

PREFACE

This Report for the year ended March 2010 has been prepared for submission to the President under Article 151(1) of the Constitution of India.

Audit of Revenue Receipts – Direct Taxes of the Union Government is conducted under section 16 of the Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act, 1971.

The Report presents the results of audit of receipts under direct taxes comprising Corporation Tax, Income Tax, Fringe Benefit Tax and Wealth Tax and is arranged in the following order: -

- (i) Chapter I: on tax administration;
- (ii) Chapter II: on audit impact of direct taxes and mentions the results thereof;
- (iii) Chapter III: on our findings on assessments of Corporation Tax;
- (iv) Chapter IV: on our findings on assessments of Income Tax in Part A, Fringe Benefit Tax in Part B and Wealth Tax in Part C.

The cases included in this Report are the results of audit conducted during 2009-10 and in earlier years which could not be covered in the previous reports.

OVERVIEW

CHAPTER I: TAX ADMINISTRATION

Direct tax collections increased from ₹ 1,65,216 crore in 2005-06 to ₹ 3,78,063 crore in 2009-10 at an average annual rate of growth of 32.2 *per cent*. The rate of growth of tax collection has decelerated in 2008-09 and has since marginally improved in 2009-10.

Tax-Gross Domestic Product (GDP) ratio increased from 4.6 *per cent* in 2005-06 to 6.1 *per cent* in 2009-10. However, there was a slight decline as compared to 6.6 *per cent* in 2007-08. For every unit growth in GDP, direct taxes grew from 1.7 *per cent* in 2005-06 to 2.6 *per cent* in 2007-08. The buoyancy slowed down to 0.8 *per cent* in 2009-10 through 0.5 *per cent* in 2008-09. The decline in buoyancy is a matter of concern.

The assessee base grew over the last five years from 297.9 lakh taxpayers in 2005-06 to 340.9 lakh taxpayers in 2009-10 at the rate of 14.4 *per cent*.

Voluntary compliance by assesseees (pre-assessment stage) accounted for 82.8 *per cent* of the gross collections in 2009-10. Only 65 *per cent* of the total demand raised in 2009-10 was collected registering a decline as compared to 74 *per cent* collected in 2007-08.

Out of the total 8.7 lakh scrutiny assessment cases, the Department had disposed off 4.3 lakh (49.3 *per cent*) cases in 2009-10. The pendency of scrutiny assessments increased from 45.7 *per cent* in 2005-06 to 50.7 *per cent* in 2009-10.

The certified demand remaining uncollected was ₹ 95,122.4 crore (96.6 *per cent*) in 2009-10 as compared to ₹ 27,461 crore in 2008-09 registering an increase of 246.4 *per cent*.

Total cost of direct tax collection increased to 0.73 *per cent* in 2009-10 mainly due to increase in establishment cost.

The Government refunded ₹ 57,101 crore including interest of ₹ 12,951 crore (22.7 *per cent*) in 2009-10. Interestingly number of pending direct refund cases has gone up from 5.7 lakh in 2005-06 to 19.4 lakh in 2009-10.

Internal Audit Wing of the Income Tax Department completed 69.8 *per cent* of the targeted audits. Mistakes detected by us in the assessments previously checked in Internal Audit indicate a need for improvement in the quality of Internal Audit. Only 12.6 *per cent* of major findings raised by Internal Audit were acted upon by the assessing officers in 2009-10. Departmental response to Internal Audit was clearly inadequate.

CHAPTER II: AUDIT IMPACT

In the last five years, the Government introduced five legislative amendments to correct the anomalies pointed out by us. This included one amendment made in the Finance Act 2009 inserting section 200A with effect from 1.4.2010.

The Department recovered ₹ 449.3 crore on the basis of our findings.

This Report includes 453 cases involving tax effect of ₹ 5,910.8 crore issued to the Ministry for comments. Delayed departmental response to our findings in the interest of protecting revenue, is an area of concern.

Our analysis shows that incidence of errors in scrutiny assessments completed in 2008-09 was 4.5 *per cent*. Tax effect of the erroneous demands was ₹ 12,369.8 crore which would impact the total tax demand raised by the Department by 22 *per cent*.

The Department failed to produce 13.5 *per cent* of the records requisitioned by us during 2009-10.

CHAPTER III: CORPORATION TAX

This Report includes 288 cases involving tax effect of ₹ 2,104.1 crore issued to the Ministry for comments.

The Ministry has accepted our findings in 95 cases involving aggregate revenue impact of ₹ 248.4 crore. Of these, the Department has completed remedial action in 75 cases involving tax effect of ₹ 216.7 crore and initiated remedial action in 14 other cases involving tax effect of ₹ 20.7 crore. The errors in most of the assessments were committed despite clear provisions in the Act. Ineligible concessions accounted for 91 *per cent* of the errors; remaining 9 *per cent* were on account of arithmetical and other errors.

CHAPTER IV:

PART A – INCOME TAX

This Report includes 121 high value cases involving tax effect of ₹ 3,800.5 crore issued to the Ministry for comments.

The Ministry has accepted our findings in 46 cases involving tax effect of ₹ 93 crore. Out of these 46 cases, the Department effected recovery of ₹ 69.5 lakh in five cases, completed remedial action in 36 cases involving tax effect of ₹ 90 crore and initiated remedial action in five other cases involving tax effect of ₹ 2.4 crore. Errors and omissions in computation accounted for 52 *per cent* of mistakes while 26 *per cent* of mistakes were due to ineligible concessions given to assesseees and 19 *per cent* due to failure to assess income.

PART B – FRINGE BENEFIT TAX

This Report includes 15 high value cases involving tax effect of ₹ 4.6 crore issued to the Ministry for comments.

The Ministry has accepted our findings in 12 cases involving tax effect of ₹ 4 crore. The Department completed remedial action in all 12 cases. Mistakes in computation of fringe benefit in three cases resulted in short levy of Fringe Benefit Tax of ₹ 59.6 lakh.

PART C – WEALTH TAX

This Report includes 29 high value cases involving tax effect of ₹ 1.6 crore issued to the Ministry for comments.

The Ministry has accepted our findings in 19 cases involving tax effect of ₹ 30.7 lakh. Of these, the Department effected recovery of ₹ 6.5 lakh in five cases and completed remedial action in 14 other cases involving tax effect of ₹ 24.2 lakh. Non-correlation of assessment records in ten cases resulted in non levy of Wealth Tax of ₹ 1.3 crore.

CHAPTER I

TAX ADMINISTRATION

Chapter Summary

- ◆ Direct tax collections increased from ₹ 1,65,216 crore in 2005-06 to ₹ 3,78,063 crore in 2009-10 at an average annual rate of growth of 32.2 *per cent*.

(Paragraph 1.3)

- ◆ In 2009-10, for every unit growth in GDP, direct taxes grew by 0.8 *per cent* only. Thus, the acceleration in tax collection was less sharper than that of GDP in 2009-10. The buoyancy improved as compared to 2008-09 when it was 0.5 *per cent*.

(Paragraph 1.3.1)

- ◆ The total number of direct tax assessees increased by 14.4 *per cent* in 2009-10 to 340.9 lakh as compared to 297.9 lakh taxpayers in 2005-06. The growth path has been fluctuating as it registered a decline of 3 *per cent* in 2008-09, with the decline being sharper for corporate assessees. However, in 2009-10 there has been a marginal increase of 4 *per cent*.

(Paragraph 1.4)

- ◆ 82.8 *per cent* of the collections came in by way of voluntary compliance in 2009-10.

(Paragraph 1.6)

- ◆ The pendency of scrutiny assessment cases increased from 45.7 *per cent* in 2005-06 to 50.7 *per cent* in 2009-10.

(Paragraph 1.7)

- ◆ Cost of collection rose to 0.73 *per cent* in 2009-10 from 0.55 *per cent* in 2007-08.

(Paragraph 1.10)

- ◆ Internal Audit completed 69.8 *per cent* of the targeted audits. Only 12.6 *per cent* of major findings raised by Internal Audit were acted upon by the assessing officers in 2009-10. Departmental response to Internal Audit was clearly inadequate.

(Paragraph 1.13)

CHAPTER I

TAX ADMINISTRATION

1.1 INTRODUCTION

1.1.1 Direct taxes levied by the Parliament mainly comprise:

- **Corporation tax** on companies which constitutes 64.7 per cent of direct tax collection¹. The corporates also pay **Wealth tax** on the assets owned by them. In addition, tax is payable on **capital gains** made on the sale of assets.
- **Personal Income tax** which is required to be paid if the income level reaches above ₹ 1.60 lakh².

1.1.2 Other direct taxes include **Fringe Benefit tax**³, **Securities Transactions tax**⁴ and **Wealth tax**⁵ etc.

1.2 The organizational structure of the Income-Tax Department is at Appendix-1. Table 1.1 provides a snapshot of tax administration.

Table 1.1: Tax Administration

	2005-06	2006-07	2007-08	2008-09	2009-10 (₹ in crore)
1. Gross Collection	1,95,248	2,67,416	3,53,498	3,72,915	4,35,164
2. Refunds	30,032	37,235	41,285	39,097	57,101
3. Net Collection	1,65,216	2,30,181	3,12,213	3,33,818	3,78,063
4. Tax-GDP Ratio	4.6	5.6	6.6	6.3	6.1
5. Buoyancy ⁶	1.7	2.5	2.6	0.5	0.8
6. No. of assessees (in lakh)	297.9	312.9	336.6	326.5	340.9
7. No. of PAN card holders (in lakh)	440.0	519.5	648.5	807.9	958.0
8. Returns filed (in lakh)	297.9	312.9	336.6	326.5	340.9
9. Pre-assessment collection	1,50,208	2,05,741	2,83,986	3,02,341	3,51,660
10. Post-assessment collection	37,086	50,891	52,865	56,188	73,053
11. No. of scrutiny assessments due for disposal	4,25,225	5,27,005	9,97,813	9,53,767	8,70,620
12. No. of scrutiny assessments completed	2,30,698	2,41,983	4,07,239	5,38,505	4,29,585
13. No. of officers deployed for assessment duty	3,801	3,954	3,218	3,106	3,605
14. Direct refund claims pending (in lakh)	5.7	4.4	8.3	15.5	19.4
15. Interest on refunds	4,575	3,693	4,444	5,778	12,951
16. Demand pending	95,387	1,17,370	1,24,274	2,01,276	2,29,032
17. No. of appeals pending with CIT(A)	64,125	1,07,841	1,30,358	1,58,031	1,80,991
18. Certified demand recovered	4,433.0	8,521.4	8,612.6	4,035.8	3,322.3
19. Certified demand pending	27,209.4	26,703.9	27,444.9	27,461.0	95,122.4
20. Cost of collection	1,240	1,343	1,713	2,286	2,774

The details of tax administration are given in Appendix-2.

¹ for the financial year 2009-10

² The base above which income tax is payable is revised from time to time. It is ₹ 1.6 lakh for the AY 2010-11 (₹ 1.9 lakh in case of resident women and ₹ 2.4 lakh in case of resident sr. citizens).

³ Tax on the value of certain benefits offered by the employers to their employees. Fringe Benefit Tax is abolished from the assessment year 2010-11 onwards.

⁴ Tax on the value of taxable securities purchased and sold through a recognized stock exchange in India.

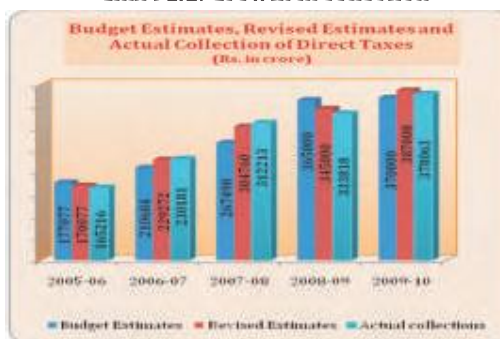
⁵ Tax chargeable on the net wealth comprises certain assets specified under section 2(ea) of the Wealth Tax Act.

⁶ Tax buoyancy is measured by the ratio of percentage change in tax revenue to percentage change in GDP.

1.3 GROWTH IN COLLECTION

There has been a robust growth in collection of direct taxes in the last five years, as it increased from ₹ 1,65,216 crore in 2005-06 to ₹ 3,78,063 crore⁷ in 2009-10 at an average annual rate of growth of 32.2 *per cent*. The collections exceeded the budget estimates during the period except 2005-06 and 2008-09. (Chart 1.1). The rate of growth of tax collection has decelerated particularly in 2008-09 and has since marginally improved in 2009-10. There was deviation in actual collections with reference to budget estimates during 2006-07 to 2008-09 as the actual collection deviated by 8.5 *per cent* to 16.7 *per cent* of the budget estimates. However, revised estimates were found realistic during the period 2005-06 to 2009-10 as the collection was within 3.2 *per cent* of the revised estimates.

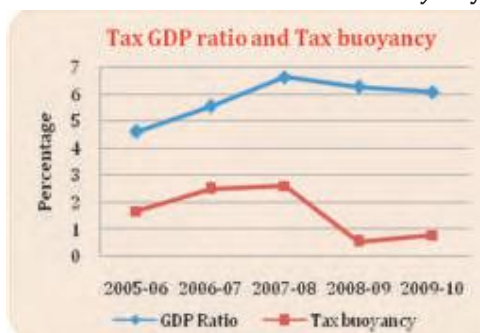
Chart 1.1: Growth in collection



1.3.1 TAX-GDP RATIO AND TAX BUOYANCY

Tax-Gross Domestic Product (GDP) ratio increased from 4.6 *per cent* in 2005-06 to 6.1 *per cent* in 2009-10. However, there was a slight decline as compared to 6.6 *per cent* in 2007-08. For every unit growth in GDP, direct taxes grew from 1.7 *per cent* in 2005-06 to 2.6 *per cent* in 2007-08. However, the trend of buoyancy slowed down steeply to 0.8 *per cent* in 2009-10 through 0.5 *per cent* in 2008-09 (Chart 1.2). Buoyancy value less than 1 is not a healthy indicator given the overall growth in the GDP. The sharp decline in buoyancy is a matter of concern.

Chart 1.2: Tax GDP ratio and Tax buoyancy



1.3.2 The total direct tax collection has increased by 128.8 *per cent* from ₹ 1,65,216 crore in 2005-06 to ₹ 3,78,063 crore in 2009-10 whereas total GDP has increased by 74.0 *per cent* from ₹ 35,80,344 crore in 2005-06 to ₹ 62,31,171 crore in 2009-10 indicating a significantly higher growth rate of tax collection over five years period. However, in the recent past i.e. 2008-09 and 2009-10 the

⁷ Head wise/State/UT wise break up of direct tax collection is given in Appendix-3.

rate of growth of tax collection has decelerated particularly in 2008-09 and thereafter marginally improved in 2009-10. At the same time, revenue foregone⁸ on account of tax exemptions has increased by 150.1 *per cent* from ₹ 48,168 crore in 2005-06 to ₹ 1,20,483 crore in 2009-10 impacting the growth of tax collection.

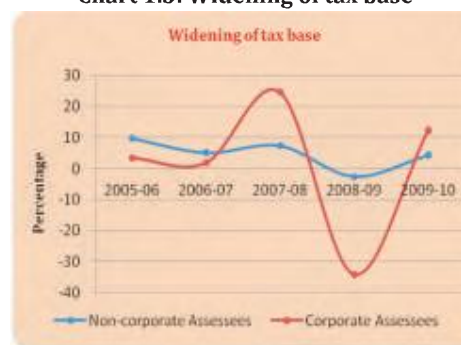
1.4 CONSOLIDATING THE TAX BASE

Analysis of the tax base is essential to establish that all the assesses are in the tax net and that the tax due is deposited by these assesses.

1.4.1 WIDENING OF TAX BASE

The assessee base grew over the last five years from 297.9 lakh taxpayers in 2005-06 to 340.9 lakh taxpayers in 2009-10 at the rate of 14.4 *per cent* (Chart 1.3).

Chart 1.3: Widening of tax base



The Department has different mechanisms available to enhance the assessee base which include inspection and survey, information sharing with other tax departments and third party information available in annual information returns. Automation also facilitates greater cross linking⁹. Most of these mechanisms are available at the level of the assessing officers. The Department needs to holistically harness these mechanisms at macro level to analyse the gaps in the assessee base.

Permanent Account Numbers (PANs)¹⁰ issued upto March 2009 and March 2010 were 807.9 lakh and 958 lakh respectively. The returns filed in 2008-09 and 2009-10 were 326.5 lakh and 340.9 lakh respectively. The gap between PANs and the number of returns filed was 617.1 lakh in 2009-10. The Board needs to identify the reasons for the gap and use this information for appropriately enhancing the assessee base. The gap may be due to issuance of duplicate PAN cards and death of some PAN card holders. The Department needs to put in place appropriate controls to weed out the duplicate PANs and also update the position in respect of deceased assessee. It is significant to

⁸ Tax incentives to promote savings by individuals and various incentives/exemptions to corporate as well as non-corporate sectors.

⁹ Information about non-filers of TDS returns from e-TDS, Annual comparative figures of TDS deposited by big corporate & non-corporate deductors, linking TAN data in order to ensure better compliance from them, linking tax returns with the PAN data base and linking return submitted by deductors on TDS deductions with the returns of the deductee.

¹⁰ The Permanent Account Number (PAN) allotted to a taxpayer, is the unique identification number that helps track individual tax compliance. It is issued by the department, but the front-end of the process has been outsourced to UTI Technology Services Ltd. (UTITSL) and the National Securities Depository Ltd. (NSDL) with effect from 1 July 2003.

note that the number of PAN card holders has increased by 117.7 *per cent* between 2005-06 to 2009-10 whereas the number of returns filed in the same period has increased by 14.4 *per cent* only.

The total direct tax collection has increased by 128.8 *per cent* during the period 2005-06 to 2009-10. The increase in tax collection was around nine times as compared to increase in the assessee base. It should be the constant endeavour of the Department to ensure that the entire assessee base, once correctly identified is duly meeting the entire tax liability. However, no assurance could be obtained that the tax liability on the assesses is being assessed and collected properly. This comment is corroborated in para 2.4.1 of Chapter 2 of this report where we have mentioned about our detection of undercharge of tax amounting to ₹ 12,842.7 crore in 19,230 cases audited during 2008-09. However, given the fact that ours is a test audit, Department needs to take firm steps towards strengthening the controls available on the existing statutes towards deriving an assurance on the tax collections.

1.4.2 RECONCILIATION OF CORPORATE ASSESSEES

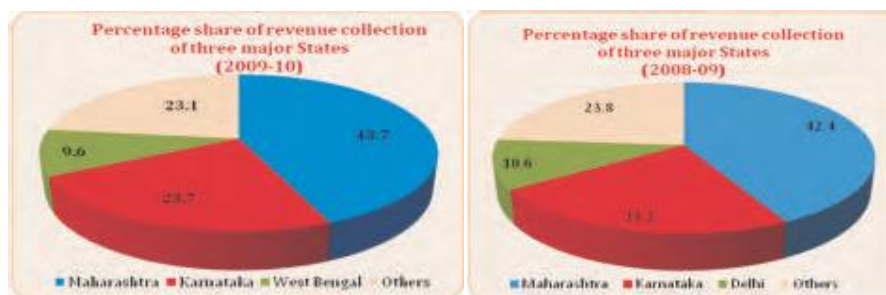
There were 8.4 lakh working companies¹¹ in the country registered with Registrar of Companies (ROC) as on 31 March 2010. However, the corporate assesseees on the Income-Tax Department's records are only 3.7 lakh, leaving an un-reconciled list of 4.7 lakh companies. The difference has increased from 3.4 lakh in 2005-06. It had been marginally reconciled in 2007-08 (2.8 lakh). The Board should reconcile the discrepancy for accurate assessment of the filing gap.

1.5 RELATIVE SHARE IN COLLECTION

The three major States (Chart 1.4) of Maharashtra, Karnataka and West Bengal had contributed more than 3/4th of total direct tax collection in 2009-10; in 2008-09, the three major states who had contributed more than 3/4th of total direct tax collection were Maharashtra, Karnataka and Delhi. West Bengal registered increase of 31.5 *per cent* in collection while Maharashtra and Karnataka registered increase of around 16 *per cent* in collection over the previous year. On the other hand Delhi registered 15.3 *per cent* decline in collection in 2009-10 over the previous year. The reasons for decline in collection need to be examined.

¹¹ Source: Ministry of Corporate Affairs (R&A Division).

Chart 1.4: Relative-share in collection



Growth in collection was unevenly spread across the country. Positive growth in tax collection was reported in 16 states¹² in 2009-10 vis-a-vis 2008-09. Assam, Chhattisgarh, Manipur, Mizoram and Uttarakhand (details in Appendix-4) had a growth of more than 100 *per cent* as compared to that of the previous year. The reason(s) for growth of more than 100 *per cent* in respect of these five states needs to be examined. The issue is especially significant in view of the negative growth in Direct Tax collections in other 16 states during the same period.

