117
1998-99	16258	24365	4736	6825	2841	55024	10255	44769
1999-00	18546	30849	4509	6766	7165	67835	11488	56347
2000-01	28213	32614	5841	8121	5420	80211	12751	67460
2001-02	32672	34094	5479	9492	4094	85833	17220	68613
2002-03	36568	49158	6414	10745	2184	105069	22031	83038
2003-04	42955	58713	9852	16015	3150	130685	25736	104949

1.16.3 Though collection from direct taxes have increased at a higher growth rate in the two years post restructuring, the department did not maintain any analysis of the reasons for this growth so as to establish or correlate the same entirely or at least substantially to the positive outcome of and improvement of efficiencies in assessment and collection functions consequent to the implementation of the scheme of restructuring.

1.16.4 In the 'Exit Conference', the Board accepted that such details were not available with the Board/Department. It was, however, stated that once the process of computerization was completed, such information would be available. It was also felt that the quality of scrutiny assessments had improved in so far as only sustainable additions were being made reducing infructuous demands. However, no data in support of Board's claim was made available.

1.16.5 Audit analysed the average growth of net collections from 1991-92 to 2003-04. During pre-restructuring period, i.e., 1991-92 to 2000-01, average annual rate of growth of net collection was 18.6 percent and for the period 2001-02 to 2003-04, i.e., post-restructuring period, it was 23.7 percent. The period 2000-01 to 2001-02 has not been considered for the analysis being a transitional

phase and as the growth rate was only 1.7 percent in 2001-02. Comparison of two figures of average rate of revenue growth in the pre and post restructuring periods shows that there was increase of about 5 percent after restructuring.

1.16.6 Analysis of collections from 1991-92 to 2003-04 revealed that pre assessment collection as a percentage of total collection during the period 1991-92 to 2003-04 fluctuated between 80 and 88 whereas post assessment collection as a percentage of total collection varied from 20 to 12. During the period 1999-2000 to 2003-04, the share of pre assessment collection in the total collection rose from 79.46 percent to 85.33 percent whereas that of post assessment collection declined from 20.54 percent to 14.67 percent during the same period. Details are given in **Table 4** below:-

Year	Pre assessment collection as a percentage of total collection	Post assessment collection as a percentage of total collection
1991-92	86.83	13.18
1992-93	85.83	14.17
1993-94	87.92	15.39
1994-95	86.82	13.18
1995-96	82.62	17.38
1996-97	82.61	17.38
1997-98	85.57	14.43
1998-99	82.43	17.57
1999-00	79.46	20.54
2000-01	83.12	16.88
2001-02	84.17	15.83
2002-03	87.69	12.31
2003-04	85.33	14.67

1.16.7 Although the total collections during the period 1999-2000 to 2003-04 had increased substantially, *it was more due to the increase in pre assessment collection rather than post assessment collection. The growth in collection, therefore, cannot exactly be attributed to the special efforts of the Income Tax Department after restructuring especially in the fields of investigation, assessment or recovery.*

1.16.8 According to the Mishra Committee Report, that formed the basis of the proposal to the Union Cabinet, the post assessment collection at optimal level could be expected to be increased by an estimated Rs.4000 crore per year. The proposal to the Cabinet had estimated 'immediate' additional revenue gains of Rs.6000 crore due to disposal of pending assessments.

1.16.9 Audit attempted to verify the additional revenue gains as a result of disposal of pending assessments after restructuring. The Board, however, replied that the details only of total direct taxes collections could be provided. Details of additional demand raised through scrutiny assessments were not maintained and,

therefore, could not be provided. Consequently, percentage of additional revenue to gross collection was also not provided. Audit was not able to ascertain as to how in the absence of these vital data and statistical information on performance, the Board was assuring itself of improvement in efficiency from its field formations in a regular and transparently verifiable manner.

1.16.10 During 'Exit Conference', the Board stated that increase in revenue was due to increase in efficiency after the restructuring of the department, which in turn had enabled them to process more summary assessments resulting in higher revenues. However, no data in support of Board's claim was made available.

1.16.11 In the absence of the above data, audit attempted an analysis of the post assessment collections. Average annual growth rate of **post assessment** collection for the period 1991-92 to 2000-01 worked out to 21.4 percent whereas that for the period 2001-02 to 2003-04 worked out to 18.8 percent only. The growth rate of post assessment collection after restructuring period has, thus in fact, declined (**Table 3 refers**). The levels, indicated in the Mishra Committee Report or the proposal for restructuring, were, thus, not only not achieved but the levels had declined compared to the position prior to restructuring.

1.16.12 Details collected from selected charges of Delhi, Maharashtra, Tamil Nadu and West Bengal also revealed that the growth in collection of direct taxes continued to be predominantly due to tax paid by the assesseees at the pre assessment stage. Position of these four states is given in **Appendix 5**.

1.17 Position of revenue collection in test checked cases

1.17.1 Audit made an attempt to analyse the position of revenue collection in test checked cases on the basis of income returned by assesseees, additions made during assessments, total demand raised, pre-assessment payments, appeals filed with revenue effect and cases decided in favour of or against revenue at first appeal. The information on above lines could be collected only from selected offices in Hyderabad (Andhra Pradesh charge), Delhi, Mumbai, Pune, Nagpur, Nasik, and Thane (Maharashtra charge), Bhopal and Indore (Madhya Pradesh charge), Tamil Nadu and Kolkata region (West Bengal charge).

1.17.2 Audit test checked 8539 cases in above charges and noticed that

- against the total demand of Rs.14,548 crore raised in these cases, only Rs.2820 crore of additional demand (19.4 percent) was raised as a result of assessment and investigation by the assessing officers,
- pre-assessment collections amounted to Rs.11728.94 crore which represented 80.6 percent of the total demand raised,
- appeals were filed in 857 of these 8539 cases involving revenue of Rs.903 crore. Only 180 cases (21.0 percent of appealed cases) involving revenue of Rs.86.32 crore (9.6 percent of appealed revenue) were decided in favour of revenue at the first appellate stage. Remaining 677 cases (79 percent of

cases appealed against) involving revenue of Rs.816.83 crore (90.4 percent of revenue involved in these 857 cases) were either decided against the revenue or remained undecided. Details are given in **Appendix 6**.

1.18 Uncollected demands

1.18.1 Every year thousands of crores of rupees are collected from Direct Taxes and almost equal amount remain uncollected at the end of the year. After restructuring of the department, position of uncollected demands has not changed much as given in **Table 5** below.

(Rs in crore)

Table 5: Uncollected demands

Year	Tax collected	Tax remaining uncollected	Percentage of total tax demand remaining uncollected
1991-92	14574	8461	36.73
1992-93	16752	9211	35.48
1993-94	19183	10780	35.98
1994-95	25851	22699	46.75
1995-96	32074	28970	47.46
1996-97	36801	33585	47.72
1997-98	37116	41230	52.63
1998-99	44769	44143	49.65
1999-00	56347	52970	48.46
2000-01	67460	56431	45.55
2001-02	68613	90177	56.79
2002-03	83038	67638	44.89
2003-04	104949	88017	45.61

1.18.2 Percentage of uncollected demand had gone up to 56.79 in the year of restructuring of the Income Tax Department, i.e. 2001-02 from 45.55 in 2000-01. In 2002-03 and 2003-04, it came back to pre-restructuring level of about 45 percent.

