

Direct Tax Arrears Beat Yearly Mop-up

For the first time ever, direct tax arrears have surpassed what the country collects annually though income and corporate tax, prompting officers to draw up a strategy to recover dues of as much as Rs 50,000 crore in the current year.

Direct tax arrears are now estimated at Rs 8.3 lakh crore, far more than the Rs 7.97 lakh crore budgeted from direct taxes in the current financial year.

The government collected Rs 6.96 lakh crore in such taxes in .2014-15.

A recent directive to field officials has emphasised on the use of information from multiple sources such as banks, foreign tax jurisdictions and high-profile transactions to tackle demands where the assessee has gone untraceable.

A substantial part of this large tax arrears is termed as difficult to recover but with no officer willing to strike it down, it continues to inflate the overall arrear demand. The most interesting case is of the Rs 1.16 lakh crore tax demand slapped on Pune-based horse trader Hasan Ali Khan nearly eight years ago. It still sits on the books of the income tax departments growing in size as penal interest piles up.

Though, many in the income tax department will quietly admit that demand stands on flimsy ground but fearing scrutiny by agencies such as the CBI, Central Vigilance Commission and the Comptroller and Auditor General, none will bell the cat and strike it off.

“A large number of demands that shows up as arrears will be struck down in higher courts, but they are there as assessing officers will not take it upon themselves to not raise a tax demand or strike down one raised by any predecessor,” said an official at the department. There has been a growing concern on quality of assessment orders and tax demands failing judicial scrutiny with the department losing battle in courts.

A bad order goes on and clogs the system till it is finally struck down but officers for obvious reasons play safe, another official said.

“The guiding philosophy is better safe than sorry.” With the quality of assessment orders emerging as a serious issue, the apex direct taxes body, Central Board of Direct Taxes, has turned its focus to this problem. CBDT wants to follow a non-adversarial approach and pass legally robust orders while taking preemptive measures to ensure government receives due revenues. Tax officials have been directed to focus their energies not just on collecting pending dues and taking steps to ensure tax demand doesn't turn into pending arrears, but also to improve the quality of their assessment orders. “This would also bring down unnecessary litigation,” said a tax department official. Focus is also on enhancing expeditious recovery and preventing creation of dues.

Senior officials in the department have been asked to pay special heed to cases involving large demands to prevent taxpayers from seeking a stay on recovery of taxes from courts.

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