1.6 EFFECTIVE RATE OF TAXATION

The effective tax rate for companies¹³ was 22.8 *per cent* in 2008-09¹⁴ which was substantially lower than the statutory tax rate of 33.9 *per cent*. We found that 179 companies with profits before taxes (PBT) of ₹ 500 crore and above accounted for 57.5 *per cent* of the total PBT and 55.7 *per cent* of the total corporate tax payable. However, their effective tax rate was only 22.1 *per cent* while the effective tax rate was 25.5 *per cent* for companies having PBT of upto ₹ one crore. This shows that tax concessions are being availed of mainly by large companies.

1.7 EXTENT OF VOLUNTARY COMPLIANCE

Voluntary compliance by assesseees (pre-assessment stage) accounted for 82.8 *per cent* of the gross collections in 2009-10. The collection by way of voluntary compliance was higher than 2005-06 and 2006-07 but marginally lower than 2007-08 and 2008-09.

Chart 1.5: Extent of voluntary compliance



¹² Andhra Pradesh, Assam, Bihar, Chattisgarh, Gujarat, Jammu & Kashmir, Karnataka, Madhya Pradesh, Maharashtra, Manipur, Mizoram, Rajasthan, Tamil Nadu, Uttar Pradesh, Uttaranchal and West Bengal

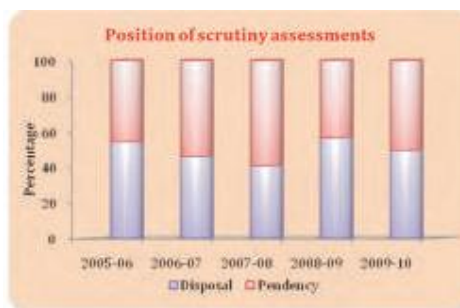
¹³ Source: Receipts Budget 2010-11

¹⁴ The effective tax rate was 22.24 *per cent* in 2007-08.

1.8 POSITION OF ASSESSMENT

High-risk tax returns are selected and examined with reference to collateral data by the assessing officers (AOs) in scrutiny assessments. Out of the total 8.7 lakh scrutiny assessment cases for disposal (Chart 1.6), the Department had disposed off 4.3 lakh (49.3 per cent) cases in 2009-10. This was higher than the scrutiny assessments completed in 2006-07 and 2007-08. However, despite the increase in the number of officers involved in assessment duty, number of scrutiny assessments came down in 2009-10 as compared to 2008-09. This is to be seen in the perspective that the very base of scrutiny assessments due had been reduced from 9.5 lakh in 2008-09 to 8.7 lakh in 2009-10. The pendency of scrutiny assessments increased from 45.7 per cent in 2005-06 to 50.7 per cent in 2009-10.

Chart 1.6: Position of assessment



Working norms of officers deployed for assessment and non-assessment functions need to be framed up so that qualitative content of the tax scrutiny can be improved alongwith improving the pendency status of cases.

1.9 EFFICIENCY OF COLLECTION

In 2009-10, only 65 per cent of the total demands cumulatively raised in assessments upto that year had been collected (Chart 1.7). The performance was identical as in 2005-06 and 2008-09. However, there was a decline as compared to collection of 74 per cent for 2007-08. At the end of 2009-10, as much as ₹ 2.3 lakh crore remained uncollected. This comprised demand of ₹ 1.8 lakh crore of earlier years and current demand (2009-10) of ₹ 0.5 lakh crore. However, in 2008-09, earlier years pending demand was ₹ 0.9 lakh crore and current demand was of ₹ 1.1 lakh crore. Out of which, one group namely Hassan Ali alone accounted for ₹ 71,784 crore of uncollected demand (refer paragraph 1.8 of Audit Report No. 4 of 2009-10). However, this matter is pending in appeal before ITAT.

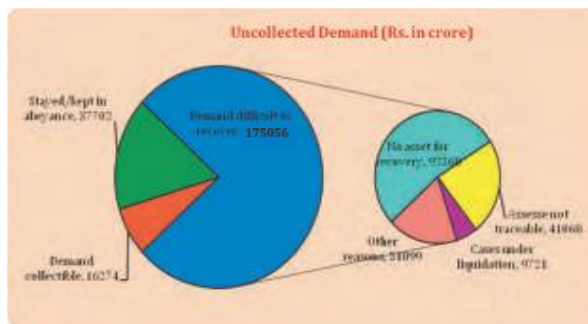
Chart 1.7: Efficiency of collection



The uncollected demand is rising despite clear provisions in the Act to enforce collection and recovery of outstanding demand viz. attachment and sale of assessee's movable and immovable property, appointment of a receiver for the management of assessee's properties and imprisonment.

Chart 1.8: Details of uncollected demand

The Department intimated that various factors (Chart 1.8) contributed to the uncollected demand. ₹ One lakh crore (44.6 per cent) remained uncollected as there were no assets for recovery or the companies were under liquidation/BIFR.



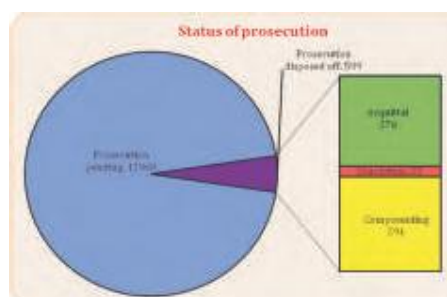
Defaults in payment of tax are referred to the Tax Recovery Officers (TROs) who draw up a certificate specifying the amount of arrears due from the assessees and proceed to recover the amount. The recovery mechanism is inefficient as certified demand remaining uncollected increased to ₹ 95,122.4 crore (96.6 per cent) 2009-10 from ₹ 27,209 crore (86 per cent) in 2005-06. It registered a three fold growth in the last year itself as compared to ₹ 27,461 crore in 2008-09.

Board should frame up a time bound action plan for recovery of current and arrear demands by fixing targets for each assessing officer. Recovery proceedings can be made effective by increasing the accountability of the TROs and incentivizing achievements.

1.10 STATUS OF PROSECUTION

The Department had launched prosecution in 12,060 cases of tax evasion upto 2009-10. Only 599 cases (5 per cent of the total cases) were disposed off, of which 276 cases resulted in acquittal (Chart 1.9). The Board needs to analyse the reasons for slow pace of disposal. The high rate of acquittal also needs to be analysed to ensure greater effectiveness of prosecution as a deterrent.

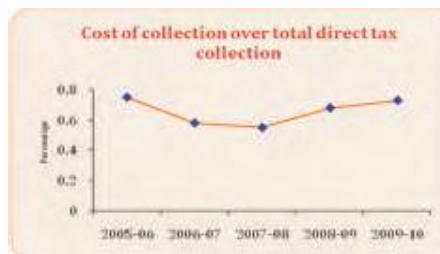
Chart 1.9: Status of prosecution



1.11 COST OF COLLECTION OF TAXES

Total cost of direct tax collection (Chart 1.10) showed a decreasing trend from 0.75 *per cent* in 2005-06 to 0.55 *per cent* in 2007-08. In 2008-09 and 2009-10, there was rise in cost mainly due to increase in establishment cost.

Chart 1.10: Cost of collection of taxes



1.12 REFUND CASES AND INTEREST PAID ON REFUNDS

Where the amount of tax paid exceeds the amount of tax payable, the assessee is entitled to a refund of the excess amount. Simple interest at the prescribed rate is payable on the amount of such refund. Refund is also admissible (along with interest) as a result of any order passed in appeal or other proceedings. Pendency of direct refund claims results in outflow of revenue from Government by way of interest.

Out of total 48 lakh direct refund claims, the Department had disposed off 28.6 lakh (59.6 *per cent*) claims in 2009-10. The pendency rate has increased to 40.4 *per cent* in 2009-10 from 22.5 *per cent* in 2005-06.

The Government has refunded ₹ 57,101 crore which includes interest of ₹ 12,951 crore (22.7 *per cent*) from gross collection of Corporation Tax and Income Tax of ₹ 4,24,713 crore in 2009-10. The interest paid on refunds in 2008-09 was ₹ 5,778 crore (14.8 *per cent* of ₹ 39,097 crore, the amount refunded) out of the gross collection of ₹ 3,58,529 crore. The interest on refunds also needs to be seen in the perspective of pendency of direct refund cases which increased from 5.7 lakh in 2005-06 to 19.4 lakh in 2009-10 registering an increase of 240 *per cent*.

1.12.1 INCORRECT ACCOUNTING OF INTEREST ON REFUNDS

We had earlier commented¹⁵ that the Government was following an incorrect procedure of accounting for interest paid on refunds. Interest payment is a charge on the Consolidated Fund of India and is, therefore, payable through a proper budgetary mechanism. Accordingly, Minor Head "interest on refunds" is to be operated under the Major Head "2020-Collection of Taxes on Income and Expenditure". However, no budget provision for 'interest on refund' was made in the Budget Estimates for 2009-10 and the expenditure on interest on refunds amounting to ₹ 12,950.8 crore was treated as reduction in

¹⁵ in Audit Reports of 2004, 2005, 2006, 2007, 2008, 2009 and 2009-10

revenue. Accounting of interest on refund as reduction in revenue is incorrect as this interest was never collected in the first instance. Interest on belated refunds of excess tax should be budgeted as an expenditure item which, in fact, was done in the Budget Estimates 2001-02 when ₹ 92 crore was provided in the demand of 'Direct Taxes' under the Major Head '2020 – Collection of taxes on Income & Expenditure' towards interest on belated refund of excess tax. However, subsequently at the Revised Estimates stage the earlier practice of showing the interest on excess refund as deduct receipt was reverted to. The incorrect practice is still being followed and needs to be rectified. In response the Department stated that this is a policy decision taken at the highest level.

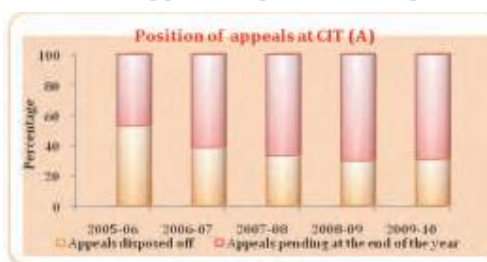
1.13 APPEAL CASES

An aggrieved tax payer has the right to dispute a tax demand with the Income Tax Department through the Commissioner of Income Tax (Appeals). Second appeal against the orders of CIT(A) lies in the Income Tax Appellate Tribunal (ITAT) which functions under the Ministry of Law. On any question of law arising out of an order of ITAT, a taxpayer may appeal progressively to the High Court and the Supreme Court. Analogous right to appeal is also available to the Department against the orders of CIT (A) and onwards.

1.13.1 APPEALS PENDING BEFORE CIT(A)

As per the instructions of the Board, each CIT(Appeal) is required to dispose off a minimum of 60 appeals per month, and a total of 720 appeals annually. Thus, 1.1 lakh appeals could have been disposed off during the year on the basis of the working strength of 151 CIT (Appeals). CIT(A) were required to dispose off 2,60,700 cases during 2009-10. Out of this only 0.8 lakh appeals (30.6 per cent) were disposed off (Chart 1.11) and the average annual disposal per CIT(A) during 2009-10 was only 528 appeals. The amount locked up in appeal cases with CIT(A) was ₹ 2.2 lakh crore in 2009-10 which is equivalent to 66.9 per cent of the revised revenue deficit of Government of India.

Chart 1.11: Appeals disposed off and pending



1.13.2 Further, the amount locked up in appeals at higher levels (ITAT/High Court/Supreme Court) was ₹ 91,087 crore in 60,246 cases as on 31 March 2010.

1.14 INTERNAL AUDIT

Internal audit is an important part of the Departmental control that provides the assurance that demands/refunds are processed accurately by correct application of the provisions of the Act.

The Department introduced a new Internal Audit System w.e.f. June 2007 to have an effective and objective set up of Internal Audit wherein the assessment functions and audit functions are assigned to separate specialized wings. Under each CIT(Audit) there shall be one Addl. CIT who would be responsible for internal audit of high value cases and supervision of the audit work of special audit party (SAP) headed by Dy./Asstt. CsIT and the internal audit party (IAP) headed by ITOs. The minimum number of cases to be audited by each Addl. CIT, SAP and IAP in a year shall be 50, 300 and 1,300 (600 corporate cases and 700 non-corporate cases) respectively.

Internal audit wing had planned 2,53,300 cases for audit during 2009-10 based on the working strength of wing. Out of which, 1,76,840 were completed thereby achieving 69.8 *per cent* of the target.

Internal audit had raised 14,577 observations in the audited assessments with money value of ₹ 1,224.8 crore during the year 2009-10. Based on the reply from assessment units, the internal audit had settled 6,434 cases with money value of ₹ 657.6 crore.

However, we detected numerous observations in the assessments previously audited by Internal Audit. We noticed that internal audit had audited 2,142 assessments in 2009-10, where we pointed out the mistakes but the same were not detected by them.

Out of 453 draft paragraphs included in this report, only 52 cases (11.5 *per cent*) were seen by internal audit and no mistakes were detected by them, which indicates need for improvement in quality of internal audit.

Departmental response to internal audit also needs improvement. Only 12.6 *per cent* of the major findings raised by internal audit were acted upon by the assessing officers in 2009-10. The total pendency increased from 21,299 cases having tax effect of ₹ 3,404.2 crore in 2008-09 to 29,442 cases having tax effect of ₹ 3,971.4 crore in 2009-10.

CHAPTER II

AUDIT IMPACT

Chapter Summary

- ◆ In the last five years, the Government introduced five legislative amendments to correct the anomalies pointed out by us. In addition, a provision has also been incorporated in Direct Tax Code.

(Paragraph 2.2)

- ◆ In 2009-10, the Department recovered ₹ 449.3 crore in cases pointed out by us.

(Paragraph 2.3)

- ◆ We detected errors in 19,230 assessments completed by the Department having a tax effect of ₹ 12,842.7 crore. Incidence of errors in scrutiny assessments completed by the Department in 2008-09 was 4.5 *per cent*. Tax effect of such erroneous demands was ₹ 12,369.8 crore, which would impact the total tax demand raised by the Department by 22 *per cent*.

(Paragraph 2.4 and Appendix-5)

- ◆ Delay in taking timely action on erroneous cases led to loss of revenue of ₹ 2,868.3 crore in 5,643 cases seen by us which were rendered time-barred.

(Paragraph 2.5.2)

- ◆ The Department did not produce 13.5 *per cent* of the records requisitioned by us during 2009-10.

(Paragraph 2.6.1)

CHAPTER II

AUDIT IMPACT

2.1 STATUTORY AUDIT

Our audit involves examination of individual assessments in field offices of the Income Tax Department to seek an assurance on:

- Accuracy in tax demands and;
- Efficacy and adequacy of systems and procedures in tax administration.

2.2 LEGISLATIVE IMPACT

In the last five years, the Government introduced five legislative amendments to correct the anomalies pointed out by us. One amendment made in Finance Act 2009 is mentioned below along with the provision incorporated in Direct Tax Code Bill 2010.

Our Report on IT audit of e-TDS system of Income Tax Department pointed out that there is a need to specify the time limit for processing of e-TDS returns. In the absence of such a provision, the e-TDS returns were not being processed by the Department leading to loss of revenue. The Income Tax Act was amended through Finance Act 2009. Section 200A effective from 1.4.2010 specifies that no intimation specifying the sum determined to be payable by or the amount of refund due to the deductor shall be sent after the expiry of one year from the end of the financial year in which the statement of TDS is filed.

Our Report No. PA 25 of 2009 on 'Exemptions, deductions and allowances to shipping and related sectors' pointed out that though there is specific mention of taxability of freight charges paid for goods shipped from a port in India (i.e. exports) with the mechanism for implementation of the same being explained in section 172, there is no specific mention regarding the taxation of income contained in the freight charges paid for goods brought to a port in India (i.e. imports). A provision for taxing the same has been included in the Direct Tax Code Bill 2010.

2.3 RECOVERY AT THE INSTANCE OF AUDIT

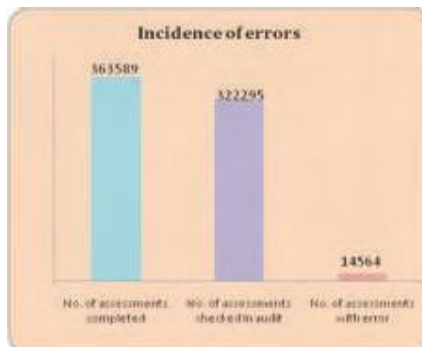
The Department recovered ₹ 2,599.1 crore in the last five years from demands raised to rectify the errors in assessments pointed out by us. This includes ₹ 449.3 crore recovered in 2009-10.

2.4 INCIDENCE OF ERRORS

It was our attempt to audit all scrutiny assessments completed by assessment units that fall in the audit sample selected for field audit on the basis of pre-defined parameters of risk analysis. We found that the incidence of errors in the scrutiny assessments

The establishment cost of our audit in 2009-10 is 0.02 per cent of the tax effect of cases pointed out by us. Further, the cost would be 1.5 per cent of the total demand raised on our findings (details at Appendix-6).

Chart 2.1: Incidence of errors



completed during 2008-09 averaged to 4.5 per cent. The revenue impact of these errors works out to 22.0 per cent of the total demand raised by the Department (Appendix-5).

2.4.1 The tax effect of errors was ₹ 12,842.7 crore as shown below:

Table no. 2.1: Tax wise details of errors

Sl. No.	Category	No. of cases	Tax effect (₹ in crore)
1	Corporation tax & Income tax	17,717	12,773.4
2	Wealth tax	798	20.8
3	Other Direct taxes	715	48.5
Total		19,230	12,842.7

2.4.2 The category-wise details of underassessment (sub-categories have been given in Appendix-7) in respect of Income tax and Corporation tax are given below:-

Table no. 2.2: Category-wise details of errors

Sl. No.	Category	No. of cases	Tax effect (₹ in crore)
1	Arithmetical errors	5,348	2,646.3
2	Ineligible concessions given to assesseees	6,779	3,751.1
3	Income/ not assessed	2,279	570.9
4	Others	3,119	5,359.8
Total		17,525	12,328.1

Out of 17,717 cases with tax effect of ₹ 12,773.4 crore, 192 cases with tax effect of ₹ 445.3 crore related to over assessments.

2.4.3 High value and important cases among the errors detected in local audit are included in the Audit Report. The present Audit Report contains 453 cases reported to the Ministry of Finance. While 166 of these cases, which were accepted by the Ministry, have been included in this Chapter¹⁶, remaining cases have been discussed in detail in Chapters III and IV of this Report. In respect of 9 of these 453 cases, provisions of the Act were open to interpretation, while in all the other cases, the AOs issued erroneous assessment orders despite clear provisions. 'Ineligible concessions given to assesseees' accounted for 33 *per cent* of the tax effect of the errors whereas 64 *per cent* of the tax effect (sub-categories have been given at Appendix-8) was due to 'arithmetical errors' as detailed below in Table 2.3.

Sl. No.	Category	No. of cases	Tax effect (₹ in crore)	Percentage of tax effect of errors
1	Arithmetical errors	76	3,784.0	64.0
2	Ineligible concessions given to assesseees	253	1,957.1	33.1
3	Income/Wealth not assessed	82	42.6	0.7
4	Others	42	127.1	2.2
	Total	453	5,910.8	100.0

2.5 RESPONSE TO AUDIT

We elicit response from the audited entities at different stages of audit. On completion of field audit, we issue the local audit report (LAR) to the Department for comments. Important and high value cases are referred to the Ministry for comments before inclusion in the Audit Report.

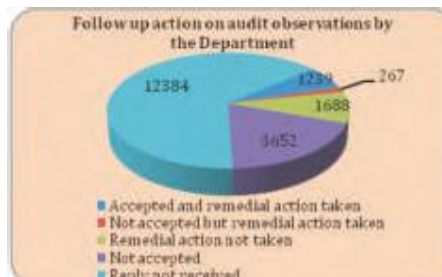
The Board issued instructions (2006) that replies to LARs should be provided within six weeks. The assessing officers are required to initiate remedial action within two months of receipt of a LAR to correct errors in demands lest the case should become time barred leading to loss of revenue.

¹⁶ Paragraphs 2.5.4, 2.5.5 and 2.5.6, Appendices-11, 12 and 13

2.5.1 RESPONSE : INITIAL AUDIT

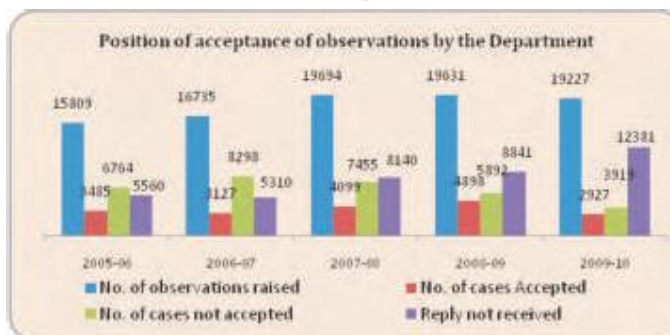
We received replies to 36 per cent of the cases included in LARs issued this year (2009-10). Of these cases, 18 per cent were accepted by the Department and remedial action was completed¹⁷ in 22 per cent of the cases. As compared to 2008-09, the cases in which the Department did not reply rose from 45 per cent to 64 per cent. This issue needs to be followed up by the Department especially in the light of the displeasure expressed by the Public Accounts Committee.