1.18.3 With a view to further analyzing the position of collected and uncollected demands, records for 1999-00 to 2003-04 were 'test checked' in the nine selected field offices mentioned in para 1.7. Uncollected demand as a percentage of total demand in all the selected charges for this period was above the all India average implying that the percentage of total collection in these charges was below the all India average figures. Only exceptions noticed were Madhya Pradesh charge in 2000-01 and West Bengal charge in 2002-03. Details are given in **Appendix 7**.

1.19 Recoveries by TRO (All India position)

1.19.1 The administrative machinery of tax recovery was strengthened by allocating one TRO exclusively to each range consequent to the restructuring of the department. Collection unit in a range, headed by one TRO, has been made responsible for collection, recovery and refund of taxes. Accordingly, sanctioned

strength of TROs was increased from 204 as on 31 March 2001 to 472 after restructuring representing an increase of 131 percent. The sanctioned strength was further increased to 509 as on 31 March 2003 but decreased to 462 as on 31 March 2004.

1.19.2 The Board informed (August 2004) that cash collection out of arrear demand had increased from 6.85 percent as on 1 April 2001 to 7.4 percent as on 1 April 2003. There was stated to have been even greater improvement in the ratio of cash collection out of current demand, which was stated to have increased from 12.61 percent in 2001-02 to 24.55 percent in 2003-04.

1.19.3 Audit made an attempt to analyse the results of increased strength of TROs after restructuring on the revenue collections. Effective and efficient recovery of tax is possible if the tax recovery machinery is strong and fully equipped with the full strength of the sanctioned staff. Audit noticed that not only were there vacancies in almost all cadres of tax recovery machinery but also the sanctioned strength itself had declined from 2867 in 2001-02 to 2498 in 2003-04. The reasons for this decrease in sanctioned strength were not given. Position of staff as on 31 March 2002, 31 March 2003 and 31 March 2004 is given in **Table 6** below.

Table 6: Man Power for Recovery

Cadre	2001-02		2002-03		2003-04	
	Sanctioned Strength	Number actually deployed (as percentage of sanctioned strength)	Sanctioned Strength	Number actually deployed (as percentage of sanctioned strength)	Sanctioned Strength	Number actually deployed (as percentage of sanctioned strength)
TROs	472	472	509	457	462	388
Inspectors/ Supervisors	1013	781	1080	793	753	615
UDCs	482	346	520	399	426	239
LDCs	238	119	251	164	199	92
Stenographers	207	125	237	131	251	124
Notice Servers	275	158	262	153	203	105
Peons	180	93	-	-	204	79
Total	2867	2094 (73.04)	2859	2097 (73.35)	2498	1642 (65.73)

1.19.4 According to Government of India, Ministry of Finance, OM No 7 (7)-E (Co-ord)/93 dated 3 May 1993, if a post remained unfilled for a period of one year or more it would be deemed to have been abolished. About 27 to 34 percent of the total sanctioned strength for recovery had remained unfilled during the period 2001-02 to 2003-04. These posts should be deemed to have been abolished. Since the department has been conducting its business despite these posts remaining unfilled, the actual requirement of these unfilled posts and their continued inclusion in the sanctioned strength, is questionable.

1.19.5 Details of demands certified to TROs and demands recovered for 1998-99 to 2003-04, pre and post restructuring are given in the **Table 7** below:

(Rs. in crore)

Year	Demand at the beginning of the year	Demand certified during the year	Total demand	Demand recovered during the year (as a percentage of total demand)	Balance at the end of the year	Recovery per TRO
1998-99	3,581.80	2,490.08	6,071.88	1,173.66 (19.33)	4,898.22	6.99
1999-00	4,898.22	2,647.77	7,545.99	986.85 (13.08)	6,559.14	6.80
2000-01	6,559.14	3,706.51	10,265.65	2,223.74 (21.66)	8,041.91	12.42
2001-02	8,041.91	7,885.96	15,927.87	2,229.48 (14.00)	13,698.39	4.72
2002-03	13,698.39	6,752.72	20,451.11	4,441.85 (21.72)	16,009.26	9.72
2003-04	16,009.26	5,320.28	21,329.54	4,111.73 (19.28)	17,217.81	10.60

(Figures in parentheses depict demand recovered as a percentage of total demand certified)

1.19.6 The position of demand recovered during the year remained at around 19 percent after restructuring, which was already achieved in 1998-99. Recovery made per TRO has, however, improved.

1.19.7 Position of collections by TRO was attempted to be test checked in selected field offices. Details/information for 1999-2000 were not available and those for 2000-01 were available in Andhra Pradesh only. In respect of Karnataka, information regarding demand certified was available and demand recovered was not available. Thus, comparison of the position between the pre and post restructuring periods could not be made. The percentage of demand recovered by TROs in the selected field offices of Andhra Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Tamil Nadu, Uttar Pradesh and West Bengal ranged from 0.30 percent to 18.65 percent during 2001-02 to 2003-04, which was much below the all India average figures of 13.08 percent to 21.72 percent. The only exception was the demand recovered of Rs.0.24 crore out of certified demand of Rs.0.44 crore (55 percent) in selected cases of Uttar Pradesh charge in 2001-02. Details with percentage of recovery are given in **Appendix 8**.

1.20 Revenue collections from search and seizure cases

1.20.1 The Income Tax Department conducts searches every year and seizes assets from suspected defaulters. **Table 8** below summarizes the position of prosecutions launched, convictions obtained, offences compounded and acquittals allowed, which has also featured as para 2.13 of Audit Report 12 of 2005.

Table 8: Prosecutions Launched, Convictions obtained, Offences Compounded and Acquittals

Year	Number of prosecutions launched			Disposal of cases				Cases pending
	Opening balance	Additions	Total	Convictions (Percentage of total disposal of cases)	Compounding	Acquittals (Percentage of total disposal of cases)	Total (Percentage of total prosecutions launched)	Balance
1999-00	14,122	343	14,465	14 (0.87)	128	1,465 (91.16)	1,607 (11.11)	12,858
2000-01	12,858	235	13,093	20 (2.78)	279	419 (58.36)	718 (5.48)	12,375
2001-02	12,375	38	12,413	5 (2.36)	8	199 (93.87)	212 (1.71)	12,201
2002-03	12,201	102	12,303	18 (4.16)	11	404 (93.30)	433 (3.52)	11,870
2003-04	11,870	37	11,907	12 (10.43)	55	48 (41.74)	115 (0.96)	11,792

1.20.2 The total number of cases disposed off during the year had declined from 11.11 percent in 1999-2000 to 0.96 percent in 2003-04. Out of the total cases disposed off, only 10.43 percent of cases resulted in convictions in 2003-04. The proportion of acquittals or compounding was around 90 percent or more in all the years under consideration. The position of prosecutions launched, convictions obtained, offences compounded and acquittals allowed has, therefore, not changed for the better after restructuring of the Income Tax Department.

1.20.3 As regards final revenue collections from ‘Search and Seizure’ cases, Board had informed that details of collections from such cases were not maintained, and hence did not have any mechanism to assess, monitor and enhance the efficiency of this very important instrument of deterrence against tax evaders.

1.21 Position of assessments

1.21.1 In order to improve the functional efficiency of the department, certain rationalisation measures at a structural level were introduced. This included separation of the assessment, collection and record keeping functions. Three separate units each for assessment, collection and record keeping were introduced. The officer incharge of a circle or ward in the assessment unit in a range was required to do only assessment work. Collection unit in a range, headed by one TRO, was made responsible for collection, recovery and refund of taxes and Record keeping unit, headed by an office superintendent and assisted by tax assistants and daftaries had to manage the records for the entire range.

