

**Overview**

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**Review on assessment of selected companies in the selected sectors of computer software, automobiles and ancillaries, steel and trading**

Audit reviewed the assessments of selected companies relating to the assessment years 2002-03, 2003-04 and 2004-05 belonging to selected sectors of computer software, automobiles and ancillaries, steel and trading to examine the application of the provisions of Income Tax Act, 1961 and to quantify the effective rate of tax and tax expenditures as well as voluntary tax compliance by the selected companies of these sectors.

Audit noticed that the effective rate of tax of the selected companies assessed under the normal provisions of the Act for the assessment years 2002-03, 2003-04 and 2004-05 were estimated as 20 percent, 27 percent, 17 percent and tax expenditures in respect of all the benefits allowed under the Act were Rs. 915.3 crore, Rs. 768.7 crore and Rs. 2287.6 crore respectively. Voluntary compliance by the selected companies, which were assessed under the normal provisions of the Act, has improved during the period under consideration. Further, voluntary compliance is higher in respect of companies which have shown profits in all the three years under consideration and were assessed under the normal provisions of the Act as compared to the companies, which have shown profits in only one or two of the three years.

Audit noticed 559 mistakes of various types involving tax effect of Rs. 1508.83 crore in the assessments of all the selected companies in the four selected sectors, whether assessed under the normal provisions or the special provisions of the Act. In computer sector, irregularities amounting to Rs. 266.73 crore were noticed relating to exemptions under section 10A/10B. In automobile including ancillaries and trading sector, irregularities amounting to Rs. 308.43 crore were noticed relating to allowance of depreciation and set off of losses. In steel sector, irregularities amounting to Rs. 91.60 crore were noticed in respect of computation of income under special provisions of the Act.

**Audit recommends that**

- Variations in profit pattern of companies/assessment under the special provisions of the Act could be given a higher weightage while selecting the cases for scrutiny.
- The claims related to depreciation and set off of losses should be linked with last available assessment records so as to ensure correctness of set off.

- The Government may consider issuing explicit guidelines in respect of deductions under section 10A/10B, deductions under chapter VIA and computation of income under special provisions of Act as to ensure greater clarity while completing assessments. Keeping in mind the quantum of revenue loss to the government, audit recommends that the internal control mechanism of the department be strengthened so as to have better monitoring and linking of records, improved coordination among assessing officers and higher quality assessments.

### **Review on implementation of TDS/TCS schemes**

In this review, audit attempted to verify the extent of identification of potential deductors/activities liable to tax deduction/collection at source and the application of the provisions of the Act relating to TDS/TCS with regard to both non residents and residents. Audit also verified issues relating to accounting and the implementation of e-TDS scheme.

Two hundred forty six TDS units, 174 regular assessment units and 15 international taxation units were audited and 32,630 cases were test-checked. Audit noticed mistakes in 12814 cases involving revenue impact of Rs. 389.20 crore; of this penalty leviable was Rs. 63.23 crore. Mistakes were noticed in 82 cases of non-residents/foreign companies with revenue impact of Rs. 204.19 crore. Audit noticed mistakes relating to omission to collect tax at source in 16 cases involving a revenue impact of Rs. 3.90 crore.

Data collected by audit indicated large potential for TDS and TCS from insurance commission, reinsurance commission, payments to non-residents and sale of liquor.

Evaluation of e-TDS scheme revealed that e-TDS returns filed remained unprocessed for the past three years largely due to software related problems and inadequacy of trained manpower.

### **Audit recommends that**

- Ministry may take necessary steps to bring in all tax deductors into the tax net and enforce recovery of TDS/TCS as required under the Act.
- Adequate enforcement mechanism be evolved to ensure consistency in assessment and prevent loss of revenue, particularly in the important area of international taxation. Coordination between TDS and regular assessment units as also internal audit mechanism should be strengthened.
- Problems relating to software and inadequacy in trained manpower are attended to urgently so that e-TDS returns are processed and revenues due to Government realised.

## **Review on assessment of sports associations/institutions and sports personalities**

Audit reviewed the assessments of sports associations/institutions and sports personalities completed during the period from 1999-2000 to 2005-06 with a view to ascertaining the correctness of exemptions given to sports associations and sports personalities, adequacy of the department's efforts to bring all sports associations and sports personalities into tax net, efficiency and effectiveness of internal audit and internal control mechanism in the department to avoid irregularities and errors in the assessments carried out.

Audit observed a total of 158 cases of irregularities involving tax effect of Rs. 190.92 crore. Of these 130 cases of irregularities involving tax effect of Rs. 179.80 crore were in respect of sports associations/institutions and 28 cases involving tax effect of Rs. 11.12 crore were in respect of sports personalities.

Audit noticed cases of irregular exemptions and deductions granted to sports associations/institutions and sports personalities, non deduction of tax at source from the payments made to sports persons, non filing of returns in case of sports associations/institutions and inconsistency in the decisions taken by the department. Audit also noticed large number of sports associations/institutions and sports clubs which require to be brought into tax net, weak internal audit and internal control mechanism in respect of accumulations made and its utilisation. In respect of sports persons, audit noticed cases where deductions were allowed in respect of income that was not earned in the capacity of sportsman.

### **Audit recommends that**

- Ministry may like to utilize its AST database to focus on potential cases to minimise the misuse of exemptions given to sports associations/institutions/clubs and sports personalities.
- The internal control mechanism in the department may be strengthened to check year wise details of investment, its utilisation for specified purpose within stipulated period, and to check if income/ accumulated income has been applied to specified objectives for which the associations/ institutions were established.
- Ministry may like to strengthen its internal audit to avoid irregularities and errors in assessments done, evasion of tax and misuse of exemptions.