Chart 2.2: Follow up action on audit observations



The position of acceptance at the end of each of the last five years has been given in Appendix-9.

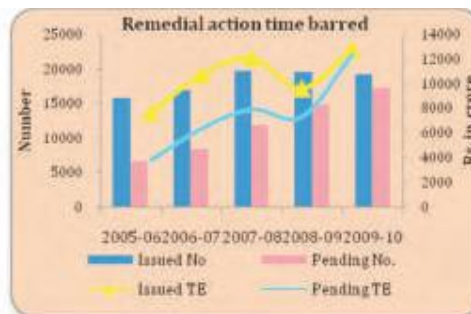
Chart 2.3: Position of acceptance of observations



2.5.2 REMEDIAL ACTION TIME BARRED

The accretion in pendency in replies to audit findings each year has resulted in a mounting pile-up of 85,359 cases involving revenue effect of ₹ 47,263 crore as of 31 March 2010. The Chart 2.4 depicts the increasing trend of pendency of observations.

Chart 2.4: Remedial action time barred



¹⁷ The Assessing Officer (AO) initiates remedial action by issuing a notice to the assessee, who is then given an opportunity to present his case. After considering all the facts, the AO issues a rectificatory order raising the rectified demand for tax/refund, whichever be the case. At this stage, remedial action is said to have been taken.

We conducted a review of the above pending cases and found that 5,643 cases with tax effect of ₹ 2,868.3 crore have become time barred for remedial action. Details are given in Appendix-10.

2.5.3 RESPONSE: HIGH VALUE CASES

We give six weeks to the Ministry to offer their comments on high value cases before their inclusion in the Audit Report. The Ministry accepted 38 per cent of the cases; in 59 per cent cases, we were yet to receive the response as of December 2010 and the remaining have not been accepted.

Chart 2.5: Response to high value cases



2.5.4 The Ministry accepted 15 observations with tax effect of ₹ 34 crore. Remedial action had been taken by the Department and the amount recovered in these cases. Details are at Appendix-11. One case is illustrated below:

Charge : CIT Kolkata-II, West Bengal, AY: 2005-06

In an assessment made under section 143(3), the assessing officer is required to make a correct assessment of the total income or loss of the assessee and determine the correct amount of tax or refund as the case may be.

During the scrutiny assessment of **The West Bengal Industrial Development Corporation Ltd.**, the refund already made during processing¹⁸ of the return was not taken into account resulting in short levy of tax of ₹ 1.3 crore.

2.5.5 The Ministry accepted 133 observations with tax effect of ₹ 281.7 crore. Remedial action had been taken by the Department in these cases. Details are at Appendix-12. Two cases are illustrated below:

¹⁸ Returns received by the IT Department are initially processed under section 143(1) towards making prima facie adjustments to the income. Thereafter in selected cases, detailed examination is undertaken through scrutiny assessment.

A. Charge: CIT Coimbatore-I, Tamil Nadu, AY: 2002-03 to 2004-05

Section 36(1)(iv) provides that any sum paid by the assessee as an employer by way of contribution towards a recognized provident fund is an allowable deduction.

Tamil Nadu State Transport Corporation Ltd. was allowed expenditure of ₹ 35.4 crore towards pension contribution although necessary approval for the pension fund had not been obtained from the Income tax authorities. This resulted in short levy of tax of ₹ 12.8 crore.

B. Charge: CIT Ludhiana-I, Punjab, AY: 2006-07

Section 72(1) provides for loss under the head 'profits and gains of business or profession' that could not be or is not wholly set off against income under any other head of income of the relevant year to be carried forward to the following assessment year(s) to be set off against 'profits and gains of business or profession'.

Industrial Organics Ltd. was allowed to carry forward loss of ₹ 32 crore as against the available loss of ₹ 7.9 crore. This resulted in excess carry forward of loss of ₹ 24.1 crore involving tax effect of

₹ 8.1 crore.

2.5.6 The Ministry accepted 18 observations with tax effect of ₹ 19.1 crore and remedial action had been initiated by the Department. Details are at Appendix-13. Two cases are illustrated below:

A. Charge: CIT Mumbai-X, Maharashtra, AY 2005-06

Section 36(1)(viii) provides for a deduction in respect of any special reserve created and maintained by a public company formed and registered in India with the main object of carrying on the business of providing long term finance for construction or purchase of houses in India for residential purposes.

ICICI Home Finance Co. Ltd. had discontinued the business of giving home loans from November 2001. Still for the assessment year 2005-06, deduction under section 36(1)(viii) was allowed which resulted in underassessment of income of ₹ 10.9 crore with consequent short levy of tax of ₹ 5.3 crore.

B. Charge: CIT Kolkata-XIX, West Bengal, AY 2003-04

In an assessment made under section 143(3), an assessee is not entitled to claim deduction on any capital expenditure.

Price Water House Ltd., a firm claimed and was allowed deduction of ₹ 3.5 crore as expenses on PWC Global Services charges paid to Price

Water House Coopers International Ltd. towards utilizing their brand name. As the payment was made for acquiring monopoly right of the brand name, the amount was to be treated as capital expenditure and was to be disallowed. The omission resulted in under assessment of ₹ 3.5 crore involving tax effect of ₹ 1.3 crore.

2.5.7 RESPONSE: AUDIT REPORT

The Audit Report once presented in the Parliament, stands referred to the Public Accounts Committee. The Ministry intimates to us the status of these cases, through Action Taken Notes (ATN). Replies on 940 cases, representing 11 *per cent* of the cases included, were yet to be received as of December 2010. In addition, 400 cases with tax effect of ₹ 2,830.5 crore, included in the Audit Reports during 1999-2005 on which no replies were received/no remedial action was taken, would have become time barred by now. Two cases are given below:

A. Charge: CIT Delhi-VI, Delhi, AY. 2002-03

Section 43B provides that any amount payable by an assessee as employer by way of contribution to any pension fund or payable to an employee is deductible on actual payment basis.

Oriental Insurance Company Ltd. was allowed deduction of ₹ 95.9 crore even though the employer's contribution to pension fund was not actually deposited within due date. The mistake resulted in over assessment of loss by ₹ 95.9 crore involving potential tax effect of ₹ 34.2 crore.

B. Charge: CIT Mumbai-II, Maharashtra, AY. 1997-98

Section 72 provides that where, in any assessment year, unabsorbed depreciation under the head 'Profits and gains of business or profession' cannot be set off against any other income of the relevant assessment year, such unabsorbed depreciation shall be carried forward for subsequent year and shall be set off only against profits and gains from any business or profession and not against other income.

JK Chemicals Ltd. was allowed set-off of unabsorbed depreciation of ₹ 6.2 crore brought forward from earlier years against the income arising out of capital gains and income from other sources. This resulted in underassessment of income of ₹ 6.2 crore involving short levy of tax of ₹ 5.8 crore.

2.6 NON-PRODUCTION OF RECORDS

Under section 16 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971, assessment records are scrutinized in revenue audit with a view to securing an effective check on the assessment, collection and proper allocation of taxes and examining that regulations and procedures are being observed. As per section 18 of the same Act, it is incumbent on the Department to expeditiously produce records and furnish relevant information to audit.

2.6.1 Out of 9,96,788 records requisitioned during 2009-10, 1,34,173 cases (13.5 *per cent*) were not produced to audit. The Table 2.4 below contains State-wise details where records were not produced to audit in three or more consecutive audit cycles.

Table :2.4 Records not produced to audit in three or more audit cycles		
Sl. No.	State	No. of records not produced
1	Andhra Pradesh	292
2	Jharkhand	4
3	Karnataka	62
4	Madhya Pradesh	15
5	Orissa	269
6	UT Chandigarh	54
7	Tamil Nadu	14
8	Maharashtra	165
9	West Bengal	19
	Total	894

CHAPTER III

CORPORATION TAX

Chapter Summary

This Report includes 288 high value cases with tax effect of ₹ 2,104.1 crore issued to the Ministry between August and November 2010 eliciting their comments. The Ministry has accepted observations in 95 cases involving revenue impact of ₹ 248.4 crore as of December 2010.

(Paragraphs 3.1 and 3.1.2)

These cases of incorrect assessment point towards weaknesses in the internal controls on the assessment process being exercised by the Income Tax Department. The major mistakes in assessments were on account of:

- ♦ Arithmetical errors in computation of income and tax in eight cases involving tax effect of ₹ 16 crore.

(Paragraph 3.2.1)

- ♦ Application of incorrect rates of tax and surcharge in two cases involving tax effect of ₹ 4.6 crore.

(Paragraph 3.2.2)

- ♦ Mistakes in levy of interest in eight cases involving tax effect of ₹ 15 crore.

(Paragraphs 3.2.3 and 3.2.4)

- ♦ Irregular exemptions/deductions in 24 cases involving tax effect of ₹ 753.2 crore.

(Paragraph 3.3.1)

- ♦ Incorrect allowance of business expenditure in 70 cases involving tax effect of ₹ 634.6 crore.

(Paragraph 3.3.2)

- Mistakes in allowance, carry forward and set-off of depreciation and business loss/capital loss in 43 cases involving tax effect of ₹ 305.8 crore.

(Paragraph 3.3.3)

- ♦ Income was not assessed/under assessed under special provisions in 14 cases involving tax effect of ₹ 27.6 crore.

(Paragraph 3.4.1)

- ♦ Excess tax was levied in 11 cases involving tax effect of ₹ 75.9 crore.

(Paragraph 3.5)

CHAPTER III

CORPORATION TAX

3.1 RESULTS OF AUDIT

This Report includes 288 high value cases with tax effect of ₹ 2,104.1 crore issued to the Ministry¹⁹ between August and November 2010 to elicit their comments.

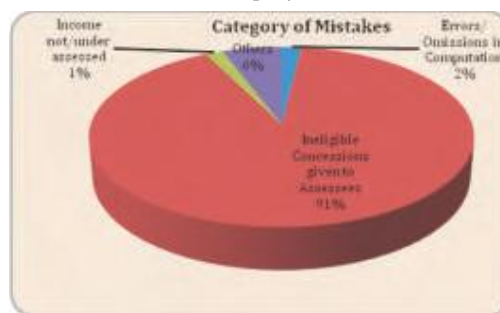
3.1.2 The Ministry has replied in respect of 99 cases²⁰ accepting our observations in 95 cases involving aggregate revenue impact of ₹ 248.4 crore as of December 2010. Out of these 95 cases, the Department completed remedial action²¹ in 75 cases involving tax effect of ₹ 216.7 crore and initiated remedial action in 14 other cases involving tax effect of ₹ 20.7 crore. These cases have been featured in paragraphs 2.5.4, 2.5.5 and 2.5.6 of Chapter II of this Report. Replies of the Ministry, wherever received, have been examined and suitably incorporated in the report.

3.1.3 This Chapter discusses 199 cases of which 184 cases involve undercharge of ₹ 1,784.8 crore and 15 cases involve overcharge²² of ₹ 82 crore. The errors in most of the assessments were committed despite clear provisions in the Act. These cases of incorrect assessment point towards weaknesses in the internal controls on the assessment process being exercised by the Income Tax Department.

3.1.4 The categories of mistakes have been broadly classified as follows:

- Errors and omissions in computation,
- Ineligible concessions given to assessees,
- Income not/under assessed and
- Others²³.

Chart 3.1: Category of Mistakes



¹⁹ Ministry of Finance, Central Board of Direct Taxes

²⁰ The department has not accepted the audit observations in three summarily processed cases as a matter of principle citing the Assessing officers' limitations. However, rectificatory action has been initiated/completed without contesting the facts of the case.

²¹ The Assessing Officer (AO) initiates remedial action by issuing a notice to the assessee, who is then given an opportunity to present his case. After considering all the facts, the AO issues a rectificatory order raising the rectified demand for tax/refund, as the case may be. At this stage, remedial action is said to have been taken.

²² Overcharge is on account of arithmetical errors in computation of income, incorrect application of rates, income not assessed due to waiver of loan/interest not considered as income, excess levy of interest.

²³ Category "Others" shown in the chart include issues regarding mistakes in assessment while giving effect to the appellate orders, omission in implementing provisions of TDS/TCS and cases relating to overcharging of tax and remission/waiver of loan/interest on loan not being assessed.

The category wise details (tax effect) are depicted in Chart 3.1. In the subsequent sections of this chapter, the first paragraph in respect of each category indicates the nature of mistakes made by the assessing officer (AO). It starts with a preamble followed by the combined revenue impact of all observations of similar nature. The four categories are further sub-divided and the sub-category wise description is also given. Interesting cases are illustrated in the subsequent paragraphs of this Chapter.

3.2 ERRORS/OMISSIONS IN COMPUTATION

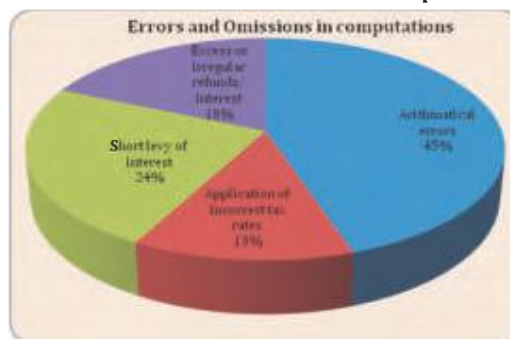
We found that there were cases where the AOs adopted incorrect figures, committed arithmetical errors,

The AOs are to make correct assessment of the total income of the assessee and determine the correct amount of tax payable by assessee.

applied incorrect rates resulting in a tax effect of ₹ 35.6 crore in 18 cases in Delhi, Gujarat, Kerala, Madhya Pradesh, Maharashtra, Orissa, Tamil Nadu and

Chart 3.2: Errors and Omissions in Computations

West Bengal. There was underassessment of tax of ₹ 29.5 crore and overcharge of tax of ₹ 6.1 crore in 14 and four cases respectively. The sub-category wise details (based on tax effect) are depicted in Chart 3.2. Four sub-categories are discussed below:



3.2.1 ARITHMETICAL ERRORS IN COMPUTATION OF INCOME AND TAX

The AOs committed arithmetical errors in computation of income and tax in eight cases with tax effect of ₹ 16 crore in Delhi, Maharashtra, Tamil Nadu and West Bengal. One case is illustrated below:

CHARGE: ASANSOL WEST BENGAL; AY: 2003-04

As per section 143(3) of the Act, AOs are to make correct assessment of the total income of the assessee and determine the correct amount of tax payable by the assessee.

The AO in the case of **Eastern Coalfields Limited**²⁴ took the value of closing stock as ₹ 1.1 crore instead of correct figure of ₹ 10.9 crore. Further, hire charges of cars of ₹ 3.3 crore disallowed was not added back in computation

of income resulting in potential short levy of tax of ₹ 4.8 crore.

²⁴ Assessed at 'Nil' income after setting off of brought forward loss of ₹ 541.9 crore in March 2006.

3.2.2 APPLICATION OF INCORRECT RATE OF TAX AND SURCHARGE

We found that the AOs applied incorrect rates of tax and surcharge in two cases with tax effect of ₹ 4.6 crore in Gujarat and Maharashtra. One case is illustrated below:

CHARGE: CIT-II, MUMBAI, MAHARASHTRA; AY: 2003-04

Section 2(42A) defines 'short term capital asset' as an asset which has been disposed off by the assessee within thirty six months. Section 4 prescribes the rate at which income tax is to be charged.

The taxable income of **Lord Krishna Bank Limited**²⁵ (Now HDFC Bank Limited) included short term capital gains of ₹ 7.4 crore which were charged to tax at the rate of 10 per cent instead of applicable rate of 35 per cent. Incorrect application of rate of

tax resulted in short levy of tax of ₹ 2.7 crore.

3.2.3 MISTAKES IN LEVY OF INTEREST

We noticed short levy of interest for delays in filing return of income and payment of advance tax in five cases aggregating tax effect of ₹ 8.5 crore in Delhi, Gujarat and Maharashtra. One case is illustrated below:

CHARGE: CIT - III DELHI; AY: 1998-99

Section 234A provides that where return is furnished after the due date or is not furnished interest is to be levied at the prescribed rates. In such cases section 144 prescribes that the AO can make the assessment to the best of his judgement.

The assessment of **Sarvodaya Realtors (P) Ltd**²⁶ was completed on the basis of 'Best Judgement' in March 2006. The assessee had not filed the return; however, no interest was levied. The omission resulted in short levy of interest of ₹ 6.2 crore.

3.2.4 EXCESS OR IRREGULAR REFUNDS/ INTEREST ON REFUNDS

We found that in three cases, excess or irregular refunds/interest on refunds was levied with tax effect of ₹ 6.5 crore in Kerala, Maharashtra and Orissa. Two cases are illustrated below:

A. CHARGE: LTU, MUMBAI, MAHARASHTRA; AY: 2006-07

As per section 234D in case no refund is due on regular assessment after the summary assessment then assessee will be liable to pay interest on the refund given to him at the time of summary assessment.

In the case of **Deposit Insurance Credit Guarantee Corporation Limited**²⁷, a refund of ₹ 14.5 crore was made at the

²⁵ Assessed at an income of ₹ 42.2 crore in December 2008.

²⁶ Assessed at an income of ₹ 14.6 crore in March 2006.

²⁷ Initially assessed at an income of ₹ 2,626.2 crore in summary manner. Subsequently assessed at an income of ₹ 3,071.3 crore in scrutiny assessment in December 2008.

time of summary assessment. In the scrutiny assessment, the assessed income was increased and as a result no refund was due to the assessee. The AO incorrectly charged interest of ₹ 11.3 crore on such refund against the chargeable interest of ₹ 7.4 crore. This resulted in overcharging of interest of ₹ 3.9 crore.

B. CHARGE: KOCHI, KERALA; AY: 1996-97

Section 244A provides that where refund of any amount becomes due to the assessee, he shall be entitled to the interest at prescribed rates from the 1st day of April of the assessment year/ date of payment of tax to the date on which refund is granted.

The assessment of **The Federal Bank Limited**²⁸ was completed after several revisions in December 2007. The AO while calculating the interest payable to the assessee wrongly reckoned

the date of refund of ₹ 29.9 crore as 18 May 2002 whereas the refund was made on 18 May 2001. This resulted in grant of excess interest of ₹ 3.6 crore.

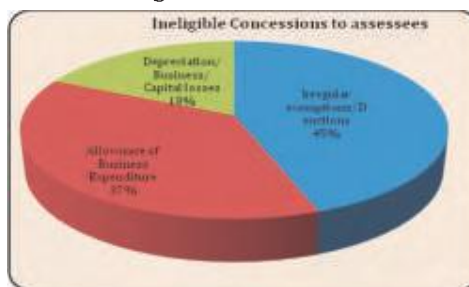
3.3 INELIGIBLE CONCESSIONS GIVEN TO ASSESSEES

We noticed that ineligible concessions were given to assesseees in 137 cases with tax effect of ₹ 1,693.6 crore in Andhra Pradesh, Assam, Delhi, Gujarat, Goa, Haryana, Kerala, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Punjab,

Deductions are allowed to the assessee in computing the total income under chapter VI A of the Act and for certain categories of expenditure under relevant provisions of the Act.

Rajasthan, Tamil Nadu and Uttar Pradesh, Uttarakhand and West Bengal. The sub-category wise details (based on tax effect) are depicted in Chart 3.3. Sub-categories are discussed below:

Chart 3.3: Ineligible Concessions to assesseees



3.3.1 IRREGULAR EXEMPTIONS/DEDUCTIONS

The Act allows deductions from the assesseees's income on certain categories of expenditure. We found that Corporate assesseees in 24 cases were given irregular exemptions/deductions having tax effect of ₹ 753.2 crore in Andhra Pradesh, Assam, Delhi, Karnataka, Maharashtra, Orissa, Rajasthan, Tamil Nadu and West Bengal. Three cases are illustrated below:

²⁸ Original scrutiny assessment was completed in March 1999. The latest rectification done in December 2007 resulted in refund of ₹ 5.9 crore.

A. CHARGE: CIT - I, DELHI; AY: 2007-08

As per section 80IA deductions are allowed to assesseees in respect of profits and gains from Industrial undertakings or enterprises engaged in infrastructure development subject to the provisions of this section.

In the case of **Bharat Sanchar Nigam Limited**²⁹ deduction under section 80IA was incorrectly computed. Deduction of ₹ 11,664.9 crore was allowed instead of correct amount of ₹ 8,878.6 crore, resulting in under assessment of income by ₹ 2,786.3 crore with short levy of tax of ₹ 567.6 crore including interest.

B. CHARGE: CIT - II, MUMBAI, MAHARASHTRA; AY: 2005-06

As per section 36(1)(vii) Banks are allowed provision for bad and doubtful debts at a particular percentage of the total income and in terms of section 36(1)(vii) deduction on account of bad debts is allowed only if the assessee had debited the amount of such bad debts to the provision for bad debts.

Bank of Baroda³⁰ was allowed excess deduction for bad and doubtful debts amounting to ₹ 103.6 crore against the allowable deduction of ₹ 5.2 crore due to adoption of incorrect figure of opening balance in the provision for

bad debts. This resulted in short levy of tax of ₹ 39 crore including interest.