1.21.2 The Mishra Committee had observed that the number of scrutiny assessments both in absolute terms and as a proportion of the number of registered taxpayers had fallen considerably from approximately 60 percent in the late 1960s, to approximately 30 to 40 percent in the late 1970s and down to a little over 5 percent in the 1990s. It was also stated therein that there was no scope for further reducing the number of scrutiny assessments as a proportion of the number of registered taxpayers, given the international practice and significant realisation from scrutiny assessments implying low level of compliance.

1.21.3 **Table 9** below gives the percentage of total assessments due, which were selected for scrutiny and also those completed after scrutiny during 1991-92 to 2003-04. The number of assessments due for disposal, completed and pending at the end of the year during the above period is given in **Appendix 9** which also features as Table 2.11 of Audit Report 12 of 2005.

Table 9: Assessments selected/completed after scrutiny

Year	Assessments selected for scrutiny as a percentage of total assessments due	Assessments completed after scrutiny as a percentage of total assessments due
1991-92	6.65	3.81
1992-93	6.41	3.59
1993-94	5.56	3.76
1994-95	4.53	2.99
1995-96	4.29	2.84
1996-97	4.36	3.02
1997-98	8.00	6.64
1998-99	3.25	1.10
1999-00	2.02	1.15
2000-01	1.15	0.72
2001-02	0.59	0.46
2002-03	2.37	0.46
2003-04	1.42	0.72

1.21.4 As per Mishra Committee Report, about 6 lakh¹ scrutiny assessments should have been possible to be completed with the total posts of assessing officers that would be available after restructuring. In absolute terms, the number of scrutiny assessments completed ranged from 1.68 lakh in 2001-02 to 1.97 lakh in 2003-04 after restructuring as against a minimum of 2.01 lakh in 1998-99 and a maximum of 9.20 lakh in 1997-98 achieved before restructuring. After restructuring, the number of scrutiny assessments completed thus was short of figure visualized by Mishra Committee Report and also did not reach the levels achieved before even though the number of assessing officers and supervising officers had increased from 6172 during pre-restructuring period to 8111 after restructuring. The number of summary assessments completed, however, had increased substantially from 1.40 crore in 1999-2000 to 2.14 crore in 2003-04. In percentage terms, number of summary assessments completed reached around 80

¹ Based on number of officers on assessment duty in March 2004

per cent in 2003-04 from a level of around 52 per cent in 1999-2000. But this was more due to processing of returns on AST software and outsourcing of data entry/refund generation work rather than the direct efforts of the assessing officers.

1.21.5 Assessments selected for scrutiny as a percentage of total assessments due had declined steadily from 6.65 percent in 1991-92 to 0.59 percent in 2001-02 except for 1997-98 when this figure was 8 percent. In 2002-03, this figure rose to 2.37 percent and again fell to 1.42 percent 2003-04.

1.21.6 Assessments completed after scrutiny as a percentage of total assessments due was however much smaller than above and steadily declined from 3.81 percent in 1991-92 to 0.72 percent 2003-04. Significantly, this figure has been about 1 or less than 1 percent in the last 5 years (less than ½ percent in 2001-02 and 2002-03).

1.21.7 Figures of scrutiny assessments, due for disposal in 2003-04 were shown as 3.88 lakh whereas at the end of March 2003, 7.22 lakh scrutiny assessments had remained pending for disposal. Normally, assessments due for disposal for 2003-04 should have been higher than 7.22 lakh as it would include pending assessments of earlier year and additions made during the year. Reasons for the discrepancy were not ascertainable.

1.21.8 Audit attempted a 'test check' of the position of the assessments completed between 2000-01 to 2003-04 in the selected CCIT charges of Delhi, Maharashtra, Tamil Nadu and West Bengal with a view to assessing the position of assessments completed in summary manner as well as after scrutiny.

1.21.9 Audit noticed in the selected charges that in summary cases, the number of assessments due had increased from about 90 lakh in 2000-01 to about 1.1 crore in 2003-04. The disposal of summary cases had increased from 53.4 percent of cases due in 2000-01 to 73 percent in 2003-04. Details are given in **Appendix 10**. In case of scrutiny assessments in these selected charges, the number of assessments due had increased from about one lakh cases in 2000-01 to about 1.77 lakh cases in 2003-04. The completion of scrutiny assessments had decreased from 73.6 percent to 51.2 percent during the same period. Details are given in **Appendix 11**.

1.22 Outsourcing

Audit noticed that an expenditure of Rs.4.25 crore had been incurred in 43 CsIT charges test checked in Andhra Pradesh, Gujarat, Madhya Pradesh, Maharashtra, Tamil Nadu and Uttar Pradesh during 2001-02 to 2003-04 on outsourcing of work relating to processing of income tax returns, allotment of PAN upto June 2003, dispatch of refund orders and Tax Accounting System (TAS). These costs were not projected in the proposal submitted to the Union Cabinet for approval. The

increased number of summary assessments completed and refunds issued after restructuring would need to be viewed in the light of above position.

1.23 Productivity per Assessing Officer

Audit attempted to study the productivity of assessing officers in terms of the number of scrutiny assessments completed. The proposal made to the Union Cabinet by the Ministry/Board on 'restructuring of Income Tax Department' promised an estimated 200 percent increase in 'productivity' at organisational level. Neither did the proposal define 'productivity' nor did it state how to measure 'productivity'. This has to be viewed in conjunction with the fact that the number of scrutiny assessments selected depended upon the instructions issued centrally by the Board every year and CCsIT/CsIT had only a limited scope to add to the numbers. Mishra Committee Report envisaged that the Addl/Jt. Commissioner would be expected to do 25 scrutiny assessments per year and the Dy/Asstt Commissioner and ITOs would be expected to do 125 and 160 scrutiny assessments per year respectively.

1.23.1 The average number of scrutiny assessments completed by each assessing officer (AO) at all India level during the years 1999-2000 to 2003-04 is given in **Table 14** below. This number has declined from 82.31 per assessing officer in 1999-2000 to 44.50 per assessing officer in 2003-04. It remained stagnant around 38 per assessing officer during 2001-02 and 2002-03 and improved slightly in 2003-04 but was still below the pre-restructuring level.

Table 14: Average productivity per AO (All India)

Year	No. of Scrutiny assessments completed	No of Assessing officers	No. of scrutiny assessments completed per AO
1999-00	316223	3842	82.31
2000-01	225730	3842	58.75
2001-02	168010	4383	38.33
2002-03	172410	4436	38.87
2003-04	197390	4436	44.50

1.23.2 Scrutiny assessment is a full fledged and principal item of work of assessing officers and intended to act also as a deterrent against misuse of provisions of the Act and evasion of tax in subsequent assessments. Audit attempted a further analysis of "productivity" per assessing officer with reference only to scrutiny assessments completed in the selected states during 2000-01 to 2003-04. **Table 15** below has the details: -