C. CHARGE: CIT - SALEM I, TAMIL NADU; AY: 2006-07

As per section 80IA deductions are allowed to the assesseees in respect of profits and gains from Industrial undertakings or enterprises engaged in infrastructure development on their Gross Total Income. According to section 80B Gross Total Income means total income computed in accordance with the provisions of the Act after setting off brought forward business losses and unabsorbed depreciation.

Madras Aluminium Company Limited³¹ was allowed deduction of ₹ 108.8 crore without setting off the carried forward business loss and unabsorbed depreciation. The mistake resulted in under assessment of business income with potential tax effect of ₹ 36.4 crore.

3.3.2 INCORRECT ALLOWANCE OF BUSINESS EXPENDITURE

We found 70 cases of irregular allowance of expenditure having tax effect of ₹ 634.6 crore in Andhra Pradesh, Assam, Delhi, Gujarat,

²⁹ Assessed at an income of ₹ 2,302.4 crore in December 2009.

³⁰ Assessed at an income of ₹ 805.5 crore in December 2008.

³¹ Assessed at an income of ₹ 93 crore in December 2008.

Karnataka, Madhya Pradesh, Maharashtra, Orissa, Punjab, Tamil Nadu and West Bengal. One case is illustrated below:

CHARGE: CIT-I CHENNAI, TAMIL NADU; AY: 2006-07

In accordance with the provisions of section 43B, deduction of certain expenditure is allowed only when the same has actually been paid in the previous year.

Tamil Nadu Electricity Board³² was allowed an expenditure of ₹ 181.9 crore towards payment of electricity tax though it was not deposited into the Government account.

This mistake resulted in potential short levy of tax of ₹ 61.2 crore.

3.3.3 IRREGULARITIES IN ALLOWING DEPRECIATION/BUSINESS LOSSES/CAPITAL LOSSES

The AOs committed mistakes in allowance, carry forward and set off of depreciation and business loss/capital loss. We found 43 such cases having tax effect of ₹ 305.8 crore in Andhra Pradesh, Delhi, Haryana, Himachal Pradesh, Goa, Gujarat, Kerala, Maharashtra, Orissa, Rajasthan, Uttar Pradesh and West Bengal. Three cases are listed below:

A. CHARGE: CIT I KOLKATA – WEST BENGAL; AY: 2003-04

As per section 47 (vib) of the Act transfer of capital assets by a company formed as a result of de-merger of a parent entity shall not be regarded as transfer for the purpose of determining capital loss.

J.K. Industries Limited³³ was allowed long term capital loss of ₹ 503.6 crore. The capital loss was not allowable as the assessee company which was formed from its parent company through splitting and de-merger had transferred its unit to other

entities of the same group. Such transfer can not be considered for the purpose of determining capital loss. Accordingly, the capital loss should not have been allowed. Thus, irregular allowance of long term capital loss has resulted in potential short levy of tax of ₹ 105.8 crore.

B. CHARGE: CIT-I DELHI; AY: 2005-06

As per section 72, net loss of an assessment year can be carried forward and set-off against profits and gains of the following eight AYs.

In the case of **Bharti Televentures Limited³⁴**, the AO on the basis of filed return allowed to set off brought forward business

loss of ₹ 153.9 crore and unabsorbed depreciation of ₹ 109 crore of the amalgamating company. However, the assessed business loss to be set off was only ₹ 55.3 crore. The omission resulted in excess set-off of loss of ₹ 207.6 crore with potential tax effect of ₹ 76 crore.

³² Assessed at a loss of ₹ 885.6 crore in December 2008.

³³ Assessed at 'Nil' income in March 2006.

³⁴ Assessed at an income of ₹ 860.2 crore in December 2007.

C. CHARGE: CIT-FARIDABAD, HARYANA, AY: 2006-07

As per section 72, net loss of an assessment year can be carried forward and set-off against profits and gains of the following eight AYs.

National Hydroelectric Power Corporation Ltd.,³⁵ was allowed brought forward losses/unabsorbed depreciation of ₹ 734.1 crore returned by it without reducing the additional

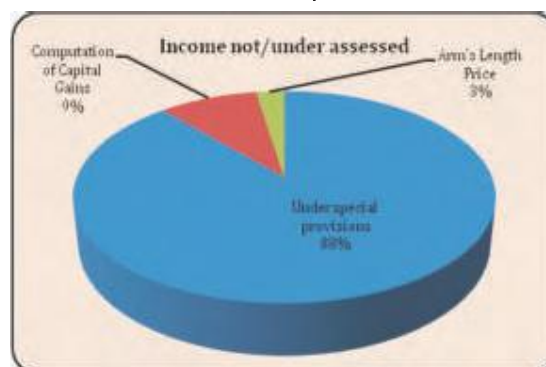
income of ₹ 131.7 crore determined in the assessment year 2005-06. This resulted in over-assessment of loss by ₹ 131.7 crore with potential short levy of tax of ₹ 44.4 crore.

3.4 INCOME NOT/UNDER ASSESSED

The total income of a person for any previous year shall include all incomes from whatever source derived; actually received or accrued or deemed to be received or accrued.

Income was not assessed or under assessed in 17 cases with tax effect of ₹ 31.2 crore in Delhi, Gujarat, Madhya Pradesh, Maharashtra, Rajasthan, Tamil

Chart 3.4: Income not/under assessed



Nadu and West Bengal. The sub-category wise details (based on tax effect) are depicted in Chart 3.4. Sub-categories are discussed below:

3.4.1 INCOME NOT/UNDER ASSESSED UNDER SPECIAL PROVISIONS INCLUDING MAT³⁶

There was non-compliance with the provisions relating to assessment of income under special provisions of the Act in 14 cases with tax effect of ₹ 27.6 crore in Delhi, Gujarat, Madhya Pradesh, Maharashtra, Rajasthan, Tamil Nadu and West Bengal. Two cases are illustrated below:

³⁵ Assessed at a loss and book profit of ₹ 668.4 crore in December 2008.

³⁶ MAT: Minimum Alternate Tax of ten percent is levied on the Book Profit of Corporates which is arrived at by making prescribed additions to the Net Profit in case the regular tax payable by the corporate is less than a specified percentage of the book profit.

A. CHARGE: CIT - I, JODHPUR, RAJASTHAN; AY: 2006-07

As per section 115JB Book profit is to be computed for being taxed (MAT) after making the relevant additions to the net profit.

In the case of **Jodhpur Vidyut Vitaran Nigam Limited**³⁷ the AO, while computing the book profit, determined the amount of depreciation incorrectly. As a result, the amount of book profit was

computed as ₹ 9.4 crore against the correct amount of ₹ 89.4 crore. The mistake resulted in short levy of tax of ₹ 9 crore including interest.

B. CHARGE: CIT BHOPAL, MADHYA PRADESH; AY: 2007-08

As per Section 115 JAA Tax credit is available in the subsequent assessment year for the tax paid under section 115JB in an earlier assessment year.

H.E.G. Limited³⁸ was allowed tax credit of ₹ 4.07 crore pertaining to assessment year 2006-07 though the tax was not levied on book profit under provisions of section 115JB and as such tax credit was not allowable. This omission resulted in short levy of

tax of ₹ 4.6 crore including interest.

3.4.2 INCORRECT CLASSIFICATION AND COMPUTATION OF CAPITAL GAINS

We found two cases of incorrect classification and computation of capital gains having tax effect of ₹ 2.8 crore in Andhra Pradesh and Tamil Nadu. One case is illustrated below:

CHARGE: CIT - I CHENNAI, TAMIL NADU; AY: 2003-04

Section 45 provides that any gains arising from transfer of a capital asset shall be taxed under the head "Capital gains" in the year in which the transfer takes place. In terms of decision in the case of *V.S.M.R. Jagdish Chandran vs CIT* (227 ITR 240) when an asset is sold along-with the debt created on that asset, the amount of debt can not be considered to be the cost of acquisition or cost of improvement.

Digivision Electronics Limited³⁹ while computing the capital gains claimed a deduction of ₹ 3.7 crore as cost of improvement. This should have been disallowed as the amount of ₹ 3.7 crore was paid towards the debt created by the assessee themselves which can not be considered as cost of improvement. Besides, an amount of ₹ 1.6 crore was also claimed towards expenses

incurred in connection with sale of property without proper evidence. Failure to disallow these expenses resulted in capital gains escaping assessment with short levy of tax of ₹ 1.7 crore and potential tax effect of ₹ 13.4 lakh.

³⁷ Assessed at 'Nil' income in December 2008.

³⁸ Assessment was processed in summary manner at an income of ₹ 43.8 crore in July 2008.

³⁹ Assessed at 'Nil' income in March 2005.

3.4.3 INCORRECT ESTIMATION OF ARM'S LENGTH PRICE⁴⁰

We noticed one case of incorrect estimation of arm's length price having tax effect of ₹ 80.6 lakh.

CHARGE: CIT – I, PUDUCHERRY, TAMIL NADU; AY: 2004-05

AO shall compute the total income having regard to the arm's length price fixed by the Transfer Pricing Officer under section 92C(3).

The AO in the case of **Tweezerman (India) Pvt. Limited**⁴¹ while computing income from international transaction considered the

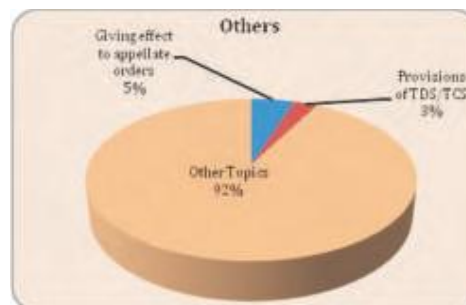
arm's length price at ₹ 3.5 crore as adopted by the assessee instead of ₹ 5.2 crore as determined by the Transfer Pricing Officer. This resulted in short levy of tax of ₹ 80.6 lakh including interest.

3.5 OTHERS

The issues relating to mistakes in assessment while giving effect to the appellate orders, omission in implementing provisions of TDS/TCS and cases relating to overcharge of tax and remission/waiver of loan/interest on loan not being assessed have been discussed in this category.

There were 27 other cases with tax effect of ₹ 106.4 crore. There was short levy of tax of ₹ 30.5 crore in 16 cases and excess levy of tax of ₹ 75.9 crore in 11 cases in Andhra Pradesh, Delhi, Gujarat, Orissa, Rajasthan and West Bengal. The

Chart 3.5: Others



sub-category wise details (based on tax effect) are depicted in Chart 3.5. Sub-categories are discussed below:

3.5.1 MISTAKES IN ASSESSMENT WHILE GIVING EFFECT TO APPELLATE ORDERS

We found that in four cases with a tax effect of ₹ 5.4 crore the appellate orders were not correctly implemented in Gujarat, Maharashtra and West Bengal. One case is discussed below:

⁴⁰ Arm's length price means a price which is applied or proposed to be applied in a transaction between persons other than associated enterprises, in uncontrolled conditions.

⁴¹ Assessed at an income of ₹ 4.1 crore in December 2006.

CHARGE: CIT-IV, NAGPUR, MAHARASHTRA; AY: 2001-02

The AOs during implementation of appellate orders are to make correct assessment of the total income of the assessee and determine the correct amount of tax payable by assessee.

The AO disallowed ₹ 5.9 crore in the assessment of **Ballarpur Industries Limited**⁴² which was subsequently allowed by the CIT (A) in June 2004.

Accordingly, the AO had implemented this order by allowing a deduction of ₹ 5.9 crore in August 2004. Thereafter, the ITAT reverted back the case to the AO for de-novo consideration. The AO while giving effect to the appellate order in December 2008 adopted total income as per orders giving effect to the CIT(Appeal)'s orders and allowed the relief of ₹ 5.9 crore again. This resulted in double allowance of relief of the same amount resulting in potential tax effect of ₹ 2.3 crore.

3.5.2 OMISSION IN IMPLEMENTING PROVISIONS FOR DEDUCTION OF TDS/TCS

We found that AOs failed to implement provisions for deduction of TDS/TCS in two cases with a tax effect of ₹ 2.9 crore in Andhra Pradesh and Tamil Nadu. Both the cases are discussed below:

A. CHARGE: CIT-III, HYDERABAD, ANDHRA PRADESH; AY: 2005-06

As per provisions of section 40(a)(ia) deduction of expenditure (while making such payments) where TDS has not been deducted shall not be allowed.

The AO allowed **Venkat Pharma Limited**⁴³ an expenditure of ₹ 2.9 crore towards commission payment on export sales. As the tax was not deducted at source on this amount, the same should have been disallowed. Failure to disallow this

expenditure resulted in short levy of tax of ₹ 1.5 crore including interest.

B. CHARGE: CIT-I, COIMBATORE, TAMIL NADU; AY: 2006-07

As per provisions of section 40(a)(ia) deduction of expenditure (while making such payments) where TDS has not been deducted shall not be allowed.

Shanthi Gears Limited⁴⁴ was allowed expenditure of ₹ 4.1 crore towards interest payment (₹ 1.6 crore in foreign currencies) and advertising (₹ 2.5 crore which included ₹ 49.4 lakh in foreign currency) on which tax was not

deducted at source. Omission to disallow expenditure of ₹ 4.1 crore resulted in short levy of tax of ₹ 1.4 crore.

⁴² Scrutiny assessment was completed in March 2004.

⁴³ Assessed at an income of ₹ 37.3 lakh in September 2006

⁴⁴ Assessed at an income of ₹ 34.1 crore in May 2008.

3.5.3 OTHER TOPICS

OVER-CHARGE OF TAX

A. CIT- SAMBALPUR, ORISSA; AY: 2006-07

As per provisions of section 143(3) of the Act, the AOs are to make correct assessment of the total income of the assessee and determine the correct amount of tax payable by assessee.

The AO in the case of **Mahanadi Coal Fields Limited**⁴⁵ first disallowed expenditure of ₹ 6.7 crore shown in the Profit and Loss Account towards reclamation of land and ₹ 53.5 crore shown as provision for the above purpose in

the Balance Sheet and thereafter further addition of ₹ 53.5 crore was made to the income towards the same provision. This resulted in over-charging of tax of ₹ 28.5 crore.

B. CHARGE: CIT- I MUMBAI, MAHARASHTRA; AY: 2005-06

As per provisions of section 143(3) of the Act, the AOs are to make correct assessment of the total income of the assessee and determine the correct amount of tax payable by assessee.

The AO in the case of **Maharashtra State Financial Corporation**⁴⁶ disallowed an expenditure of ₹ 58.1 crore towards unpaid liability of interest under section 43B of the Act. As this amount was neither debited

nor any provision created in the books of accounts, adding back of this expenditure was irregular. This resulted in over-charging of potential tax of ₹ 21.3 crore.

3.5.4 WAIVER/REMISSION OF LOAN NOT ASSESSED TO TAX

The income from waiver/remission of loan was not assessed to tax and the interest was not correctly levied in 21 cases with a tax effect of ₹ 98.1 crore in Andhra Pradesh, Delhi, Maharashtra, Orissa, Rajasthan, Tamil Nadu and West Bengal. One case is discussed below:

CHARGE: CIT-I TRICHY, TAMIL NADU; AY: 2005-06

The waiver/remission of loan/ interest on loan is to be taxed in terms of provisions of section 41(1) of the Act. The cessation of a liability is deemed income as per decision in *T.V. Sundaram Iyenger & Sons Limited vs CIT [222 ITR 344] (SC)*.

Sea Horse Hospitals (P) Limited⁴⁷ received waiver of loan of ₹ 2.8 crore from the bank. The cessation of liability is a deemed income. Omission to assess the same resulted in short levy of tax of ₹ 76.2 lakh with potential tax effect of ₹ 26.9 lakh.

⁴⁵ Assessment completed in December 2008.

⁴⁶ Assessed at 'Nil' in December 2007.

⁴⁷ Assessed at a loss of ₹ 73.4 lakh in December 2007.

CHAPTER IV

PART A – INCOME TAX

PART B – FRINGE BENEFIT TAX

PART C – WEALTH TAX

Chapter Summary

This Report includes 165 high value cases pertaining to Income Tax, Fringe Benefit Tax and Wealth Tax with tax effect of ₹ 3806.7 crore issued to the Ministry of Finance during August and November 2010 eliciting their comments. The Ministry has accepted 77 observations involving revenue impact of ₹ 97.3 crore.

(Paragraphs 4.1, 4.7 and 4.9)

These cases of incorrect assessment point towards weaknesses in the internal controls on the assessment process being exercised by the Income Tax Department. The major mistakes in assessments were on account of:

- ♦ Mistakes in assessments of high risk assessee in five cases involving tax effect of ₹ 3,674.5 crore.

(Paragraph 4.2)

- ♦ Arithmetical errors in computation of income and tax in six cases involving tax effect of ₹ 1.6 crore.

(Paragraph 4.3.1)

- ♦ Application of incorrect rates of tax and surcharge in five cases involving tax effect of ₹ 88 lakh.

(Paragraph 4.3.2)

- ♦ Mistakes in levy of interest in 14 cases involving tax effect of ₹ 8.6 crore.

(Paragraph 4.3.3)

- ♦ Incorrect allowance of expenditure in nine cases involving short levy of tax of ₹ 5.6 crore.

(Paragraph 4.4.1)

- ♦ Irregular allowance of exemptions and deductions to trusts/firms/societies in 11 cases involving short levy of tax of ₹ 5 crore.

(Paragraph 4.4.2)

- ♦ Irregular allowance of depreciation and business losses in 11 cases involving short levy of tax of ₹ 5.5 crore.

(Paragraph 4.4.4)

- ◆ Incorrect computation of income in eight cases involving short levy of tax of ₹ 3.3 crore.

(Paragraph 4.5.1)

- ◆ Wealth not assessed to tax due to non-correlation of assessment records in 10 cases involving non-levy of Wealth Tax of ₹ 1.3 crore.

(Paragraph 4.10)

CHAPTER IV

A INCOME TAX

4.1 RESULTS OF AUDIT

4.1.1 This report includes 121 high value cases involving tax effect of ₹ 3,800.5 crore issued to the Ministry of Finance during August 2010 to November 2010 to elicit their comments.

4.1.2 The Ministry has replied in respect of 50 cases (41 *per cent*) accepting our observations in 46 cases involving aggregate revenue impact of ₹ 93 crore as of December 2010. Out of these, the Department effected recovery of ₹ 69.5 lakh in five cases, completed remedial action in 36 cases involving tax effect of ₹ 90 crore and initiated remedial action in five other cases involving tax effect of ₹ 2.3 crore. These 46 cases have been featured in paragraph 2.5.4, 2.5.5 and 2.5.6 of Chapter II of this Report. Replies of the Ministry wherever received, have been examined and suitably incorporated in the report.

4.1.3 This chapter discusses 75 cases, of which 64 cases involve undercharge of ₹ 3,396.7 crore and 11 cases involve overcharge of ₹ 310.8 crore. The errors in most of the assessments were committed despite clear provisions in the Act. These cases of incorrect assessment point towards weaknesses in the internal controls on the assessment process being exercised by the Income Tax Department.

4.1.4 The categories of mistakes have been broadly classified as follows:

- Errors and omissions in computation
- Ineligible concessions given to assessee
- Income not/under assessed
- Others

Chart 4.1: Categories of Mistakes



The category wise details are depicted in Chart 4.1. In terms of tax effect 99 *per cent* of the mistakes pertained to the 'Errors/Omissions in computation'. In the subsequent sections of this chapter, the first paragraph in each category indicates the nature of mistakes made by the Assessing Officer (AO). The four categories are further sub-divided and the sub-category wise description is also given. Interesting cases are illustrated in the subsequent paragraphs of this Chapter.

4.2 MISTAKES IN ASSESSMENT OF HIGH RISK ASSESSEES

We had pointed out in Para 1.8 of Audit Report no. 4 of 2009-10 that in 2008-09 out of ₹ 2 lakh crore that had remained uncollected, one group namely **Hassan Ali** alone accounted for ₹ 71,874 crore of uncollected demand. We found mistakes in assessments of the same group of high risk assessees. There were two cases of short levy of tax of ₹ 3,369.6 crore and three cases of overcharge of tax of ₹ 304.9 crore. The Department has taken remedial action in all the five cases.

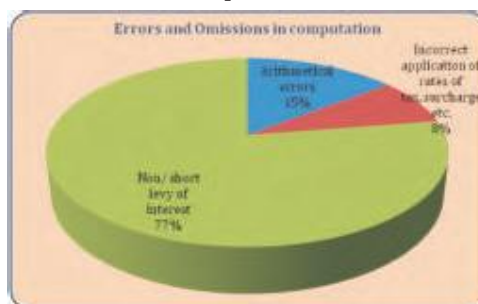
Hassan Ali Khan filed returns⁴⁸ in February 2007 consequent to search⁴⁹ action initiated against him. While computing his tax liability for the assessment years, the Department levied interest of ₹ 706.1 crore instead of ₹ 4,056 crore for default in furnishing of returns and of ₹ 10,033.3 crore instead of ₹ 9,756.9 crore for default in payment of advance tax. Further, while computing tax liability for the AY 2001-02, ₹ 69.5 crore was added back instead of ₹ 69.5 lakh on account of commission income and consulting fees earned by assessee. These mistakes resulted in short levy of interest of ₹ 3,349.9 crore under section 234A; excess levy of interest of ₹ 276.4 crore under section 234B and excess levy of tax of ₹ 24.1 crore respectively.