Table 15: No of assessing officers and scrutiny assessments completed

Charge	Assessing officers		Scrutiny assessments completed (average per assessing officer)			
	Pre-restructuring	Post restructuring as on 31.3.2004	2000-01	2001-02	2002-03	2003-04
Andhra Pradesh	208	221	17517 (84)	8119 (38)	9886 (46)	13051 (59)
Delhi	267	244	34561 (129)	5083 (21)	17267 (71)	15957 (65)
Gujarat	288	306	18313 (64)	19594 (64)	14707 (48)	6039 (20)
Karnataka	188	208	10708 (57)	6377 (34)	9141 (45)	9433 (45)
Madhya Pradesh	82	93	5337 (65)	4351 (47)	2680 (29)	6041 (65)
Maharashtra	NA	588	9932 (NA)	23385 (45)	28389 (48)	42876 (73)
Tamil Nadu	263	325	12544 (39)	7688 (24)	9423 (29)	15800 (49)
Uttar Pradesh.	NA	240	25877 (NA)	6454 (27)	8338 (35)	12201 (51)
West Bengal	399	431	16058 (40)	15355 (36)	10412 (24)	16189 (38)

1.23.3 The number of scrutiny assessments completed in a year per assessing officer has either remained constant or improved slightly in Madhya Pradesh and Tamil Nadu during 2000-01 to 2003-04 while in the case of Andhra Pradesh, Delhi, Gujarat, Karnataka and West Bengal, this number declined. The above data was not available for Maharashtra and Uttar Pradesh charges for the pre-restructuring period. In none of the states, however, this number was close to the figure indicated in the proposal for restructuring based on Mishra Committee Report. An average of 45 scrutiny assessments completed per assessing officer in 2003-04 would indicate that each assessing officer would be completing less than 4 assessments per month. A large force of assessing officers did not appear to have been gainfully utilised for completing more scrutiny assessments, after restructuring.

1.23.4 The Board stated, during 'Exit Conference', that the reason for decline in the average number of scrutiny assessments completed by an assessing officer after restructuring was close monitoring by the CsIT.

1.24 Dealing with stop filers

1.24.1 An assessee is termed as 'stop filer' if he has not filed return in all of the preceding 3 years and as 'non filer' if return has not been filed in any of the preceding 3 years. Mishra Committee report estimated an immediate additional revenue gain of Rs.2800 crore as a result of enhanced ability to deal with 'stop filers' after restructuring.

1.24.2 Audit approached the Board/department to ascertain the number of stop filers, those brought back to tax net and additional revenue generated from them, as promised in the scheme. The Board intimated that the details of total number of assessees and stop filers identified could be provided but the number of stop filers brought back to tax net and additional revenue raised from such stop filers brought back to tax net were not available.

1.24.3 Audit subsequently made efforts to collect information on 'stop filers' by test checking the records of the Income Tax Department at field level. As shown in **Table 16** below, some information regarding stop filers brought back to tax net was available in West Bengal, Maharashtra, Uttar Pradesh and Madhya Pradesh but additional revenue realised from these stop filers was available only in West Bengal, Maharashtra and Uttar Pradesh charges.

(Rs in crore)

Table 16: Position of stop filers - 2001-02 to 2003-04*

AG	Total number of assessees	Number of stop filers identified by the department	Number of stop filers brought back to tax net	Additional revenue raised	Number of stop filers as percentage of total assessees	Percentage of stop filers brought back to tax net
Andhra Pradesh	5196974	1320186	NA	NA	25.40	-
Delhi	NA	NA	NA	NA	-	-
Gujarat	6551558	961856	NA	NA	14.68	-
Karnataka	4797516	1251139	NA	NA	26.08	-
Madhya Pradesh	3648829	351011	3723	NA	9.62	1.06
Maharashtra	4101058	161952	4711	10.93	3.95	2.91
Tamil Nadu	8058717	1412074	NA	NA	17.52	-
Uttar Pradesh	4785586	614670	84505	6.10	12.84	13.75
West Bengal	571743	33653	3023	0.06	5.89	8.98

1.24.4 In the states for which information was available, the number of stop filers as a percentage of total number of assessees varied from 3.95 in Maharashtra to 26.08 in Karnataka. The proportion of stop filers brought back to tax net varied from 0.11 percent to 13.75 percent.

1.24.5 Audit noticed that there was no clear policy in the department for monitoring and reducing the number of stop filers besides realizing the revenue due from them. Firstly, the basis on which the Mishra Committee report arrived at the figure of Rs.2800 crore as the additional revenue gain from bringing back the stop filers to tax net after restructuring was not ascertainable. Secondly, no data in

* a) Overall figures of stop-filers in West Bengal (WB) Region were not available. Figures given in above table are in respect of eight out of nine selected Csit. (b) In Delhi charge details were not available. (c) In Tamil Nadu, Gujarat, Karnataka and Andhra Pradesh charges, though number of stop filers was available with the department, they did not have any data for number of stop filers on whom notices were served, who were brought back to tax net and against whom additional demand was raised. (d) Information regarding number of stop filers brought back to tax net were available in MP, UP and selected CsIT of WB. However, information regarding additional revenue raised from these stop filers was available only in UP and at selected CsIT of WB.

this regard was being maintained by the Board, in the absence of which, it was not clear as to how the Board was monitoring the progress of the objective of bringing back the stop filers to tax net. Thirdly, in the charges where this data was being maintained, the progress was slower than what was promised in the proposal.

1.24.6 The Board stated during 'Exit Conference' that they were aware of the issue but they were preoccupied with more significant/important areas. This issue would be taken up in due course.

1.25 Position of appeals

1.25.1 One of the benefits promised in the proposal of restructuring was immediate additional revenue gain of Rs.7500 crore by increasing the number of first appellate authorities and TROs. Besides, period for redressal of grievance was to be reduced from 18 months to six months. The Board fixed 60 units (weightage of 2 units for company assessment and 5 units for search & enhancement cases) per month disposal norm for each CIT (A), which was increased to 75 units per month from June 2004.

1.25.2 As on 31 March 2004, 0.82 lakh appeals were pending disposal at the level of CIT(A). As far as maintenance of statistics in respect of revenue involved in appeals filed, disposed off and balance pending was concerned, the Board/department did not have uniform system. While information on revenue involved in appeals was furnished to audit in Andhra Pradesh, Karnataka and partly in Maharashtra charges, the same was not available in Delhi, Gujarat, Madhya Pradesh, Tamil Nadu, Uttar Pradesh and West Bengal charges. The Board informed that the department was not maintaining statistics in respect of revenue involved in appeals filed, disposed off and balance pending. The Board later furnished some data according to which out of the total amount of Rs.57,128 crore disputed/locked up in appeal with various appellate authorities as in January 2004, an amount of Rs.26,260 crore (46 percent) was pending with CsIT(A).

1.25.3 Since the department was not maintaining statistics on revenue figures involved in appeals filed, disposed off and balance at the end of the year, the basis on which additional revenue gains of Rs.7,500 crore by increasing the number of CsIT (A) and TROs had been promised in the proposal to the Union Cabinet was not ascertainable in audit.

1.25.4 The time series data on position of appeals at the level of CIT (A) is given in **Appendix 12**. Out of 1.68 lakh, 1.72 lakh and 1.97 lakh scrutiny assessments completed in each of the three years viz., 2001-02 to 2003-04, as many as 0.64 lakh (38 percent), 0.64 lakh (37.2 percent) and 0.73 lakh (37.1 percent) cases were appealed against by the assesseees indicating that a large proportion of cases were being appealed against.

1.25.5 Number of appeals disposed off was 1.08 lakh in 1999-2000, which declined to 0.98 lakh in 2000-01 and further to 0.80 lakh in 2001-02 before increasing to 1.18 lakh in 2002-03 and further declining to 0.95 lakh in 2003-04. There has been a steady decline in the number of appeals pending at the end of the year from 1.90 lakh in 1999-2000 to 0.82 lakh in 2003-04 which was due to the fact that addition of appeal cases at the level of CIT (A) came down from 0.82 lakh in 1999-2000 to 0.73 lakh in 2003-04. This, in turn, was attributable to the fact that the number of scrutiny assessments completed during the year came down substantially from 3.16 lakh in 1999-2000 to 1.97 lakh in 2003-04.

1.25.6 Addition to the number of appeals at CIT (A) level during the year as a percentage of scrutiny assessments completed during the year increased from 26 in 1999-2000 to 37.02 in 2003-04 implying, that the proportion of scrutiny assessments with which the assesseees were dissatisfied was increasing. The addition to appeals/writs/references at the ITAT level during the year as a proportion of number of cases disposed off by CIT (A) during that year increased steadily from 6.06 percent in 1999-2000 to 35.14 percent in 2003-04 implying that there was an increase in proportion of dissatisfied assesseees whose appeals were disposed off by CIT (A).

1.25.7 The average number of appeals disposed off by each CIT (A) in a month during 1999-2000 was 43.12, which came down to 27.53 during 2003-04. At this rate, the number of months required to clear the appeals pending as at the end of 1999-2000 would be 21.14 and 10.36 for those pending at the end of 2003-04. From the above analysis, we can conclude that the period of redressal of grievance at first appellate level although reduced could not come down to the promised level.

1.25.8 Audit also made efforts to ascertain the position of appeal cases through a test check at selected field offices. Audit confined itself to the implementation part of the assurances given in the scheme of restructuring without going into the merits of the appeal orders. Results of audit analysis of some of the selected charges are given below:

- In Hyderabad (Andhra Pradesh) charge, about 23 percent of appeals involving about 21 percent of the locked up revenue, in Bhopal & Indore (Madhya Pradesh) charge about 14 percent of appeals involving about 19 percent of locked up revenue, in Tamil Nadu 47 percent of appeals involving about 24 percent of locked up revenue, in Mumbai, Pune, Nagpur, Nasik and Thane (Maharashtra) charge, about 6 percent of appeals involving about one percent of locked up revenue and in Kolkata (West Bengal) charge about 38 percent of appeals involving about 14 percent of the locked up revenue were decided in favour of revenue. Rest of the appeals were either undecided or decided against revenue. In Delhi charge, 82 appeal cases filed between 2001-02 to 2003-04 involving revenue effect of Rs.98.06 crore were still undecided.

- In Delhi charge, the number of CIT (A) had increased from 24 to 30 after restructuring. As on 31 March 2004, 1034 cases were pending for disposal. 186 cases were pending for more than 2 years, 240 cases for 1 to 2 years, 329 cases between 9 months to 12 months and 279 cases between 6 months to 9 months. Almost after three years of restructuring, 1034 cases were still pending disposal for more than 6 months.
- In Maharashtra, Mumbai region, number of CIT (A) had decreased from 46 to 33 after restructuring. As on 31 March 2004, 3,149 appeals were pending with CIT (A). 141 of the pending appeals were more than 5 years old, 266 between 3 to 5 years, 1135 between 12 months to 36 months and 1607 between 6 months to 12 months old. Reasons for pendency were attributed to non-submission of details by the assessee, delay in submission of details/replies by the assessing officers and frequent transfer of files from one CIT (A) charge to another CIT (A) charge.
- In Tamil Nadu charge, the number of CIT (A) had increased from 13 to 18 after restructuring. Data collected on appeal cases by audit from 6 selected offices of CsIT (A) situated at Chennai (CIT (A)-III, V, VII, IX & XI) revealed that out of total of 4351 cases disposed of during 2001-02 to 2003-04, 750 cases took more than 6 months for disposal and as many as 1138 cases were pending disposal as on 31 March 2004. Out of 1138 pending appeals, 2 cases were more than 8 years old, 1 case between 6-8 years, 14 between 4-6 years, 27 between 3-4 years, 91 between 2-3 years, 174 between 1-2 year, 190 cases between 6 months to 12 months and 639 cases up to 6 months old.
- In West Bengal charge, the number of CIT (A) had increased from 14 to 48 after restructuring. Out of 607 cases pending disposal in four selected CsIT (A), 155 (25.54 percent of the total cases) were more than 6 months old and had not been disposed of. 248 cases (61.23 percent of 405 disposed of cases) took more than 6 months for disposal.

1.25.9 The Board had not maintained records to segregate disposals made within 6 months, which was the period mentioned in the scheme of restructuring for disposal of appeal cases. Thus, the Board did not seem to have evolved the necessary control mechanism to ensure disposal of appeal cases within 6 months.

1.26 Interest on refunds

1.26.1 Where refund of any amount becomes due to the assessee under the Act, he is entitled to receive, in addition to the said amount, simple interest thereon calculated in the prescribed manner. One of the factors on which increase/decrease in the amount of interest paid depends, is the speed with which the refund is paid.

1.26.2 As per the proposal on restructuring, the interest burden was expected to be reduced by Rs.350 crore per annum with reduction in average time taken in issue of refunds. Mishra Committee Report had estimated the average delay in issue of refunds during a year by dividing the total interest on refunds paid during the year by the product of the amount of refunds paid during that year and the rate

of interest on refunds during that year. Mishra Committee arrived at an estimate of an average delay of 8 months in payment of refunds during 1996-97 and predicted that after restructuring, the average delay in issue of refunds would be reduced to **four** months.

1.26.3 **Table 17** below shows time series data on refunds during 1990-91 to 2002-03

(Rs. in crore)

Year	Refunds	Interest paid on refunds	Interest paid on refunds as a percentage of refunds	Average delay in payment of refunds in months*
1990-91	2773	94.58	3.41	3.51
1991-92	3408	148.93	4.37	4.37
1992-93	3655	142.01	3.89	3.89
1993-94	5387	383.47	7.12	7.12
1994-95	4686	432.13	9.22	9.22
1995-96	7999	989.36	12.37	12.37
1996-97	9562	729.97	7.63	7.63
1997-98	8568	902.93	10.54	10.54
1998-99	10255	1854.14	18.08	18.08
1999-00	11488	1189.65	10.36	10.36
2000-01	12751	2622.37	20.57	20.57
2001-02	17220	1922.88	11.17	14.89
2002-03	22031	6268.07	28.45	42.74
2003-04	25736	4701.16	18.26	27.38

1.26.4 From Rs.11,488 crore in 1999-2000, refunds paid had more than doubled to Rs.25,736 crore in 2003-04. Interest paid on refunds as a percentage of refunds has also increased from 10.36 to 18.26 during the same period. Applying the same method as adopted in the Mishra Committee Report, the average delay in payment of refunds has been worked out and shown in column 5 of the table above. From an average delay of about 8 months in payment of refunds in 1996-97, it increased to 10.36 months in 1999-2000 and further to 27.36 months in 2003-04. Neither had the amount of interest paid nor the average delay in payment of refund decreased as promised in the proposal for restructuring.

1.26.5 Audit also attempted to check the number of cases where refunds were issued on indemnity bonds so as to assess the extent of non-availability of returns and the mechanism in place to ensure correctness of claims of refunds in such cases. The Board intimated that details of interest paid on refunds and the details of number of cases where refund was paid on indemnity bond could not be provided since no such statistical data was maintained.