4.3 ERRORS/OMISSIONS IN COMPUTATION

In a scrutiny assessment the AO is required to make a correct assessment of the total income or loss of the assessee and determine correct amount of tax or refunds, as the case may be.

We found that there were cases where the AOs adopted incorrect figures, committed arithmetical errors, applied incorrect rates of tax and surcharge in 25 cases involving tax effect of ₹ 11 crore

Chart 4.2: Errors and Omissions in computation



in Delhi, Gujarat, Haryana, Madhya Pradesh, Maharashtra and Uttar Pradesh. Out of these 25 cases there was short levy of tax of ₹ 5.1 crore in 17 cases and overcharge of tax of ₹ 5.9 crore in eight cases. The sub-category wise details (based on tax effect) are depicted in Chart 4.2. Three sub-categories are discussed below:

⁴⁸ for the AYs 2001-02, 2002-03, 2003-04, 2005-06 and 2006-07.

⁴⁹ The search action revealed that the assessee had not filed returns of income of AYs 2001-02, 2002-03, 2003-04, 2005-06 and 2006-07. Consequent to notice issued under section 153A in February 2007, the assessee filed all the returns in May 2007. The assessment for above years was completed under section 153A r.w.s. 143(3) in December 2008 determining taxable income of ₹ 528.9 crore, ₹ 54,04.7 crore, ₹ 2,443.5 crore, ₹ 10,494.9 crore and ₹ 54,268.6 crore for AYs 2001-02, 2002-03, 2003-04, 2005-06 and 2006-07 respectively.

4.3.1 ARITHMETICAL ERRORS IN COMPUTATION OF INCOME AND TAX

We found arithmetical errors in computation of income and tax in six cases involving tax effect of ₹ 1.6 crore in Delhi, Madhya Pradesh, Maharashtra and Uttar Pradesh. There were three cases with short levy of tax of ₹ 69.5 lakh and three cases with overcharge of tax of ₹ 89.7 lakh. Details of these cases have been sent to the Ministry.

4.3.2 APPLICATION OF INCORRECT RATES OF TAX AND SURCHARGE

We found mistakes relating to incorrect application of rates of tax and surcharge in five cases involving tax effect of ₹ 88 lakh in Delhi, Gujarat, Maharashtra and Uttar Pradesh. Of these, there were four cases with short levy of tax of ₹ 81.9 lakh and one case of overcharge of tax of ₹ 6.1 lakh. Two cases are illustrated below.

A. CHARGE: CIT, CENTRAL-II, DELHI; AY 2005-06

As per section 4 of the Act, income tax shall be charged at the prescribed rates.

In the case of **Dr. Naresh Trehan**⁵⁰ surcharge and education cess were levied at 2.5 and 2 *per cent* respectively instead of the correct rate of 10 and 2 *per cent* respectively as applicable to individuals. The mistake resulted in short levy of tax of ₹ 34.5 lakh including interest.

B. CHARGE: CIT, GORAKHPUR; AY 2006-07

While computing tax liability of **Sahara State**⁵¹, an Association of Persons, surcharge at the rate of ten *per cent* was not levied on tax of ₹ 1.7 crore. The omission resulted in short levy of tax of ₹ 23 lakh including interest.

4.3.3 MISTAKES IN LEVY OF INTEREST

We found ten cases involving short levy of tax of ₹ 3.6 crore and four cases involving overcharge of tax of ₹ 5 crore relating to mistakes in levy of interest for delay in submission of return, delay in payment of tax etc. in Delhi, Gujarat, Haryana, Maharashtra and Uttar Pradesh. Two cases are illustrated below:

⁵⁰ Income of ₹ 11.4 crore assessed in December 2007.

⁵¹ Income of ₹ 5.7 crore assessed in December 2008.

A. CHARGE: CIT, CENTRAL-I, AHMEDABAD; AY 2004-05

Section 234A provides that where a return of income is furnished after the due date or is not furnished interest is to be levied at the specified rates.

While computing tax liability of **Vikas A. Shah**⁵², the AO levied interest of ₹ 39.5 lakh instead of ₹ 2.6 crore for default in furnishing return of income. The mistake resulted in short levy of interest of ₹ 2.2 crore.

B. CHARGE: CIT, CENTRAL-I, MUMBAI; AY 2007-08

Section 234C provides for levy of interest for default in payment of advance tax at the prescribed rates.

The AO did not levy interest of ₹ 31.4 lakh under section 234C although the same was computed by **Sanjiv R. Sheth**⁵³ assessee in the return of income. The mistake resulted in short levy of interest of ₹ 5.1 lakh under section 234B and non levy of interest of ₹ 31.4 lakh under section 234C.

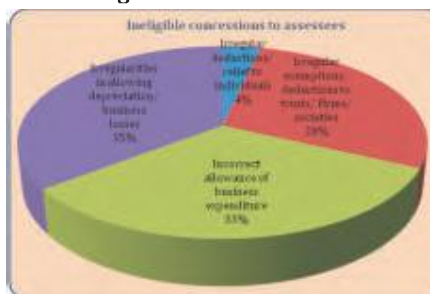
4.4 INELIGIBLE CONCESSIONS GIVEN TO ASSESSEES

An assessee can claim deductions under Chapter VIA of the Act and for certain categories of expenditure under relevant provisions of the Act.

Ineligible concessions and deductions were given to assesseees in 32 cases with a tax effect of ₹ 16.3 crore in Chattisgarh, Delhi, Gujarat, Haryana, Himachal Pradesh, Karnataka, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Uttar

Chart 4.3: Ineligible concessions to assesseees

Pradesh and West Bengal. The sub-category wise details (based on tax effect) are depicted in Chart 4.3. Four sub-categories are discussed below:



4.4.1 INCORRECT ALLOWANCE OF EXPENDITURE

We noticed mistakes in allowance of expenditure in nine cases resulting in short levy of tax of ₹ 5.6 crore in Chattisgarh, Delhi, Gujarat, Haryana, Himachal Pradesh, Punjab and West Bengal. One such case is illustrated below:

⁵² Income of ₹ 29.9 crore assessed in December 2006.

⁵³ Income of ₹ 25.5 crore assessed in March 2009.

CHARGE: CIT-XII, DELHI; AY 2005-06

Section 40A(3) read with Rule 6DD provides that if payment in excess of Rs. 20,000 incurred by assessee is made otherwise than by account payee cheque or bank draft, 100 per cent (20 per cent upto AY 2007-08) of such expenditure is not allowable as deduction.

Continental Carriers of India⁵⁴, a firm, incurred expenditure of ₹ 47.5 crore on account of 'lorry hire' which was paid in cash. The fact was also reported in Form 3CD. Despite this ₹ 9.5 crore, being one-fifth of total cash payment, was not disallowed. The mistake resulted in short

levy of tax of ₹ 3.8 crore.

4.4.2 IRREGULAR ALLOWANCE OF EXEMPTIONS AND DEDUCTIONS TO TRUSTS/FIRMS/SOCIETIES

Irregular allowance of exemptions under sections 10(20), 10(23B) and 11 of the Act and incorrect allowance of deductions under sections 80IA, 80IB and 80HHC of the Act resulted in short levy of tax of ₹ 5 crore in 11 cases in Haryana, Karnataka, Maharashtra, Rajasthan, Tamil Nadu and Uttar Pradesh. One such case is illustrated below:

CHARGE: CIT-II TRICHY; AY 2004-05

Section 10(20) of the Act exempts the income of a local authority from charge of tax. Panchayat, Municipality, Municipal Committee and District Board fall within the meaning of local authority for the purposes of this clause.

Thanjavur Market Committee⁵⁵, an Association of Persons, was allowed exemption of ₹ 2.4 crore under section 10(20) against net profit of ₹ 1.6 crore. As the assessee is a market committee⁵⁶ which does not fall within the meaning of local authority, it was ineligible for claiming exemption under section 10(20). The mistake

resulted in underassessment of income of ₹ 1.6 crore and incorrect allowance of set off of brought forward losses of ₹ 82.2 lakh involving short levy of tax of ₹ 86.5 lakh and potential tax effect of ₹ 27.1 lakh.

4.4.3 INCORRECT ALLOWANCE OF DEDUCTIONS TO INDIVIDUALS

The AO committed mistake in allowance of deduction to individual in one case resulting in short levy of tax of ₹ 25 lakh in West Bengal. The case is illustrated below:

⁵⁴ Income of ₹ 47.9 lakh assessed in January 2007.

⁵⁵ Net profit was a positive income of ₹ 1.6 crore and after allowing exemption of ₹ 2.4 crore, income was assessed as 'nil' in December 2006.

⁵⁶ It has been judicially held, in the case of Agricultural Produce Market Committee vs CIT, reported in 305 ITR 1 (SC), that agricultural market committee is not entitled to exemption under section 10(20) of the Act.

CHARGE: CIT-XII KOLKATA; AY 2006-07

An assessee can claim rebate under section 88E (applicable for AYs 2005-06 to 2008-09) in respect of securities transaction tax (STT). The quantum of rebate is equal to STT paid and is limited to the amount of income tax on income arising from taxable securities transactions calculated by applying average rate of income tax.

Kedar Nath Agarwal⁵⁷ was allowed rebate of ₹ 81 lakh under section 88E based on STT paid of ₹ 92.5 lakh. He had business profits⁵⁸ of ₹ 2.2 crore from share dealing, thus rebate⁵⁹ of ₹ 64 lakh only was allowable to him. The incorrect allowance of rebate resulted in short levy of tax of ₹ 25 lakh including interest.

4.4.4 IRREGULAR ALLOWANCE OF DEPRECIATION AND BUSINESS LOSSES

Irregular allowance of depreciation and business losses in 11 cases resulted in short levy of tax of ₹ 5.5 crore in Delhi, Gujarat, Punjab, Rajasthan and West Bengal. Two cases are illustrated below:

A. CHARGE: CIT-XIII DELHI; AY 2004-05

Additional depreciation of 15 per cent is admissible in case of any new machinery or plant acquired and installed after 31 March 2002 by an assessee engaged in the business of manufacture or production of any article or thing.

BSC-C and C Joint Venture⁶⁰, an Association of Persons, was allowed depreciation of ₹ 10.8 crore and ₹ 4.1 crore at 40 per cent including additional depreciation at 15 per cent on plant and machinery and trippers⁶¹. As the assessee is not engaged in manufacture and production of any article or thing it was not eligible to claim additional depreciation. The mistake resulted in incorrect allowance of depreciation of ₹ 5.6 crore involving short levy of tax of ₹ 2.9 crore including interest.

B. CHARGE: CIT-IX, DELHI; AY 2005-06

Section 72 allows carry forward and set-off of net loss of a year against profits, if any, of the next eight assessment years.

Sudhir Sekhri⁶² was allowed to set off brought forward losses of earlier

⁵⁷ Income of ₹ 3.1 crore assessed in November 2008.

⁵⁸ Gross receipts of ₹ 2.7 crore from share dealing less expenditure of ₹ 59 lakh relating to the same. The gross receipts of ₹ 2.7 crore included amount of STT paid of ₹ 92.5 lakh, the expenditure related to which was not disallowed in the scrutiny assessment completed in November 2008.

⁵⁹ Rebate under section 88E ($\frac{\text{Business income} \times \text{Total tax}}{\text{Total income}}$) = $\frac{₹ 2.2 \text{ crore} \times ₹ 92.9 \text{ lakh}}{₹ 3.1 \text{ crore}}$ = ₹ 64 lakh

⁶⁰ Income of ₹ 13.5 crore assessed in December 2006.

⁶¹ The admissible rate of depreciation on plant and machinery and trippers is 25 per cent. Besides, additional depreciation of 15 per cent is allowed as deduction where such machinery or plant has been acquired and installed after 31 March 2002 by any industrial undertaking engaged in manufacture or production of any article or thing.

⁶² Income of ₹ 1.4 crore assessed in September 2007.

years of ₹ 1.8 crore although there were no brought forward losses available in the AY 2005-06 for set-off. The mistake resulted in short levy of tax of ₹ 80.3 lakh including interest.

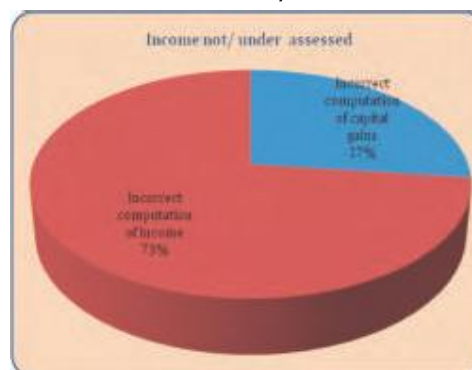
4.5 INCOME NOT/UNDER ASSESSED

The total income of a person for any previous year shall include all incomes from whatever source derived; actually received or accrued or deemed to be received or accrued.

Orissa, Punjab, Tamil Nadu and West Bengal. The sub-category wise details (based on tax effect) are depicted in Chart 4.4. Three sub-categories are discussed below:

Income was under assessed in 11 cases involving tax effect of ₹ 4.5 crore in Delhi, Jharkhand,

Chart 4.4: Income not/under assessed



4.5.1 INCORRECT COMPUTATION OF INCOME

The AOs committed mistakes in computation of income in eight cases resulting in short levy of tax of ₹ 3.3 crore in Delhi, Jharkhand, Orissa, Tamil Nadu and West Bengal. Two cases are illustrated below:

A. CHARGE: CIT-III, COIMBATORE; AY 2004-05, 2005-06

As per section 143(3) the AOs are required to make a correct assessment of the total income or loss of the assessee and determine correct amount of tax or refunds.

G. B. Sundararajan⁶³ offered remuneration of ₹ 9.6 lakh and ₹ 1.3 crore for AYs 2004-05 and 2005-06 respectively whereas, as per the statement of accounts of M/s Suguna Poultry Farm Ltd., of which the assessee is Joint Managing Director, he had

received remuneration of ₹ 1.2 crore and ₹ 1.8 crore for AYs 2004-05 and 2005-06 respectively. Thus remuneration of ₹ 1.6 crore escaped assessment resulting in short levy of tax of ₹ 51.7 lakh.

B. CHARGE: CIT, CUTTACK; AY 2005-06

Anil Kumar Agarwal⁶⁴ exhibited total sales of ₹ 3.4 crore whereas in the assessment order of the Sales Tax Department the total sales were assessed as ₹ 4.3 crore. The difference in sales of ₹ 95.4 lakh escaped assessment resulting in short levy of tax of ₹ 44.5 lakh.

⁶³ Income of ₹ 17.3 lakh and ₹ 1.3 crore assessed in November 2006 and March 2007 for AYs 2004-05 and 2005-06 respectively.

⁶⁴ Income of ₹ 12.8 lakh assessed in December 2007.

4.5.2 INCORRECT COMPUTATION OF CAPITAL GAINS

We noticed mistakes in three cases in computation of capital gains resulting in short levy of tax of ₹ 1.2 crore in Punjab and Tamil Nadu. One case is illustrated below:

CHARGE: CIT-II, COIMBATORE; AY 2006-07

Section 50C provides that any gains arising from transfer of land and building shall be taxed under the head capital gains. If the sale consideration is less than the value adopted or assessed by the Stamp Duty Authority for the purpose of payment of stamp duty in respect of such transfer, the value so adopted or assessed shall be taken as 'full value of consideration' for the purpose of computation of capital gains.

Shanthi Selvaraj and her husband **S.**

Sambasivam⁶⁵ received sale consideration of ₹ 89.7 lakh on sale of land⁶⁶ at Ooty, and individually offered their share out of ₹ 44.9 lakh towards long term capital gains. We found that the value of the land as per the Stamp Valuation

Authority's guideline rates

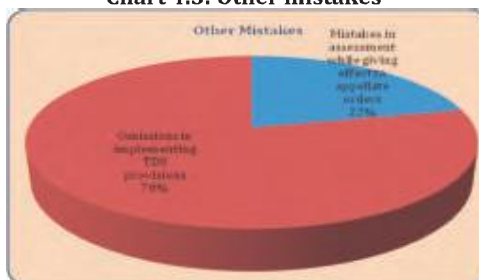
was ₹ 4.6 crore⁶⁷ which was greater than the sale consideration declared by them. Thus the incorrect adoption of sale value of land resulted in short computation of long term capital gains of ₹ 3.7 crore involving tax impact of ₹ 83 lakh.

4.6 OTHERS

The issues relating to mistakes in assessments while giving effect to appellate orders and omissions in implementing provisions are discussed in this category.

Other mistakes namely, mistake in assessment while giving effect to the appellate order and mistake in

Chart 4.5: Other mistakes



implementation of provisions of tax deduction at source (TDS) resulted in short levy of tax of ₹ 1.2 crore in two cases in Delhi and Gujarat. The sub-category wise details (based on tax effect) are depicted in Chart 4.5. Two sub-categories are discussed below:

4.6.1 OMISSIONS IN IMPLEMENTING PROVISIONS OF TDS

Omission in implementation of provisions of TDS in one case resulted in short levy of tax of ₹ 90 lakh in Delhi.

⁶⁵ Income of ₹ 25.1 lakh assessed under Long Term Capital Gains in October 2007 for each assessee.

⁶⁶ 5.97 acres of land sold at the rate of ₹ 34.49 per square feet with conversion rate as 1 acre = 43561.311 square feet.

⁶⁷ ₹ 177*5.97acres*43561.311 square feet where the guideline rate was ₹ 177 per square feet.

4.6.2 MISTAKES IN ASSESSMENT OF FIRMS WHILE GIVING EFFECT TO APPELLATE ORDERS

The AO committed a mistake in assessment of a firm while giving effect to the appellate order in one case resulting in short levy of tax of ₹ 30 lakh in Gujarat.

B FRINGE BENEFIT TAX

4.7 RESULTS OF AUDIT

4.7.1 We reported 15 cases involving tax effect of ₹ 4.6 crore to the Ministry during August 2010 to November 2010 to elicit their comments.

4.7.2 The Ministry has replied in respect of 14 cases (93 *per cent*) accepting our observations in 12 cases involving aggregate revenue impact of ₹ 4 crore. Out of these, the Department took remedial action in all 12 cases. These 12 cases have been featured in paragraph 2.5.5 of Chapter II of this report.

4.7.3 Out of 15 cases issued to the Ministry, three cases involving short levy of Fringe Benefit Tax (FBT) of ₹ 59.6 lakh have been included in this chapter.

4.8 MISTAKES IN COMPUTATION OF FRINGE BENEFIT

Non-compliance with the provisions related to FBT resulted in short levy of FBT aggregating ₹ 59.6 lakh in three cases in West Bengal. One case is illustrated below:

CHARGE: CIT CENTRAL-I, KOLKATA; AY 2006-07

Section 115WE(3) of the Act provides that the AO shall make an assessment of the value of fringe benefits paid or payable by the assessee after taking into account all the relevant material gathered therefor.

While determining fringe benefit liability of **Allied Resins and Chemicals Ltd.**⁶⁸, the AO did not levy FBT on several⁶⁹ expenses incurred by the assessee amounting to ₹ 97.6 lakh. The mistake resulted in underassessment of fringe benefit of ₹ 25 lakh involving short levy of Fringe Benefit Tax of ₹ 10.5 lakh including interest.

⁶⁸ Fringe Benefit determined as 'nil' in December 2008.

⁶⁹ Expenses incurred on account of contribution to pension fund, staff welfare expense, travelling and conveyance expenses, telephone expenses, motor vehicle expenses and depreciation on motor vehicle.

C WEALTH TAX

4.9 RESULTS OF AUDIT

4.9.1 We reported 29 cases involving tax effect of ₹ 1.6 crore to the Ministry during August 2010 to November 2010 to elicit their comments.

4.9.2 The Ministry has replied in respect of 21 cases (72 per cent) accepting 19 cases⁷⁰ involving aggregate revenue impact of ₹ 30.7 lakh. Out of these 19 cases, the Department effected recovery of ₹ 6.5 lakh in five cases and completed remedial action in 14 other cases involving tax effect of ₹ 24.2 lakh. These 19 cases have been featured in paragraphs 2.5.4 and 2.5.5 of Chapter II of this report.

4.9.3 Out of 29 cases issued to the Ministry, ten cases involving revenue impact of ₹ 1.3 crore have been included in this chapter.

4.10 NON-CORRELATION OF ASSESSMENT RECORDS

Non-compliance with the Board's instructions⁷¹ resulted in non-levy of wealth tax aggregating ₹ 1.3 crore in ten cases in Andhra Pradesh, Bihar, Delhi, Goa, Gujarat, Maharashtra and West Bengal. Two cases are illustrated below.

A. CHARGE: CIT PANAJI, GOA; AY 2001-02 to 2005-06

The Board issued instructions to the AOs to ensure coordination between assessments pertaining to different direct taxes and for simultaneous disposal of wealth tax and income tax assessment cases to prevent tax evasion. The charge of the wealth tax is on the assets net of liabilities.