* Rate of interest on refunds has been taken as 1 percent per month during 1990-91 to 2000-01, $\frac{3}{4}$ percent per month during 2001-02 and $\frac{2}{3}$ percent per month during 2002-03 and 2003-04 for calculating average delay.

1.26.6 Audit attempted to verify the position of refund cases in Delhi¹, Mumbai region and Uttar Pradesh² for 2001-02 to 2003-04. Uttar Pradesh charge could not provide the statistics for 2001-02. The position of refunds in these charges is given in **Table 18** below:-

(Rs. in crore)

Table 18: Position of refunds in selected charges

Charge	No of cases where refund orders issued			Amount of refund paid			Interest paid on refunds (Percentage of refunds)			No. of cases where refund was paid on indemnity bonds		
	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04
Mumbai Region	174047	562282	678705	1090.43	4945.78	7695.75	69.30 (6.35)	549.20 (11.10)	1123.86 (14.60)	81	186	269
Delhi	46328	100570	93855	23.44	337.81	558.30	3.09 (13.18)	52.35 (15.50)	65.28 (11.69)	271	635	800
U.P.	NA	239423	206297	NA	210.98	175.68	NA	18.97 (8.99)	12.54 (7.17)	NA	38	57

1.26.7 In Mumbai region, the amount of interest paid on refunds increased from 6.35 percent in 2001-02 to 14.60 percent in 2003-04. In Delhi charge, the percentage decreased from 13.18 in 2001-02 to 11.69 in 2003-04. In Uttar Pradesh charge, comparison with pre-restructuring period could not be made as these statistics were not maintained.

1.26.8 The Board issued instructions in August 2002 that all returns in which refunds were payable to the assessee should be processed first and in cases requiring administrative approval, the refund should be issued within 30 days from the date of its determination. All refund orders should be sent to assesseees by 'Registered Post' with acknowledgement due within 7 days of the passing of the order resulting in the refund.

1.26.9 In one of the cases test checked in Mumbai CIT City-2 charge, the assessee M/s Bank of Baroda, had filed revised return for assessment year 2001-02 on 12 September 2002 claiming refund of Rs.230.10 crore. The assessment was not completed initially in summary manner. The return was assessed after scrutiny on 30 January 2004, determining refund of Rs.38.35 crore. An amount of Rs.2.06 crore was paid as interest on refund for the period 1 April 2003 to 30 January 2004. Similarly, in the case of M/s Tata Power Company Ltd., return for 2001-02 was not assessed in summary manner and on completion of assessment after scrutiny on 25 February 2004, refund of Rs.51.63 crore was issued. An amount of Rs.3.26 crore was paid as interest on refund from April 2003 to February 2004. In both these cases, interest amount could have been saved had the returns been processed within the specified period in summary manner.

¹ In case of Delhi, data covers 4 CsIT only out of 20 as other CsIT did not respond.

² CIT Aligarh and ACIT Bulandshahar of CIT Meerut did not provide the details

1.26.10 Audit also noticed that though the returns, in which refunds were payable, were attempted to be processed on priority, there were instances when the refunds were not issued in the specified time. Position in this respect in some charges is given below:

- In Mumbai City-2 charge, during financial year 2003-04 though refunds were determined in 85 cases involving an amount of Rs.31.26 lakh in October 2003, and November 2003, the same were not issued to the assessee till June 2004. There was also delay of 6 to 11 months in issuance of refund in 52 cases involving refund of Rs.167.22 lakh.
- Test check of 792 refund cases in selected units of Delhi charge revealed that refund of Rs.210.57 crore was issued including interest of Rs.11.61 crore for delays ranging between 4 to 30 months during 2001-02 to 2003-04.
- In Tamil Nadu, out of 854 refund cases test checked, refunds were issued belatedly with delays ranging from 1 to 5 years in 25 cases.

1.27 Delay in implementation of the scheme

1.27.1 Cabinet approved the scheme in August 2000. Revised jurisdictions were notified on 31 July 2001 for implementation by the department from 1 August 2001.

1.27.2 Audit, however, noticed that the scheme was implemented in West Bengal charge in what appeared to be three phases, commencing only after one year from 1 August 2001. The Board had forwarded the revised jurisdiction of all the CsIT of West Bengal charge to the Department on 31 July 2001. Before receipt of the Board's notification, the Department in West Bengal issued an order on 27 July 2001 for creation of ranges/circles/wards in West Bengal under the scheme of restructuring with effect from 1 August 2001. Revised jurisdiction of all CsIT and Ranges on the basis of special trade and pin codes indicating the cases/assesseees was notified. The order was not completely in conformity with the orders of the Board. The Board did not accept the order which was cancelled only on 19 October 2001 as per the directions of the Board. The department informed the Board on 1 January 2002 certain difficulties faced in implementing the Board's instructions and submitted a draft modified jurisdiction order for Board's approval. This draft order included certain omissions stated to have been made by the Board in their original notification. The Board informed the CCIT on 18 April 2002 that the revised jurisdiction had not been acceded to. A draft proposal defining the new jurisdiction exclusively on the basis of pin codes and special trade/business was again sent to the Board on 18 June 2002. The Board directed the West Bengal Circle to ascertain the position of the workload of the CsIT as well as to inform the period required to implement the proposed revised jurisdiction. The Board finally issued a notification on 30 July 2002 amending its original notification. Thus, one year was spent in revising the original orders and in implementation of the scheme of restructuring.

1.27.3 CCIT, Kolkata informed the Board on 11 October 2002 that there were discrepancies in the revised order of July 2002 such as

- employees with Banks, some PSUs e.g. ONGC, IOC etc. had been omitted;
- employees with Railways and Non-Government Schools had been assigned simultaneously with CIT-VI and CIT-VIII, and
- no provision had been made for residuary cases whose names were either left out or not specifically mentioned.

1.27.4 Even after one year of the issue of the orders notifying the implementation of restructuring, instances of individual assessee having salary as one of the sources of income who were not able to file their returns due to ambiguities in the jurisdiction order, were noticed. The said ambiguities were set right by issuing an order dated 10 September 2003, i.e., after a lapse of two years from the implementation of the scheme in August 2001.

1.27.5 The office of the I.T.O Ward 3(4) under the Additional Commissioner of Income Tax, Range-III, Kolkata was holding concurrent jurisdiction with the assessment office at Andaman and Nicobar Islands and had no assessment record in its possession till 14 July 2004. The jurisdiction of assessing officers under Addl. CIT, Range-III was revised to create jurisdictional charge of ITO Ward 3(4) to include certain assessee of Kolkata, District Howrah and North and South 24 Paraganas vide order dated 9 July 2004, i.e., after a lapse of almost three years from the implementation of restructuring in August 2001.

1.27.6 During the period between the Board's first notification dated 31 July 2001 and the cancellation of the CCIT's order of 27 July 2001 on 19 October 2001, the assessments and other functions were carried out by the department. After the cancellation of the CCIT's order on 19 October 2001 till the Board's notification on 30 July 2002, no jurisdictional order in light of Board's earlier notification was issued. The assessments completed during this period could, therefore, be open to challenge by assessee on the ground that the assessing officers did not have the authority to carry out the assessment work during this period. In a reply department stated that the first order dated 27 July 2001 was an interim arrangement. However, no such scope was available in the scheme of restructuring. Audit could not quantify the adverse impact that could have arisen due to this peculiar situation in West Bengal charge.