EDC Ltd made a provision of ₹ 38.4 lakh towards wealth tax in its annual accounts relating to AY 2003-04. Although the assessee was in possession of assets liable to be taxed as wealth, it did not file wealth tax returns for the relevant years. The AO did not initiate any wealth tax proceedings for the AYs 2001-02 to 2005-06. The omission resulted in non-levy of wealth tax of ₹ 1.1 crore including interest.

⁷⁰ The Ministry has not accepted the audit observation in two summarily processed cases involving tax effect of ₹ 2.2 lakh as a matter of principle citing the Assessing Officers' limitations. However, remedial action has been taken without contesting the facts of the cases.

⁷¹ CBDT's instructions issued to the AOs in November 1973, April 1979 and September 1984.

B. CHARGE: CIT CENTRAL-I, DELHI; AY 2005-06

As per section 2(ea)(ii) of the Wealth Tax Act assets liable to be taxed as wealth include motor cars.

Jagrit Khaitan⁷² had motor cars worth ₹ 4.8 crore liable to be taxed as wealth. However, neither did the assessee file the return of wealth nor did the AO initiate any wealth tax proceedings to call for the same. The omission resulted in non-levy of wealth tax of ₹ 5.8 lakh including interest.

New Delhi
Dated:



(MEENAKSHI GUPTA)
Director General
(Direct Taxes)

Countersigned

New Delhi
Dated:



(VINOD RAI)
Comptroller and Auditor General of India

⁷² The income tax assessment of the assessee for the AY 2005-06 was completed under section 144 (Best judgement) determining income of ₹ 5.8 lakh in December 2007.

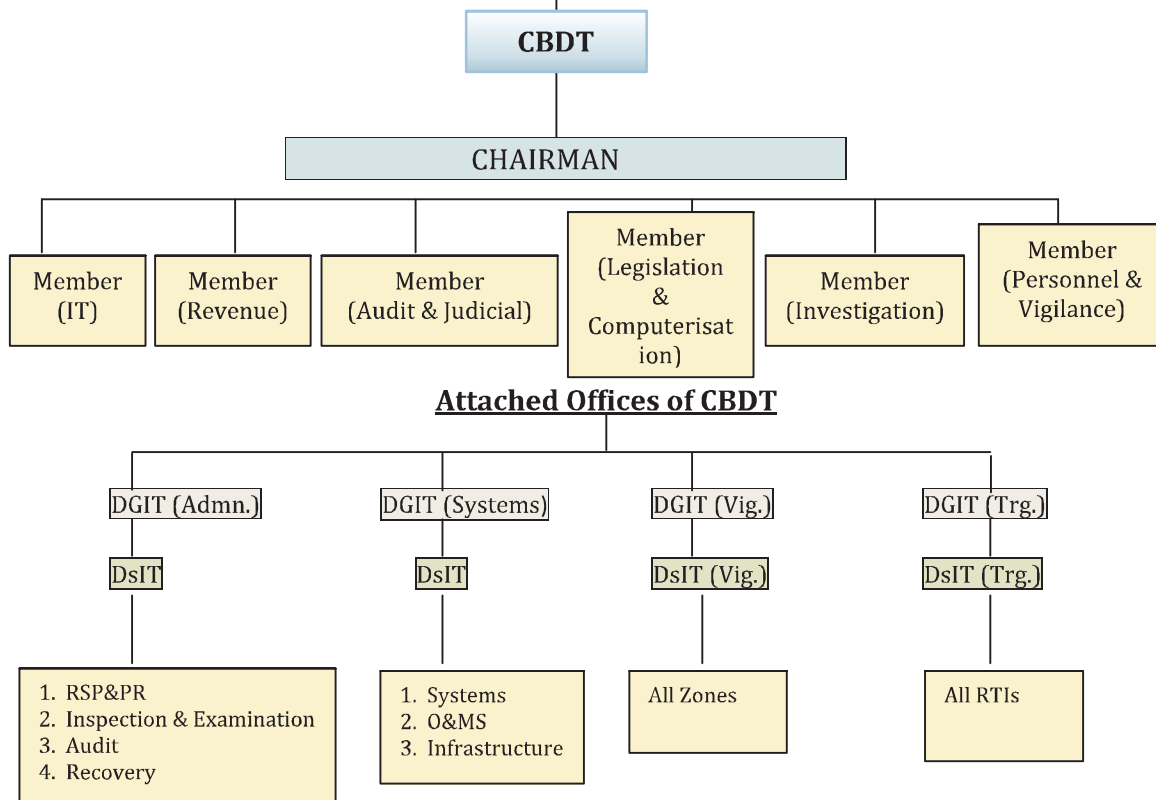
APPENDICES

Chapter I

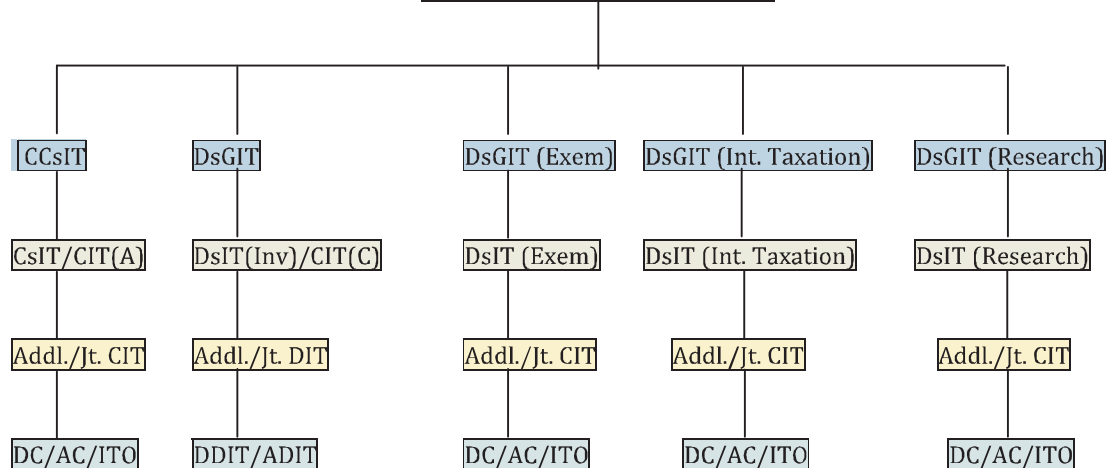
Tax Administration

Appendix 1 (Reference: Paragraph 1.2)

Organisational set up of the Income Tax Department



Field Formations of CBDT



Appendix - 2
(Reference: paragraph 1.2)

Details of Tax Administration					
	2005-06	2006-07	2007-08	2008-09	2009-10 (₹ in crore)
1. Collection⁷³					
i) Corporation Tax	1,24,837	1,74,935	2,23,941	2,42,304	2,88,162
ii) Income Tax	62,457	81,697	1,12,910	1,16,225	1,36,551 ⁷⁴
iii) Other Taxes	7,954	10,784	16,647	14,386	10,451
iv) Gross Collection	1,95,248	2,67,416	3,53,498	3,72,915	4,35,164
v) Refunds	30,032	37,235	41,285	39,097	57,101
vi) Net Collection	1,65,216	2,30,181	3,12,213	3,33,818	3,78,063
vii) Refunds as % of gross collection	15.4	13.9	11.7	10.5	13.1
viii) GDP ⁷⁵	35,80,344	41,45,810	47,13,148	53,21,753	62,31,171
ix) Tax-GDP Ratio	4.6	5.6	6.6	6.3	6.1
x) Buoyancy ⁷⁶	1.7	2.5	2.6	0.5	0.8
2. Assessee profile⁷⁷					(No. in lakh)
i) Non-corporate assessees	294.0	308.9	331.7	323.2	337.2
ii) Corporate assessees	3.9	4.0	4.9	3.3	3.7
Total assessees	297.9	312.9	336.6	326.5	340.9
3. Filing gap⁷⁸					(No. in lakh)
i) No. of PAN card holders ⁷⁹	440.0	519.5	648.5	807.9	958.0
ii) No. of returns filed	297.9	312.9	336.6	326.5	340.9
iii) Filing gap	142.1	206.6	311.9	481.4	617.1
4. Stages of collection					(₹ in crore)
Pre-assessment collection					
i) Tax deducted at source	53,838	70,689	1,04,741	1,28,230	1,45,736
ii) Advance tax	84,752	1,21,227	1,58,120	1,43,332	1,73,417
iii) Self assessment tax	11,618	13,825	21,125	30,779	32,507
Total	1,50,208	2,05,741	2,83,986	3,02,341	3,51,660
Post-assessment collection					
i) Regular assessment	22,112	30,396	25,720	21,337	33,274
ii) Other receipts	14,974	20,495	27,145	34,851	39,779
Total	37,086	50,891	52,865	56,188	73,053
Pre-assessment collection as % of gross collection (minus other direct taxes)	80.2	80.2	84.3	84.3	82.8
5. Position of scrutiny assessments⁷⁷					(Number)
i) Assessments due for disposal	4,25,225	5,27,005	9,97,813	9,53,767	8,70,620
ii) Assessments completed (%)	2,30,698 (54.3)	2,41,983 (45.9)	4,07,239 (40.8)	5,38,505 (56.5)	4,29,585 (49.3)
iii) No. of officers deployed for assessment duty ⁷⁷	3,801	3,954	3,218	3,106	3,605

⁷³ Source: Tax collection figures, – Pr. Chief Controller of Accounts, CBDT, New Delhi.

⁷⁴ This differs from the figure of ₹ 1,36,081 crore reflected in the Finance Accounts.

⁷⁵ Source: GDP – Central Statistics Office, Press release dated 31 May 2010.

⁷⁶ Tax buoyancy is measured by the ratio of percentage change in tax revenues to percentage change in GDP.

⁷⁷ Source : Directorate of Income Tax (Legal & Research), Research & Statistics Wing.

⁷⁸ Every individual or Hindu undivided family or an association of person or body of individuals, if their total income exceeded ₹ 1.60 lakh for the assessment year 2010-11 shall furnish the return of their income. In case of every company or firm shall furnish return of income or loss for every previous year.

⁷⁹ Source: Directorate of Income Tax (Systems), New Delhi

	2005-06	2006-07	2007-08	2008-09	2009-10 (Number in lakh)
6. Direct refund cases⁷⁷					
i) Claims due for disposal	25.3	18.0	27.1	42.2	48.0
ii) Claims disposed off (%)	19.6 (77.5)	13.6 (75.6)	18.8 (69.4)	26.7 (63.3)	28.6 (59.6)
iii) No. of claims pending	5.7	4.4	8.3	15.5	19.4
7. Interest on refunds⁷⁷					(₹ in crore)
i) Total Collection in r/o CT and IT	1,87,294	2,56,632	3,36,851	3,58,529	4,24,713
ii) Refunds including interest	30,032	37,235	41,285	39,097	57,10
ii) Interest on refunds	4,575	3,693	4,444	5,778	12,951
(iv) Refunds as % of gross collection	16.03	14.51	12.26	10.90	13.44
(v) Interest as % of refunds	15.2	9.9	10.8	14.8	22.7
8. Efficiency of collection⁸⁰					(₹ in crore)
i) Demand of earlier year's pending collection	58,385	86,203	86,859	93,344	1,81,612
ii) Current year's demand pending collection	37,002	31,167	37,415	1,07,932	47,420
Total demand pending	95,387	1,17,370	1,24,274	2,01,276	2,29,032
Net collection	1,65,216	2,30,181	3,12,213	3,33,818	3,78,063
9. Position of appeals at CIT(A) levels⁷⁷	2005-06	2006-07	2007-08	2008-09	2009-10 (Number)
i) Appeals due for disposal	1,34,919	1,75,201	1,94,003	2,24,382	2,60,700
ii) Appeals disposed off (%)	70,794 (52.5)	67,360 (38.5)	63,645 (32.8)	66,351 (29.6)	79,709 (30.6)
10. Tax Recovery Officers⁷⁷					(₹ in crore)
i) Total certified demand	31,642.4	35,225.3	36,057.5	31,496.8	98,444.6
ii) Certified demand recovered (%)	4,433.0 (14.0)	8,521.4 (24.2)	8,612.6 (23.9)	4,035.8 (12.8)	3,322.3 (3.4)
iii) Certified Demand pending (%)	27,209.4 (86.0)	26,703.9 (75.8)	27,444.9 (76.1)	27,461.0 (87.2)	95,122.4 (96.6)
11. Cost of collection⁷³					(₹ in crore)
i) Net collection	1,65,216	2,30,181	3,12,213	3,33,818	3,78,063
ii) Total cost of collection (%)	1,240 (0.7)	1,343 (0.6)	1,713 (0.5)	2,286 (0.7)	2,774 (0.7)

⁸⁰ Source: CAPI Demand & Collection Statement along with Analysis for the month of March 2010

Appendix – 3
(Reference: paragraph 1.3)

States	State/UT wise break up of Direct taxes										(2009-10)	
	0020 Corpn tax	0021 Income Tax	0023 Hotel Rect Tax	0024 Interest Tax	0026 Fringe Ben. Tax	0028 Expdr Tax	0031 Estate Duty	0032 Wealth Tax	0033 Gift Tax	0034 Sec. Trans Tax	0036 Ban. Cash Tran. Tax	Total
Andhra Pradesh	5,336.77	3,983.21	0.01	0.38	107.6	1.73	0	12.78	0.03	7.56	2.23	9,452.3
Arunachal Pradesh	0	0	0	0	0	0	0	0	0	0	0	0
Assam	77.02	403.3	0.01	0.04	1.61	-86.14	0	0.98	0	0	0.01	396.83
Bihar	61.73	703.41	0	0.21	1.73	0.01	0	0.16	0	0	0.07	767.32
Chhattisgarh	182.42	7.07	0	0	0.01	0.01	0.91	0	0	2.24	0	192.66
Delhi	17,642.65	11,905.65	0	0.77	293.28	0.83	0.06	60.86	0.21	20.08	0	29,924.39
Goa	60.04	289.54	0	0	2.82	0	0	1.82	0	0	0.01	354.23
Gujarat	4,187.16	3,697.13	0.04	0.22	66.7	0.74	0.04	21.17	-0.06	0.01	2.7	7,975.85
Haryana	361.97	1,402.08	0	0.06	10.03	0.14	0	2.54	0.05	0	0.03	1,776.90
Himachal Pradesh	76.8	209.61	0	0.02	1.31	0.18	0	0.11	0	0	0.01	288.04
Jammu & Kashmir	374.65	264.28	0	0.01	1.31	0	0	0.53	0	0	0	640.78
Jharkhand	82.09	512.1	0	0.03	3.05	0.06	0	0.55	0	0	0.01	597.89
Karnataka	73,550.28	15,432.79	0.24	0.24	381.31	13.83	0.01	77.37	0.08	8.74	20.14	89,485.03
Kerala	549.86	1,333.97	0.01	0.08	21.95	0.19	0	3.21	0.01	0	0.02	1,909.30
Madhya Pradesh	1,037.24	1,913.64	-0.01	0.01	0.01	0	4.52	0	0.01	27.86	1.16	2,984.44
Maharashtra	1,07,711.36	48,657.08	1.49	0.63	973.77	3.57	0.05	197.37	0.35	7,357.16	203.86	1,65,106.69
Manipur	11.89	15.95	0	0	0	0	0	0	0	0	0	27.84
Meghalaya	2.57	2.8	0	0	0	0	0	0.04	0	0	0	5.41
Mizoram	0	0.3	0	0	0	0	0	0	0	0	0	0.3
Nagaland	0.02	0.01	0	0	0	0	0	0	0	0	0	0.03
Orissa	1,028.15	754.81	0.01	0	4.61	0.01	0.01	0.42	0	0	0.03	1,788.05
Punjab	-20.68	1,130.05	0.03	0.03	7.37	0.61	0.01	4.54	0.01	0	0.04	1,122.01
Rajasthan	1,048.43	1,486.94	0	0.07	52.37	0.1	0	4.89	0	0	1.27	2,594.07
Sikkim	0.07	0.89	0	0	0.02	0	0	0	0	0	0	0.98
Tamil Nadu	6,072.64	6,045.86	0.53	0.2	110.22	0.61	0	29.09	0.23	0.04	4.51	12,263.93
Tripura	26.39	28.56	0	0	0	0	0	0.09	0	0	0	55.04
Uttar Pradesh	766	3,131.64	0	0.19	22.36	0.21	0.01	8.27	0	0	0.63	3,929.31
Uttarakhand	39.3	91.7	0	0	0	0	0	0	0	0	0	131
West Bengal	24,020.4	1,1796.6	0.03	0.21	257	0.73	0.02	71.36	0.06	0.57	9.93	36,156.91
Total (i)	2,44,287.22	1,15,200.97	2.39	3.4	2,320.44	-62.58	5.64	498.15	0.98	7,424.26	246.66	3,69,927.53

(₹ in crore)

States	State/UT wise break up of Direct taxes										(2009-10)	
	0020 Corpn tax	0021 Income Tax	0023 Hotel Rect Tax	0024 Interest Tax	0026 Fringe Ben. Tax	0028 Expdr	0031 Estate Duty	0032 Wealth Tax	0033 Gift Tax	0034 Sec. Trans Tax	0036 Ban. Cash Tran. Tax	Total
Union Territories												
Andaman and Nicobar Islands	4.72	6.45	0.06	0	0.12	0	0	0.07	0	0	0	11.42
Chandigarh	177.12	380.48	0.05	0.21	7.39	0.33	0	0.87	0.01	0	0.08	566.54
Daman and Diu	14.85	30.28	0	0	0	0	0	0	0	0	0	45.13
Dadra and N.Haveli	0	0	0	0	0	0	0	0	0	0	0	0
Puducherry	61.61	71.97	0	0	2.14	0.01	0.42	0	0	0	0	136.15
Lakshadweep & Silvassa	4.98	21.36	0	0	0	0	0	0	0	0	0	26.34
Total (i)	263.28	510.54	0.11	0.21	9.65	0.34	0.42	0.94	0.01	0	0.08	785.58
Total (i) & (ii)	2,44,550.5	1,15,711.51	2.5	3.61	2,330.09	-62.24	6.06	499.09	0.99	7,424.26	246.74	3,70,713.11
CTDS (Prov)	174.57	7175.63	0	0	0	0	0	0	0	0	0	7,350.2
Grand Total	2,44,725.07	1,22,887.14	2.5	3.61	2,330.09	-62.24	6.06	499.09	0.99	7,424.26	246.74	3,78,063.31

Appendix 4

(Reference: Paragraph 1.5)

Sl. no	State	Net collection				Net State Domestic Product (NSDP)			Growth collection (%) in		Growth in NSDP (%)	
		2007-08	2008-09	2009-10		2007-08	2008-09	2009-10	In 08-09 in respect of 07-08	In 09-10 in r/o 08-09	In 08-09 in r/o 07-08	In 09-10 in r/o 08-09
		3	4	5	6	7	8		9=(col.4-col.3/col.3)x100	10=(col.5-col.4/col.4)x100	11=(col.7-col.6/col.6)x100	12=(col.8-col.7/col.7)x100
1	Andhra Pradesh	13,835.7	8,743.9	9,452.3	2,92,097.8	338907.1	368737.0		(-) 36.8	8.1	16.0	8.8
2	Arunachal Pradesh	8.6	13.8	0	3,450.3	4016.2	NA		60.5	-	16.4	NA
3	Assam	1,623.4	-596.6	396.8	64,395.5	71164.1	78822.5		(-) 136.8	166.5	10.5	10.8
4	Bihar	791.4	491.1	767.3	1,03,064.0	129081.6	140456.7		(-) 37.9	56.2	25.2	8.8
5	Chhattisgarh	1,891.7	-31.9	192.7	70,272.5	83103.6	94408.3		(-) 101.7	704.1	18.3	13.6
6	Delhi	45,955.0	35,329.2	29,924.4	1,32,052.0	152402.7	NA		(-) 23.1	(-) 15.3	15.4	NA
7	Goa	2,156.3	441.1	354.2	16,555.3	NA	NA		(-) 79.5	(-) 19.7	NA	NA
8	Gujarat	11,909.1	7,800.6	7,975.8	2,55,780.1	281265.8	NA		(-) 34.5	2.2	10.0	NA
9	Haryana	5,246.3	2,467.6	1,776.9	1,41,602.2	168321.8	193519.3		(-) 53.0	(-) 28.0	18.9	15.0
10	Himachal Pradesh	465.5	421.6	288.0	27,523.3	30922.6	34779.0		(-) 9.4	(-) 31.7	12.4	12.5
11	Jammu & Kashmir	533.3	517.2	640.8	27,099.9	NA	NA		(-) 3.0	23.9	NA	NA
12	Jharkhand	1,958.6	913.1	597.9	59,798.9	65334.4	NA		(-) 53.4	(-) 34.5	9.3	NA
13	Karnataka	30,706.9	77,588.7	89,485.0	2,11,662.5	240472.8	264651.9		152.7	15.3	13.6	10.1
14	Kerala	2,775.8	2,167.6	1,909.3	1,45,235.2	167468.8	NA		(-) 21.9	(-) 11.9	15.3	NA
15	Madhya Pradesh	3,556.2	2,466.0	2,984.4	1,30,721.8	150296.1	NA		(-) 30.7	21.0	15.0	NA
16	Maharashtra	1,29,353.9	1,41,667.3	1,65,106.7	5,26,500.0	597542.4	717630.5		9.5	16.5	13.5	20.1
17	Manipur	11.1	9.2	27.8	5,181.3	5623.4	NA		(-) 17.1	202.2	8.5	NA