1.28 Transfer of records

1.28.1 After restructuring, records were transferred 'en masse' from the erstwhile special ranges, company circles, wards and business circles to the newly created ranges, circles and wards on the basis of pin codes and alphabetical order. The Board informed that after restructuring, there was complete overhaul of the jurisdiction of various charges resulting in transfer of records from the old and abolished units to the newly created ranges and assessing officers. Considering

the urgency of the work, entire efforts were stated to have been directed towards ensuring the dismantling of old charges in 2001. It was, therefore, essential that the assessment and related records of all assessees and assessments were carefully, fully and properly transferred from the old to the new jurisdictions.

1.28.2 Audit attempted to ascertain the mechanism adopted by the Board and its field formations to ensure that all the records were properly accounted for and transferred so that interests of revenue are safeguarded adequately and arrear demand in particular was carried forward completely for pursuing recovery even after restructuring. The Board informed that dismantling work having been completed in 2001-02 and the old units abolished, it was unlikely that any details regarding the transfer of records as required by audit could be provided.

1.28.3 Audit made efforts to independently ascertain the position of transfer of records in selected offices. Information was available only partly in Delhi, UP and Madhya Pradesh charges and is shown in **Table 19** below:

Table 19: Transfer of records in selected offices

	Delhi (Only 3 CITs out of 20)	Uttar Pradesh (Only Muradabad)	Madhya Pradesh (Only Indore-II)
Number of files due from old units	74574	821	60610
Number of files received in new units	68496	799	3604
Number of files not traceable	NA	16	376
Other reasons for non transfer	NA	NA	NA

1.28.4 In Gujarat, Karnataka and West Bengal charges, no details regarding transfer of records were available with the department. In Chennai (Tamil Nadu), details were available only in respect of files received. No other details regarding files due from old units and files not traceable were available. No information was forthcoming whether all the arrear demand was correctly and promptly transferred and accounted for in the new revised jurisdictions.

1.29 Chain system of internal audit

1.29.1 As part of restructuring, the existing system of internal audit was replaced by a new chain system of internal audit in the field offices of the Income Tax Department ostensibly with a view to strengthening the internal check of assessments and refunds involving personnel from all assessment circles. The new system of internal audit was introduced from 6 December 2001, after the approval of the scheme of restructuring by the Cabinet, under the administrative powers of the Board.

1.29.2 In the new internal audit system, all auditable cases, where assessments were completed during a month were to be internally audited by the end of the following month. Audit of one range was to be conducted by another range. Audit functions were to be a continuous process and involvement of assessing officers for performing simultaneous audit functions was expected to not only ensure spread of workload but also not consume much time.

1.29.3 Prior to restructuring, 150 audit parties (both Internal Audit parties and Special Audit Parties), consisting around 500 designated officials, were entrusted with the exclusive responsibility for internal audit and each party was required to audit around 110 cases every month. After restructuring, 4626 officials, drawn from all ranges and assessing offices, were to be involved for the purpose.

1.29.4 An analysis of the all India performance of internal audit from 1999-2000 to 2003-04, including both pre-restructuring and post-restructuring periods, is given in **Table 20** below:

Financial Year	Total auditable cases	Target for disposal	Total cases Audited	Shortfall with reference to total auditable cases	
				No	Percentage
1999-2000	3,70,617	1,98,000	1,94,859	1,75,758	47.42
2000-01	4,16,791	1,98,000	1,90,774	2,26,017	54.22
2001-02	4,84,263	4,84,263	41,837	4,42,426	91.37
2002-03	15,57,231	15,57,231	3,60,748	11,96,483	76.83
2003-04	18,40,561	18,40,561	6,90,841	11,49,720	62.46

Although, the number of cases audited internally had increased in absolute terms during 2002-03 and 2003-04, the percentage of shortfall with reference to total auditable cases had increased under the new system of internal audit after restructuring as compared to the pre restructuring period implying that the internal controls of the department had weakened.

1.29.5 Position of internal audit in respect of Andhra Pradesh, Delhi, Gujarat, Madhya Pradesh, Uttar Pradesh and West Bengal charges is given in **Table 21** below. Information in respect of Karnataka for the year 2001-02 to 2003-04 and in respect of Tamil Nadu for 2001-02 and 2002-03 was not available.

Year	Andhra Pradesh		Delhi		Gujarat		M.P.		U.P*		West Bengal**	
	Auditable cases	Audited cases (percentage target achieved)	Auditable cases	Audited cases (percentage target achieved)	Auditable cases	Audited cases (percentage target achieved)	Auditable cases	Audited cases (percentage target achieved)	Auditable cases	Audited cases (percentage target achieved)	Auditable cases	Audited cases (percentage target achieved)
2001-02	41332	4277 (10.34)	19679	4500 (22.87)	55130	11294 (20.49)	13599	Nil	4082	1279 (31.33)	2764	2214 (80.10)
2002-03	54460	5644 (10.36)	125799	17987 (14.30)	146733	44423 (30.27)	39570	6969 (17.61)	30324	4607 (15.19)	5760	3643 (63.24)
2003-04	136098	84100 (61.80)	127316	55371 (43.49)	139827	47112 (33.69)	46475	7220 (15.53)	16506	3534 (21.41)	6992	5320 (76.09)
Total	231890	94021 (40.54)	272794	77858 (28.54)	341690	102829 (30.09)	99644	14189 (14.24)	50912	9420 (18.50)	15516	11177 (72.03)

* The figures pertain to CsIT Bareilly, Muradabad, Lucknow-I, Ghaziabad and Circle I & II Meerut

** Overall figures were not available. Above figures are compiled from selected CsIT.

1.29.6 In terms of absolute numbers, the cases audited internally increased during 2003-04 as compared to 2001-02 in all the selected charges (Andhra Pradesh,

Delhi, Madhya Pradesh, Uttar Pradesh and West Bengal) for which information was available. However, number of cases internally audited as a percentage of auditable cases during the same period improved in the case of Andhra Pradesh and Delhi whereas it decreased in the case of Madhya Pradesh, Uttar Pradesh and West Bengal. All the selected charges except Gujarat and West Bengal could achieve only around 50 percent of auditable cases.

1.29.7 In the case of Madhya Pradesh and Uttar Pradesh, shortfall in achievement of target was consistently higher than the all India average in the post-restructuring period. The position of Uttar Pradesh was similar to the all India trend both in terms of absolute numbers as well as percentage of target achieved. In the case of Andhra Pradesh, Delhi, Madhya Pradesh and West Bengal, position was similar to all India position in terms of absolute number but dissimilar in terms of percentage of targets achieved.

1.30 Questionnaire feedback from tax consultants

1.30.1 Twenty Income Tax Consultants/Chartered Accountants were given a questionnaire (**Appendix 13**) in each of the charges of Delhi, Gujarat, Karnataka, Madhya Pradesh, Tamil Nadu, Uttar Pradesh and West Bengal, seeking their views on the status of facilities, efficiency, tax payers' assistance etc., in the department after restructuring.

1.30.2 Audit received **total 42** responses, which need to be interpreted with caution. Firstly, the sample size was very small and concentrated in larger cities only. Also, only some of the leading tax consultants were approached and feedback could involve some element of subjectivity.