Sl. no	State	Net collection			Net State Domestic Product (NSDP)			Growth in (%)		Growth in NSDP (%)	
		2007-08	2008-09	2009-10	2007-08	2008-09	2009-10	In 08-09 in respect of 07-08	In 09-10 in r/o 08-09	In 08-09 in r/o 07-08	In 09-10 in r/o 08-09
1	2	3	4	5	7	8	9	10=(col.4-col.3/col.3)x100	11=(col.5-col.4/col.4)x100	12=(col.8-col.7/col.7)x100	13=(col.9-col.8/col.8)x100
18	Meghalaya	206.7	115.7	5.4	7,506.3	8,580.1	NA	(-) 44.0	(-) 95.3	14.3	NA
19	Mizoram	0.2	0.1	0.3	2,957.3	3,261.6	NA	(-) 50.0	200	10.3	NA
20	Nagaland	11.2	5.0	0*	NA	NA	NA	(-) 55.4	-	NA	NA
21	Orissa	4,279.2	1,958.5	1,788.0	1,05,469.6	1,17,923.6	1,32,844.9	(-) 54.2	(-) 8.7	11.8	12.7
22	Punjab	2,584.5	1,536.2	1,122.0	1,28,302.6	1,48,008.2	1,73,992.6	(-) 40.6	(-) 27.0	15.4	17.6
23	Rajasthan	5,240.7	2,558.8	2,594.1	1,53,697.4	1,76,044.4	1,91,539.1	(-) 51.2	1.4	14.5	8.8
24	Sikkim	15.9	1.4	1.0	1,957.6	2,234.4	NA	(-) 91.2	(-) 28.6	14.1	NA
25	Tamil Nadu	18,010.3	12,225.9	12,263.9	2,68,667.1	2,99,119.3	NA	(-) 32.1	0.3	11.3	NA
26	Tripura	64.3	80.1	55.0	10,007.1	NA	NA	24.6	(-) 31.3	NA	NA
27	Uttar Pradesh	7,044.6	3,425.9	3,929.3	3,10,333.8	3,59,836.3	4,28,386.4	(-) 51.4	14.7	16.0	19.1
28	Uttarakhand	6,689.1	-266.0	131.0	31,079.0	35,048.4	NA	(-) 104.0	149.2	12.8	NA
29	West Bengal	12,028.6	27,503.1	36,156.9	2,77,868.8	3,17,837.4	NA	128.6	31.5	14.4	NA
30	A& N Islands	21.3	26.1	11.4	1,958.2	NA	NA	22.5	(-) 56.3	NA	NA
31	Chandigarh	1,053.9	674.6	566.5	13,198.7	15,286.6	17,753.6	(-) 36.0	(-) 16.0	15.8	16.1
32	Puducherry	143.9	168.8	136.2	9,200.5	10,459.6	11,577.8	17.3	(-) 19.3	13.7	10.7

* ₹ 3.02 lakh

Chapter 2

Audit Impact

Appendix-5
(Reference: Paragraph 2.4)

Audit observations and revenue effect in audit of scrutiny assessments

State	No. of assessments completed	No. of assessments checked in audit	No. of assessments with errors	Total revenue effect of the audit observations made in the scrutiny assessments (₹ in crore)	Percentage of assessments with errors (Col. 4/ Col. 3x100)
1	2	3	4	5	6
Andhra Pradesh	17,465	13,087	1,232	357.5	9
Assam	1,652	1,598	63	70.3	4
Bihar	2,566	2,181	162	14.4	7
Chhattisgarh	187	109	18	0.6	17
Goa	925	723	77	33.5	11
Gujarat	50,970	47,215	1,854	492.4	4
Haryana	7,824	7,100	542	113.0	8
Himachal Pradesh	1,291	1,063	223	3.1	21
Jharkhand	2,576	2,495	146	20.9	6
Jammu & Kashmir	146	104	11	0.9	11
Karnataka	25,225	20,361	436	203.7	2
Kerala	6,296	5,210	706	194.1	14
Madhya Pradesh	8,499	8,388	351	78.4	4
Orissa	4,243	3,468	290	460.8	8
Punjab	15,784	13,012	696	50.8	5
UT, Chandigarh	2,342	2,118	105	8.7	5
Rajasthan	18,843	15,515	631	108.2	4
Tamil Nadu	28,006	25,623	1,407	834.1	5
Uttar Pradesh	19,511	19,252	599	663.9	3
Uttaranchal	334	334	3	32.1	1
Delhi	47,782	36,873	1,411	2,530.7	4
Maharashtra	65,131	61,787	1,914	5,365.9	3
West Bengal	35,991	34,679	1,687	731.8	5
Total	3,63,587	3,22,295	14,564	12,369.8	4.5

Total demand raised during the assessments in 2008-09 = ₹ 56,188 crore

$$\text{Percentage of error (in terms of revenue)} = \frac{\text{₹ 12,369.8}}{\text{₹ 56,188}} = 22$$

Appendix-6

(Reference: Paragraph 2.4)

Details of establishment cost of statutory receipt audit			
Cadre	Working strength	Average of Pay Band+ Grade pay +DA	Total cost (₹ in crore) Column 2 x Column 3
1	2	3	4
Sr. Audit Officers	297	27,350+5,400+7,205	1.19
Asst. Audit Officers	419	22,050+4,800+5,907	1.37
Sr. Auditors	400	22,050+4,200+5,775	1.28
Total			3.84

I Total cost = ₹ 3.84 crore

II Total tax effect of cases audited in 2009-10 on which remedial action was completed = ₹ 250.80 crore⁸¹

III Establishment cost as percentage of total tax effect in completed cases = $\frac{3.84}{250.80} = 1.5$

Note: Pay at mid scale has been used for arriving at the figure. The cost does not include travel expenses.

⁸¹ Based on the tax effect in the audit observations included in the Local Audit Reports of various field offices.

Appendix-7

(Reference: Paragraph 2.4.2)

Category wise details of underassessment in respect of Income tax and Corporation tax detected during local audit			
Sl. No.	Sub category	No.	Tax effect (₹ in crore)
1	Errors/Omission in computation	5,348	2,646.34 (21.46%)
	i) Arithmetical errors in computation of income and tax	2,749	1,636.48
	ii) Incorrect application of rate of tax, surcharge etc.	610	275.03
	iii) Non/short levy of interest/penalty for delay in submission of returns, delay in payment of tax etc.	1,511	194.26
	iv) Excess or irregular refunds / interest on refunds	478	540.57
2	Ineligible concessions given to assesses	6,779	3,751.07 (30.42%)
	i) Irregular exemptions / deduction/ relief given to Corporates	631	907.18
	ii) Irregular exemptions / deduction/ relief given to Trusts/ Firms/ Societies	345	89.60
	iii) Irregular exemptions / deduction/ relief given to individuals	606	18.12
	iv) Incorrect allowance of Business Expenditure	3,242	1,671.78
	v) Irregularities in allowing depreciation/business losses/Capital losses	1,934	1,059.39
	vi) Incorrect allowance of DTAT relief	21	5.00
3	Income not/ under assessed	22,79	570.86 (4.63%)
	i) Under Special Provisions including MAT/ Tonnage Tax etc.	144	83.03
	ii) Unexplained investments/ cash credits etc.	707	213.45
	iii) Incorrect classification and Computation of Capital Gains	499	92.73
	iv) Incorrect estimation of arm's length price	36	33.92
	v) Omission to club income of spouse, minor child etc.	237	45.10
	vi) Incorrect computation of Income from House Property	315	21.09
	vii) Incorrect computation of salary income	341	81.54
4	Others	3,119	5,359.84 (43.47%)
	i) Mistake in assessment while giving effect to appellate orders	112	32.42
	ii) Omission in implementing provisions of TDS/TCS	1,102	869.70
	iii) Others topics	1,905	4,457.72
Total		17,525	12,328.11

Appendix-8

(Reference: Paragraph 2.4.3)

Category wise details of observations in respect of Draft Paragraphs sent to Ministry			
Sl. No.	Sub category	No.	Tax effect (₹ in lakh)
1	Errors/Omission in computation	76	3,78,401.76
	i) Arithmetical errors in computation of income and tax	27	5,272.05
	ii) Incorrect application of rate of tax, surcharge etc.	5	597.60
	iii) Non/short levy of interest/penalty for delay in submission of returns, delay in payment of tax etc.	39	3,71,577.6
	iv) Excess or irregular refunds / interest on refunds	5	954.51
2	Ineligible concessions given to assesses	253	1,95,711.6
	i) Irregular exemptions / deduction/ relief given to Corporates	37	78,890.63
	ii) Irregular exemptions / deduction/ relief given to Trusts/Firms/ Societies	14	564.97
	iii) Irregular exemptions / deduction/ relief given to individuals	2	62.26
	iv) Incorrect allowance of Business Expenditure	115	70,241.43
	v) Irregularities in allowing depreciation/business losses/Capital losses	85	45,952.31
	vi) Incorrect allowance of DTAT relief	0	0
3	Income not/ under assessed	82	4,266.5
	i) Under Special Provisions including MAT/ Tonnage Tax etc.	14	2,756.97
	ii) Unexplained investments/ cash credits etc.	1	15.66
	iii) Incorrect classification and Computation of Capital Gains	8	463.70
	iv) Incorrect estimation of arm's length price	1	80.6
	v) Omission to club income of spouse, minor child etc.	0	0
	vi) Incorrect computation of Income from House Property	0	0
	vii) Incorrect computation of income	58	949.58
4	Others	42	12,709.8
	i) Mistake in assessment while giving effect to appellate orders	9	995.54
	ii) Omission in implementing provisions of TDS/TCS	8	1,015.95
	iii) Others topics	25	10,698.31
Total		453	5,91,089.66

Appendix-9

(Reference: Paragraph 2.5.1)

A - Details of cases accepted by Department and remedial action taken

No. of cases accepted and remedial action taken	No. of cases accepted but remedial action not taken	No. of cases not accepted but remedial action taken	No. of cases not accepted	No. of cases where reply has not been received	Total replies received (Col. 1+2+3+4)	Percentage of reply received (Col. 1+2+3+4)/ Col. 1+2+3+4+5)	Percentage accepted out of column 6 (Col. 1+2/ col. 6)	Percentage of remedial action taken out of Col. 6 (Col. 1+3/ Col. 6)
1	2	3	4	5	6	7	8	9
1,239	1,688	267	3,652	12,381	6,846	36	43	22

B- Position of acceptance during the last five years

Year of Report	No. of observations raised	No. of cases Accepted	No. of cases not accepted	Reply not received
2005-06	15,809	3,485 (22.0%)	6,764 (42.8%)	5,560 (35.2%)
2006-07	16,735	3,127 (18.7%)	8,298 (49.6%)	5,310 (31.7%)
2007-08	19,694	4,099 (20.8%)	7,455 (37.9%)	8,140 (41.3%)
2008-09	19,631	4,898 (25.0%)	5,892 (30.0%)	8,841 (45.0%)
2009-10	19,227	2,927 (15.2%)	3,919 (20.4%)	12,381 (64.4%)

Appendix-10

(Reference: Paragraph 2.5.2)

(₹ in crore)

A- Cases where remedial action has become time barred in 2009-10

Sl. No.	State	Audit observations where remedial action became time barred	
		No.	Tax effect
1	Andhra Pradesh	96	4.4
2	Assam	12	13.3
3	Bihar	153	2.9
4	Chhattisgarh	106	7.3
5	Goa	6	0.5
6	Gujarat	247	12.3
7	Haryana	47	27.2
8	Himachal Pradesh	561	3.2
9	Jharkhand	42	0.6
10	Jammu & Kashmir	584	22.9
11	Karnataka	179	38.7
12	Kerala	6	0.1
13	Madhya Pradesh	220	901.7
14	Orissa	31	17.2
15	Punjab	6	0.3
16	UT, Chandigarh	49	1.2
17	Rajasthan	109	1.4
18	Tamil Nadu	1,031	364.2
19	Uttar Pradesh	79	4.5
20	Uttaranchal	244	582.8
21	Delhi	787	659.8
22	Maharashtra	464	99.0
23	West Bengal	584	102.8
	Total	5,643	2,868.3

(₹ in crore)

B- No. and tax effect of cases that have become time barred during the last five years

Year of Report	No. of cases	Tax effect
2005-06	2,265	911.3
2006-07	3,593	1,354.3
2007-08	13,833	33,851.1
2008-09	16,557	5,612.8
2009-10	5,643	2,868.3

Appendix-11

(Reference: Paragraph 2.5.4)

(₹ in lakh)

Recovery on cases issued during 2010					
Sl. no.	Name of assessee	CIT charge	Assessment year(s)	Category of mistake	Tax effect
1	The Mysore Sugar Co. Ltd.	Bangalore-III	2005-06	Loss of ₹ 11.6 crore was adopted instead of the correct figure of ₹ 0.2 crore indicated in the revised return.	51.8
2	Sh. Prabhulingeshwar Sugars and chemicals Ltd.	Central, Bangalore	2005-06	Carry forward loss for assessment year 2003-04 was incorrectly depicted as ₹ 21.5 crore as against the actual loss of ₹ 19.1 crore.	85.6
3	West Bengal Industrial Corporation Ltd.	Kolkata-II	2005-06	In scrutiny assessment, refund of ₹ 1.3 crore allowed in summary assessment was not taken into account.	136.0
4	Tagros Chemicals India Ltd.	Chennai-I	2004-05	Tax was not deducted at source from commission of ₹ 1.7 crore paid to non residents.	50.2
5	Industrial Development Bank of India	Mumbai-III	2002-03	Interest under section 220(2) was not levied.	2,997.6
6	Krishna S. S. K. Ltd.	Mumbai -III	2000-01 & 2005-06	-do-	23.0
7	Hero Exports	Ludhiana-II	2006-07	₹ 39.6 lakh debited in the Profit and Loss account on account of income tax for earlier years was not disallowed.	12.1
8	Ambica Devi	Gulbarga	2006-07	Mistake in valuation of closing stock.	8.6
9	Market Committee Pillukher	Hisar	2003-04	Instead of ₹ 36.5 lakh being 15 per cent of gross income of the trust, ₹ 73.0 lakh was allowed to be treated as deemed to be applied.	11.3
10	Jat Education Society	Rohtak	2003-04	The assessee had claimed and was allowed exemption in respect of three units which were not financed by the Government.	14.5
11	Md. Kalimuddin	Kolkata Central-I	2005-06	The assessee had taxable wealth. Still neither did the assessee file return of wealth nor did the assessing officer initiate any proceeding.	2.1
12	Suren M Khirwadkar	Pune-II	2005-06	-do-	1.1
13	Mustak Hossain	Kolkata Central-I	2004-05 & 2005-06	-do-	2.0

14	Dr. J. Rameswara Rao	Hyderabad-Central	2007-08	The assessee had taxable wealth. Still neither did the assessee file return of wealth nor did the assessing officer initiate any proceeding.	1.1
15	Ms. Sania Mirza	Hyderabad-III	2007-08	The assessee had taxable wealth in the form of vehicles. Still neither did the assessee file return of wealth nor did the assessing officer initiate any proceeding.	0.3
Total					3,397.3

Appendix-12

(Reference: Paragraph 2.5.5)

(₹ in lakh)

Cases issued during 2010 : accepted and remedial action taken					
Sl. No.	Name of assessee	CIT charge	Assessment Year(s)	Category of mistake	Tax effect
1	ABB Ltd.	LTU Bangaluru	2002-03	Losses which had already been set-off were once again set off in assessment year 2002-03.	756.4
2	Sanghi Polysters Ltd.	Hyderabad-III	2005-06	While arriving at taxable income, depreciation deductible under Companies Act and added back to total income was incorrectly adopted as ₹ 20.5 crore as against ₹ 25.0 crore. Expenditure of ₹ 2.0 lakh incurred for donation was omitted to be added back.	164.5
3	Autolec Industries Ltd.	Chennai-III	2002-03	The returned income was incorrectly taken as business loss of ₹ 3.3 crore instead of NIL income.	120.3
4	Southern Aerodyne Pvt Ltd.	Chennai-III	2003-04 to 2005-06	Excess loss of ₹ 6.8 crore was allowed to be carried forward for assessment years 2003-04 to 2005-06.	249.4
5	Sri Lakshmi Saraswathi Textiles Ltd.	Chennai-III	2006-07	Current year's loss was incorrectly assessed at ₹ 3.9 crore instead of ₹ 1.3 crore.	88.9
6	Karthikeya Paper and Boards Ltd.	Coimbatore-I	2005-06	Loss of ₹ 3.9 crore which was already set off was again set off against business income in assessment year 2004-05.	143.4
7	Sunbright Designers (P) Ltd.	Chennai-III	2006-07	Tax deducted at source was remitted into Government account belatedly.	117.6
8	Indian Potash Ltd	Chennai-I	2002-03	Surcharge was levied at the rate of 20 per cent instead of 2 per cent.	107.3
9	Indian Potash Ltd	Chennai-I	2004-05	Instead of ₹ 879.9 lakh that was disallowed on account of restatement of foreign currency, only ₹ 88.0 lakh was added back.	374.9
10	Mineral Exploration Corporation Ltd.	Nagpur-I	2004-05	Returned loss of ₹ 160.5 crore was taken as positive income.	115.0

11	Siemens Ltd.	Mumbai-7	2005-06	Education cess of ₹ 2.6 crore was not levied.	379.0
12	Soundcraft Industries Ltd.	Mumbai-7	2001-02	Deduction under section 80-HHC was allowed even though there was no profit.	214.0
13	Roofit Industries Ltd.	Mumbai Central-I	2005-06	Written back loans of ₹ 16.2 crore from sundry creditors were not considered as income.	592.0
14	Roofit Industries Ltd.	Mumbai Central-I	2005-06	Loss of ₹ 2.0 crore on sale of investment being capital in nature was not disallowed.	74.0
15	Roofit Industries Ltd.	Mumbai Central-I	2005-06	Instead of correct loss of ₹ 42.2 crore returned by the assessee, loss of ₹ 75.0 crore was adopted.	1,199.0
16	Roofit Industries Ltd.	Mumbai Central-I	2005-06	Proportionate depreciation of ₹ 7.2 crore claimed on plant and machinery of four factories which were not put to use was not disallowed.	265.0
17	Laser Advertising Pvt. Ltd.	Kolkata-IV	2006-07	Loss of ₹ 1.6 crore was allowed to be set off in excess.	50.0
18	Vishnu Sugar Mills Ltd	Kolkata-IV	2002-03	Unabsorbed depreciation was allowed to be carried forward for set off in excess while giving effect to appellate order.	125.9
19	Industrial Investment Bank of India Ltd.	Kolkata-II	2004-05	Deduction under section 36(1) (vii)(c) was allowed before setting off of brought forward business loss.	83.8
20	Angus Co. Ltd.	Kolkata Central-III	1998-99 to 2001-02	Business loss was allowed to be set off even after expiry of eight years.	360.5
21	ICICI Lombard General Insurance Company Ltd.	Mumbai-X	2004-05	The assessee company made payment to foreign companies but TDS was not made.	210.9
22	Indian Oil Corporation Ltd	Mumbai-X	1998-99	Interest on refund was allowed in excess.	275.0
23	Mansi Builders Ltd.	Ahmedabad Central-I	1999-2000	Interest under section 234A was short levied.	130.5
24	CRI Ltd.	Kolkata Central-I	2006-07	Unabsorbed depreciation of ₹ 167.9 lakh already set off was again allowed to be set off.	56.5
25	Jute Corporation of India Ltd.	Kolkata-I	2005-06	Provision for unascertained liabilities was not added back to total income.	112.0
26	Highland House (P) Ltd.	Jaipur-II	2005-06	Unabsorbed loss of ₹ 1.4 crore was allowed to be set off twice.	72.8

27	NCR Corporation India (P) Ltd.	Bengaluru-I	2004-05	Double allowance was given on the amount of duty payable.	39.8
28	Ind Sing Developers (P) Ltd.	Bangaluru-I	2005-06	Arithmetical mistakes in computation of capital gains.	27.7
29	Begmane Developers Pvt. Ltd.	Bengaluru Central	2006-07	Education cess of ₹ 11.7 lakh on the tax determined was reduced from the tax liability instead of adding the same.	28.8
30	Indo Nippon Chemical Company Ltd.	Mumbai-I	2006-07	Interest of ₹ 1.7 crore which was not actually paid, was not added back.	57.3
31	Shakun Polymers Ltd.	Baroda-II	2006-07	Unabsorbed depreciation/loss was allowed to be set off in excess by ₹ 58.5 lakh.	26.2
32	Waves Foods Pvt. Ltd.	Ahmedabad-II	2005-06	Provision of ₹ 1.0 crore for liability for damaged goods was not disallowed.	37.4
33	Bannari Aman Sugars Ltd.	Coimbatore-I	2005-06	Purchase tax and cane cess of ₹ 8.3 crore was converted into interest free loan by the State Government which was not allowable under section 43B of the Act.	303.7
34	Andhra Pradesh Heavy Machinery and Engineering Ltd.	Vijayawada	2005-06	Provisions made for expenditure which did not crystallise during the year was not disallowed.	94.6
35	Deccan Designs India (P) Ltd.	Chennai-I	2004-05	Closing stock was undervalued by ₹ 3.8 crore.	148.3
36	Maharashtra State Electricity Transmission Company Ltd.	Mumbai-X	2006-07	Depreciation was allowed in excess.	1,207.7
37	Viraj Dying and Printing Pvt. Ltd.	Surat-II	2004-05	Unverifiable unsecured loan of ₹ 16.4 crore was not brought to tax.	781.5
38	Kothari Biotech Ltd.	Chennai-I	2004-05	Although the assessee suspended its business operations from September 1999, deduction of ₹ 1.8 crore towards pre operative expenses written off was allowed.	65.1
39	Petronet MHB Ltd.	Bengaluru-III	2006-07	Depreciation on plant and machinery was allowed at 20 percent instead of 15 per cent.	558.0
40	Mineral Enterprises Ltd.	Bengaluru Central	2003-04	Scrutiny assessment was made at a loss of ₹ 17 crore instead of ₹ 10.9 lakh.	606.0

41	Seeds Works India (P) Ltd.	Hyderabad-III	2005-06	Weighted deduction was allowed incorrectly as 'research and development expenses' incurred on in house activities which were ineligible for deduction.	33.8
42	Speck Systems Pvt. Ltd.	Hyderabad-III	2005-06	Deduction under section 35(2AB) was allowed even though the approval of competent authority was not filed.	144.0
43	Steel City Securities Ltd.	Visakhapatnam	2005-06	Depreciation on BSE Membership card was claimed at the rate of 100 per cent instead of 25 per cent.	47.3
44	Infrastructure Leasing and Finance Services	Mumbai-X	2003-04	Tax was levied in excess.	187.8
45	Bayer Industries Pvt. Ltd.	Mumbai-X	2003-04	Tax on capital gains was taxed at the rate of 20 per cent instead of 35 per cent.	69.4
46	Tamil Nadu State Transport Corporation (Coimbatore) Ltd.	Coimbatore-I	2002-03 to 2004-05	Expenditure towards Pension Fund contribution was allowed even though necessary approval for the fund had not been obtained from the Income tax authorities.	1,277.3
47	Synergics Dorray Automotive Company	Hyderabad-III	2004-05	₹ 7.0 crore was allowed as write off of casting moulds even though casting moulds are depreciable assets. Further, ₹ 72.0 lakh was allowed as provision for non moving items which was inadmissible.	277.0
48	Wind Power Ltd.	Chennai-1	2004-05	₹ 65.3 lakh which was not shown as sundry debtors was allowed deduction on account of write off of bad debts. Advance of ₹ 99.4 lakh was allowed write off as bad debts which was not admissible being of capital nature.	69.3
49	B.V.V. Paper Industries Ltd.	Coimbatore-II	2004-05	Sales tax of ₹ 3.01 crore which was not remitted into Government account was not disallowed.	108.1
50	Sify e-learning Ltd.	Chennai-III	2004-05	Income of ₹ 1.3 crore as returned by the assessee was reckoned as loss of ₹ 1.3 crore.	93.9
51	Godavary Garments Ltd.	Aurangabad	2004-05	Business loss of ₹ 2.1 crore pertaining to assessment years 1992-93 to 1995-96	76.5

				was allowed to be carried forward beyond eighth assessment year.	
52	Greaves Cotton Ltd.	Mumbai-VII	1995-96	Reduction of ₹ 1.0 crore allowed by the ITAT in the opening stock for assessment year 1995-96 towards MODVAT added back in assessment year 1994-95 was not withdrawn.	102.0
53	Praj Industries Ltd.	Pune-II	2003-04	The assessee claimed and was allowed deduction of ₹ 1.1 crore @ 20 per cent of net consultancy charges of ₹ 5.3 crore received from foreign enterprises without obtaining requisite certificate in Form No. 10HA from the assessee to substantiate the claim.	66.7
54	Shiv Vani Oil and Gas Exploration Services Ltd.	Nagpur Central	2006-07 & 2007-08	Depreciation on plant and machinery was incorrectly claimed and allowed as 25 per cent instead of admissible rate of 15 per cent.	995.0
55	Maharashtra State Electricity Distribution Company Ltd.	Mumbai-X	2006-07	Depreciation allowable was computed wrongly.	1,479.0
56	AP State Agro Industries Development Corporation Ltd.	Hyderabad-I	2004-05	Deduction of ₹ 2.1 crore towards ex gratia payment to employees under VRS scheme included payments pertaining to assessment years 1998-99 and 1999-2000, which were to be disallowed.	39.6
57	Srini Pharmaceuticals Ltd.	Hyderabad-III	2004-05	Total turnover as per notes on account was ₹ 101.65 crore whereas the same was exhibited in the profit and loss account as ₹ 100.36 crore.	59.9
58	NI Micro Technologies (P) Ltd.	Thrissur	2006-07	Assessee was allowed full depreciation on assets acquired after 30.9.2005 instead of 50 per cent of the applicable rates.	27.4
59	NCR Corporation Pvt. Ltd.	Bengaluru-III	2003-04	Losses already set-off were again allowed to be set-off.	306.0
60	West Bengal Handloom and Power loom Development Corporation Ltd.	Kolkata-IV	2003-04	₹ 2.8 crore was disallowed under section 43B instead of ₹ 0.1 crore.	99.0
61	Bilati Orissa Ltd.	Bhubaneswar	2004-05	During the previous year relevant to the assessment	61.6

				year, no manufacturing activity was undertaken and the plant and machinery were not used. Yet depreciation was claimed.	
62	Northern Coalfields Ltd.	Indore-II	2004-05	Interest for default in payment of advance tax was not levied.	51.1
63	Industrial Organics Ltd.	Ludhiana-I	2006-07	Loss of ₹ 24.1 crore was allowed to be carried forward in excess.	811.0
64	All India Technologies Ltd.	Kolkata-IV	2002-03	Expenditure of ₹ 1.4 crore towards Website Development expenditure being capital expenditure was not disallowed.	49.2
65	Sri Laxmi Narasimha Rao	Hyderabad-IV	2005-06	While computing capital gains, sale value of property was taken less by ₹ 25.4 lakh.	7.0
66	Arvind A Traders	Trichy-I	2004-05	Total income before allowing deduction under section 80HHC was adopted as ₹ 57.5 lakh instead of ₹ 1.8 crore.	43.3
67	Inder Kumar K. Jain	Pune-IV	2003-04	Interest free loan to partner was not treated as deemed dividend.	17.7
68	Vimal Kumar K Jain	Pune-IV	2003-04	Interest free loan to partner was not treated as deemed dividend.	16.2
69	Kewal Kumar K Jain	Pune-IV	2003-04	Interest free loan to partner was not treated as deemed dividend.	16.2
70	Smt. Mohinder Kaur	Central Circle-II Chandigarh	2000-01, 2002-03, 2003-04, 2005-06	Short levy of tax due to calculation mistake.	7.3
71	Krishi Upaj Mandi Samiti, Indire.	Indore-I	2003-04 to 2005-06	Interest for late filing of return was short charged.	22.0
72	Rajat Agrawal	Kanpur-I	2001-02	Interest under section 234A and 234B were short levied.	5.5
73	Jivraj V. Desai	Ahmedabad Central-I	2004-05	Interest for short payment of advance tax was short levied by ₹ 6.2 lakh.	6.2
74	Rajendra Singh Bhamboo	Jaipur-III	2006-07	The assessing officer, while giving effect to appellate order, allowed payment of bank interest, which was not allowable.	10.9
75	Sh. Ravindra M Agrawal	Ahmedabad Central-I	2000-01, 2001-02 & 2003-04	Interest for delay in filing return of income was not charged.	56.6
76	Devi Durga Construction	Ahmedabad Central-I	2006-07	Interest for delay in filing return of income was short	23.9

				levied.	
77	Mysore Urban Development Authority	Mysore	2006-07	Income from other sources was left out to be added in Gross total income.	155.0
78	Gandhi Nirmala Premraj	Pune Central	1998-99	Interest was not levied for delay in submission of return and delay in payment of tax.	11.1
79	Sh. T. Murugan	Kottayam	2006-07	Payments like commission, agency bonus etc. on which tax was not deducted at source were not disallowed.	298.2
80	Sh. Amrik Singh	Ludhiana-I	2006-07	Interest under section 234B was short levied.	7.7
81	Dhiren V Mehta	Surat	2006-07	Tax payable was shown short by ₹ 6.9 lakh.	6.9
82	Om Prakash Agarwal	Jamshedpur	2003-04	Contract receipt of ₹13.0 lakh was not brought to tax.	6.5
83	The Gurdaspur Co-op Sugar Mills Ltd.	Amritsar-II	2003-04	Tax was calculated on ₹ 3.9 crore instead of the assessee's income of ₹ 4.1 crore.	10.4
84	Prakash Chandra Agarwal	Kanpur-I	2001-02	The assessee had not filed return of income. Yet interest under section 234A and 234B were not charged.	6.8
85	The Hisar District Primary Co-operative Agriculture and Rural Development Bank.	Hisar	2006-07	Interest income was credited on the liability side under suspense interest account instead of crediting the same in profit and loss account as income.	77.0
86	UP Avas evam Vikas Parishad, Lucknow	Lucknow-I	2006-07	In the assessment order it was ordered to charge interest under section 234A but was not levied at the time of computation of total demand.	1,466.0
87	Karnataka State Road Transport Corporation	DDIT Exemption 17 (2) Bengaluru	2002-03	Unabsorbed depreciation loss eligible to be carried forward was ₹ 326.9 crore against which ₹ 510.2 crore was allowed to be carried forward.	6,297.0
88	Shri. Vijayarama Gajapathi Co-operative Sugars Ltd.	Visakhapatnam-I	2004-05	Interest expenditure of ₹ 86.9 lakh which was not paid to the financial institutions was not disallowed.	26.7
89	Chanchal Singh Dhek	Faridabad	2005-06	Hire charges of ₹ 166.4 lakh paid without making TDS was not disallowed.	74.5
90	Sh. Rajat Agrawal	Kanpur-I	2002-03	Interest under section 234A and 234B were short levied.	5.3

91	P.S.Apparels	Chennai-VI	1997-98	While allowing refund of ₹ 92.3 lakh, amount of ₹ 17.3 lakh already refunded was not considered.	23.5
92	Bhaskar Ratan Mazumder	Kolkata-X	2002-03 to 2004-05	Even though TDS credit was allowed, the entire receipts were not considered as income.	40.0
93	Aayojan Resources Pvt. Ltd.	Mumbai-VII	2005-06	The assessee had taxable wealth. Still neither did the assessee file return of wealth nor did the assessing officer initiate any proceeding.	2.3
94	Abul Kalam	Kolkata Central-I	2004-05 & 2005-06	-do-	2.9
95	Ajanta India Ltd.	Ahmedabad-Central-II	2006-07	-do-	1.3
96	Samay Electronics Pvt. Ltd.	Ahmedabad Central-II	2006-07	-do-	1.2
97	Bhimandas Lahorimal Khatri	Nagpur-III	2004-05	-do-	1.1
98	Amrik Singh Vijan	Nagpur-III	2005-06	-do-	2.4
99	Siv Industries Ltd.	Coimbatore-I	1998-99	Net wealth was taken as ₹ 2.7 crore instead of ₹ 4.3 crore	1.7
100	Babulal J Bheda	Ahmedabad-IV	2006-07	The assessee had taxable wealth. Still neither did the assessee file return of wealth nor did the assessing officer initiate any proceeding.	0.7
101	Shri Sarnala Sridhar Rao	Hyderabad Central	2002-03 to 2006-07	-do-	3.4
102	Sanghi Polysters Ltd.	Hyderabad-III	2004-05	-do-	0.6
103	Shri. G. Ravinder Reddy	Visakhapatnam-II	2004-05	-do-	0.5
104	Citadel Research and Solution Ltd.	Hyderabad-I	2005-06	-do-	2.3
105	P. Srinivas Reddy	Hyderabad-Central	2002-03 to 2006-07	-do-	2.4
106	Indian Roadways Corporation Ltd.	Kolkata-I	2006-07	The assessee has debited higher amount in Profit and loss account than offered for tax on account of the expenditure made towards repair of motor car including depreciation, conveyance and travelling expenses and telephone expenses.	1.4
107	Crescent Therapeutics Ltd.	Hyderabad-I	2006-07	Expenditure of ₹ 29.7 lakh towards conference, seminar, employee welfare, sales promotion which were liable for fringe benefit tax were not included while computing value of fringe benefits.	12.5

108	Gunnebo India Ltd.	Mumbai-VII	2006-07	Fringe benefit tax was short levied.	10.8
109	Sheetal Creations Pvt. Ltd.	Mumbai-V	2006-07	Expenditure on communication expenses and brand ambassador were liable for Fringe Benefit tax. Still neither did the assessee file return of Fringe Benefit nor did the assessing officer initiate any proceeding.	5.8
110	Premier Irrigation Equipment Ltd.	Kolkata-I	2006-07	Amount of ₹ 30.9 lakh being 'staff welfare expenses' was not considered while computing the value of Fringe benefits.	1.5
111	Burn Standard Co. Ltd.	Kolkata-I	2006-07	Fringe Benefit was not correctly calculated.	2.1
112	The Carter Pooler Engineering Co. Ltd.	Kolkata-I	2006-07	Employer's contribution of ₹ 3.2 lakh had not been considered as Fringe Benefits.	1.1
113	State Bank of Indore	Indore-II	2007-08	Interest for default in payment of advance tax was not charged.	195.9
114	SLK Software Services Pvt. Ltd.	Bangaluru-III	2006-07	As per the certified statement of fringe benefits, total taxable fringe benefits amounted to ₹ 39.6 lakh as against ₹ 33.4 lakh adopted in the assessment.	2.2
115	The Braithwaite Burn & Jessop Construction Company Ltd.	Kolkata-I	2009-10	Employees' welfare expenses had not been considered as Fringe Benefit.	1.2
116	Kilburn Engineering Ltd.	Kolkata-II	2005-06	The assessee was allowed excess carry forward of unabsorbed depreciation of ₹ 4.4 crore and long term capital loss of ₹ 2.4 crore in excess.	213.0
117	Metal Box India Ltd.	Kolkata-IV	2005-06	Income was to be computed as NIL but it was taken as loss of ₹ 4.3 crore.	158.0
118	Co-op Bank of Ahmedabad	Ahmedabad-V	2004-05	Expenditure of ₹ 29.1 lakh was allowed even though the same was not paid.	8.9
119	ADF Foods Ltd.	Baroda-II	2005-06	Unabsorbed depreciation of ₹ 20.8 crore was allowed to be set off against the allowable amount of ₹ 1.2 crore.	44.7
120	Mundra Port & Special Economic Zone	Ahmedabad-II	2004-05	While finalising re assessment, loss of ₹ 78.6 crore was adopted instead of the correct figure of loss of ₹ 73.6 crore.	178.8

121	Laxmi Trading	Ahmedabad-III	2006-07	Loss of ₹ 22.7 lakh was allowed to be set-off against the available loss of ₹ 5.4 lakh.	5.8
122	Natraj Construction Co.	Gandhimagar	2006-07	Expenditure of ₹ 37.7 lakh was allowed in assessment year 2005-06 and again in 2006-07.	12.7
123	Varun Construction Co.	Gandhinagar	2006-07	Deduction of ₹ 31.4 lakh was allowed in assessment year 2005-06 and 2006-07.	10.6
124	Central Bank of India	Mumbai-II	2006-07	Interest under section 115WJ(5) was levied excess by ₹ 161.9 lakh.	161.9
125	B.S. Refrigerators Ltd.	Bangalore-I	2005-06	Loss on investment being of capital nature and provision for doubtful debts were not disallowed.	873.0
126	Vishaldeep Spinning Mills Ltd.	Rajkot-III	2005-06	Interest paid after due date of filing of return of income was not disallowed.	55.6
127	Special Land Acquisition Officer Tenughat Project, Hazaribagh	TDS Patna	2007-08 & 2008-09	Tax was not deducted at source from the payments made in respect of land acquired for Tenughat Project.	104.0
128	Sh. Shivaji Bhagwanrao Jadhav	Aurangabad	2003-04	Depreciation was allowed at 100 per cent instead of 80 per cent.	63.3
129	Anand Enterprises	Mumbai-XVIII	2003-04	The assessee was assessed as 'Association of Persons' instead of 'Firm'.	11.2
130	Sh. Rajan N Aswani	Mumbai-XII	2004-05	Duty Entitlement Pass Book credit was treated as profit eligible for 80-IB (4) deduction.	37.3
131	BGSE Financial Ltd	Bengaluru-I	2006-07	Taxable income was shown less by ₹ 1.3 crore.	44.0
132	Bharat Petroleum Corporation Ltd.	Mumbai-II	2006-07	Disallowance under section 14 A was made less by ₹ 3.9 crore.	131.0
133	Tata Iron & Steel Co. Ltd.	Mumbai-II	2003-04	Interest for non-payment of advance tax was not charged.	101.8
Total					28,170.9

Appendix-13

(Reference: Paragraph 2.5.6)

(₹ in lakh)

Cases issued during 2010 : accepted and remedial action initiated

Sl. No.	Name of assessee	CIT charge	Assessment year(s)	Category of mistake	Tax effect
1	Hotel Corporation of India Ltd.	Mumbai-VIII	2005-06	Interest of ₹ 1.7 crore accrued from bonds issued by NHAI which was not exempt under section 10 has not been brought to tax.	64.0
2	ICICI Home Finance Co. Ltd.	Mumbai-X	2005-06	The assessee discontinued its business of providing long term Finance for construction and purchase of residential houses in India. Still deduction of ₹ 10.9 crore was allowed under section 36(1)(viii).	530.0
3	Terumopenpol Ltd.	Thiruvananthapuram	2006-07	Against brought forward loss and unabsorbed depreciation of ₹ 6.1 crore, ₹ 7.6 crore was set-off.	51.5
4	Prashanth Textiles Ltd.	Coimbatore-I	2006-07	Waiver of principal amount of ₹ 2.5 crore under one time settlement scheme from banks and financial institutions was not included in total income.	84.2
5	Rajasthan State Ganganagar Sugar Mills Ltd.	Jaipur-II	2005-06	Privilege fee of ₹ 2.0 crore paid to the excise department being appropriation of profits, needed to be disallowed, which was not done.	97.3
6	Titan Holdings Ltd.	Bengaluru-III	2003-04	Consequent to re assessment of loss for the assessment year 2002-03, income of the succeeding assessment 2003-04 was not revised.	37.9
7	Thanikudam Bhagavathi Mills Ltd.	Thrissur	2006-07	Loss of ₹ 11.2 crore was determined in the assessment against the actual loss of ₹ 5.6 crore including brought forward loss.	189.0
8	Micro Forge India Pvt. Ltd.	Rajkot-III	2005-06	Tax was not deducted at source on payment of ₹ 3.1 crore towards sea freight on sales claimed as expenditure.	152.4
9	Assam Roofings Ltd.	Guwahati-II	2005-06	Loss of ₹ 2.6 crore was allowed to be set off instead of the correct figure of ₹ 1.0 crore.	48.8

10	Amrapali Capital and Finance Services Ltd.	Ahmedabad-II	2006-07	Although the taxable income determined was not from securities transactions, tax rebate of ₹ 1.0 crore was allowed under section 88-E.	108.2
11	Khaitan India Ltd.	Kolkata-IV	2005-06 & 2006-07	Expenditure relating to non taxable agricultural income was not added while computing the total income.	303.0
12	Ram Chandra Agarwal	Kolkata Central-I	2005-06	Gifts received were to be treated as unexplained investment in the absence of details in the hands of donor.	15.6
13	Narendra Kumar K Mehta	Kolkata-XIX	2006-07	As the assessee's transactions were trading in nature. As such tax was to be levied at the rate of 30 <i>per cent</i> instead of 10 <i>per cent</i> .	57.5
14	Anil Bholabhai Patel	Baroda-III	2006-07	Even though the assessing officer rejected the long term capital gain of ₹ 60.3 lakh claimed by the assessee treating it as business income, tax was calculated at the rate of 20 <i>per cent</i> applicable to long term capital gains instead of 30 percent applicable to business income.	9.9
15	Shree Nivas Joshi	Ranchi	2005-06	Contract receipt of ₹ 49.2 lakh was not included in total income.	22.5
16	Shyam Sunder Agarwal	Hyderabad-IV	2006-07	The assessee had taxable wealth. Still neither did the assessee file return of wealth nor did the assessing officer initiate any proceeding.	1.3
17	Price Water House Ltd.	Kolkata-XIX	2003-04	Expenses on PWC Global Services charge was made to acquire monopoly right of the brand name and as such was capital expenditure which was to be disallowed. But the amount was not disallowed.	130.3
18	MIDCO Ltd.	Mumbai-II	2006-07	Gifts attracted 50 <i>per cent</i> FBT whereas only 20 <i>per cent</i> was levied.	5.0
Total					1,908.4