1.30.3 Despite these limitations, the exercise had shown interesting results, which are given below:

- Three fourth of the respondents had good or satisfactory perception of the new organisational structure of the Income Tax Department.
- About 59 percent of respondents were satisfied with the stabilization of changed jurisdictional charges.
- Only about 38 percent of respondents were not satisfied due to problems faced in filing of returns whereas about 80 percent were not satisfied due to problems faced at the level of assessments.
- About 88 percent of the respondents felt that delay occurred at assessment level.
- About 76 percent of respondents were not satisfied with the position of refunds after restructuring whereas 83 percent of respondents felt that the situation of tracing the records was not satisfactory.
- Sixty two percent of the respondents felt that overall record management in the department after restructuring was not satisfactory.
- 71 percent of the respondents were satisfied with their experience at 1st appellate stage with reference to time taken for disposal.

- 69 percent of the respondents were satisfied with their experience at 2nd stage of appeal with reference to time taken.
- 69 percent of the respondents were not satisfied with the departments' efforts to trace tax evaders.
- 77 percent of the respondents were not satisfied with the position in respect of transactions generating incomes going unreported.
- About 66 percent of the respondents were satisfied with the department's decision of outsourcing of certain areas of department's work.

1.31 An international comparison

1.31.1 In the absence of definition of terms such as efficiency and productivity in the note of the Ministry to the Union Cabinet seeking approval to the scheme of restructuring and subsequent inability of the Board to provide details of performance in areas such as efficiency of collection, cost of collection, results of scrutiny assessments and search cases, tackling stop filers, speed in disposal of appeals, arrear demand and so on, Audit attempted a comparison of commonly developed and utilised performance indicators or parameters of efficiency of national tax bodies of some OECD countries and the **Income Tax Department of India**¹ as worked out from other available sources.

1.31.2 Audit is aware that such comparison between tax systems of different countries would need to be made with caution as significant differences exist in the respective tax systems, such as: -

- variation in the organisational set up and the degree of autonomy of the national tax bodies across different countries
- the national tax body in many countries is also responsible for customs administration and/or various other non-tax functions
- in many countries, employee tax payers are required to file annual income tax returns, while in many others, most employees are relieved of such a requirement owing to the special tax withholding arrangements
- tax burdens vary across different countries
- in some countries, the collection of social contributions has also been integrated into the tax administration arrangements, and
- the level of automation and computerisation may also vary.

1.32 Analysis of staff investment for compliance functions

1.32.1 The ratio of number of staff deployed for audit and other verification work to total number of staff of the national revenue agency of the selected countries expressed as a percentage has been compared. In the case of Income Tax Department of India, the ratio of staff engaged in scrutiny as well as summary

¹ Use of 'Tax Administration in OECD countries: Comparative Information series (2004)' prepared by Forum on Tax Administration Compliance Sub-group has been made for this purpose.

assessment functions to total sanctioned strength during 2000-01 has been taken for the above comparison.

1.32.2 The above ratio for the Income Tax Department of India was higher than that of national revenue agencies of USA and France but lower than that of revenue agencies of other selected countries. Details are given in **Appendix 14**.

1.33 Comparison of Gross and Net Tax Arrears

1.33.1 The ratios of gross and net tax arrears to the denominator of annual net revenue collections of taxes of the selected countries have been compared. A declining trend in the ratio is likely to indicate improved payment compliance and/or arrear collection effectiveness. The difference between gross and net arrears refers to tax debts, the collection of which is subject to objection, dispute and/or litigation. In addition, the size of a revenue body's reported volume of tax arrears will be affected by write off policies concerning uncollectible debts, which may vary substantially between member countries¹.

1.33.2 The ratios relating to the Income Tax Department of India in this regard were significantly higher as compared to those of the national revenue agencies of other selected countries. Collection of tax arrears thus seems to be a significant problem in many of these countries and an acute problem in India.

1.33.3 There is also a large difference between gross arrears and net arrears in India signifying that a large portion of arrears in India would fall in the category of 'arrears not fallen due, amounts claimed to have been paid pending verification, amounts for which instalments were granted and amounts stayed/kept in abeyance'. Details are given in **Appendix 15**.

1.33.4 Audit hopes that the above analysis would help the Ministry devise objective, practical and yet ambitious parameters and a transparent mechanism for measuring efficiency and increasing productivity of its workforce in relation to administration of direct taxes, in particular.

1.34 Conclusion and recommendations

1.34.1 There has been increase in revenue generation even though no MOU appears to have been signed with Ministry by the Board. However, to what extent this increase was directly attributable to efficiency and productivity improvement after restructuring was not ascertainable in audit.

¹ As per the OECD publication, *ibid*, annual reports of a number of countries (e.g., Australia and UK) indicate that fair amounts of tax are written off each year as uncollectible in accordance with standard government debt management policies. In other countries, action to write off uncollectible debts is fairly limited and is often only executed after very long periods of time have elapsed.

1.34.2 Large number of vacancies remained unfilled at various levels for a number of years indicating that these posts may not really be needed as the department's performance at 'macro level' in terms of overall revenues realized and summary assessments completed has apparently improved despite these 'vacancies'.

1.34.3 After restructuring the average number of scrutiny assessments completed by an assessing officer had declined.

1.34.4 In the absence of details of taxes collected as a result of scrutiny assessments that have stood the test at least at the first stage of appeal, improvement effected in the quality of scrutiny assessments was not ascertainable.

1.34.5 Efficiency in bringing stop filers back to the tax net and the accretion of revenues from this function was not ascertainable.

1.34.6 Almost 46 percent of outstanding arrear demand was locked up in appeals at the CIT(A) level. Pace of disposal of appeals at CIT(A) level was not according to the norms indicated by the Board and there was no mechanism to establish and relate the fact of release of tax demands for recovery to increase in the number of posts of CIT(A) after restructuring.

1.34.7 The increase in number of summary assessments disposed off annually after restructuring was almost entirely attributable to "outsourcing" of data entry and related functions rather than direct efficiency or productivity improvement after restructuring.

1.34.8 No separate account of the costs incidental to restructuring was maintained. Substantial expenditure consequent to and related to restructuring exercise had not been separately budgeted or projected as expenditure relating to restructuring.

1.34.9 In the absence of clear targets and well-designed, transparent and verifiable criteria of efficiency and productivity, monitoring has suffered. There was no dedicated or clearly identified Wing/Division in the Board to effectively monitor efficiency and productivity improvements consequent to restructuring.

1.34.10 Apart from introduction of new chain system of internal audit and new system of inspections, online tax accounting system and electronic filing of TDS returns, audit did not notice evidence of concerted efforts at rationalization of work norms or practices after restructuring. Despite the introduction of the chain system of internal audit, the internal control of the department had weakened after restructuring.

Audit recommends that the IT System of the Department should generate a specific set of information which can help effectively monitor areas of improvement as visualized in restructuring proposals.

Audit recommends that working of chain system of internal audit be reviewed to ensure compliance with targets.

Audit recommends that criteria for working out the 'cost of collection' be critically reviewed after suitably factoring in substantial 'pre assessment' collections, so as to present a transparent and correct picture of efficiency and productivity of the department in this important area.

1.35 During the Exit Conference, the Board accepted that there was no mechanism to monitor efficiency and productivity improvements in the manner sought by audit consequent to restructuring. The reason given was that the computerization of the department in different phases was in progress and once the computerization would be completed, a mechanism to monitor the efficiency and productivity improvements of the department would also come in place. Board intimated that the steps to rationalize the work norms or practices in the department were being taken. A separate Committee was preparing the duty lists for all the cadres after the restructuring. Coming to large scale vacancies, it was attributed to problems in finalising recruitment rules which were now stated to be ready except for 'two' cadres. The entire process of restructuring would take between 5 to 7 years to stabilize.