P.A.C. 105

PUBLIC ACCOUNTS COMMITTEE (1964-65)

TWENTY-EIGHTH REPORT

(THIRD LOK SABHA)

[Audit Report (Civil) on Revenue Receipts, 1964]

LOK SABHA SECRETARIAT
NEW DELHI

October, 1964
Kartika, 1886 (Saka

Price : Rs. 1.50

LOK SABHA SECRETARIAT

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(1964-65)

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Shri R. M. Bhargava—*Under Secretary.*

INTRODUCTION

I, the Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Twenty-Eighth Report on the Audit Report (Civil) on Revenue Receipts, 1964. In this Report the Committee have dealt with (i) Income-Tax and (ii) Other Revenue Receipts (Chapters IV and V of the Audit Report).

2. The Audit Report (Civil) on Revenue Receipts, 1964 was laid on the Table of the House on the 11th March, 1964. The Committee considered the Audit Report (Chapters IV and V) at their sittings held on the 27th to 30th July, 1964. A brief record of the proceedings of each sitting has been maintained and forms part of the Report (Part II*).

3. The Committee considered and finalised the Report at their sitting held on the 24th October, 1964.

4. A statement showing the summary of the main conclusions/ recommendations of the Committee is appended to the Report (Appendix VII). For facility of reference these have been printed in thick type in the body of the Report.

5. The Committee also considered the replies of the Ministries to their earlier recommendations which are included in Part III* of this Report. Their comments on a few selected items are contained in Chapter III of the Report.

6. The Committee place on record their appreciation of the assistance rendered to them in their examination of these accounts by the Comptroller and Auditor General of India.

They would also like to express their thanks to the Officers of the Ministries of Finance (Department of Revenue and Company Law, and Department of Economic Affairs), Works and Housing, and Home Affairs (including Delhi Administration), Central Board of Excise and Customs, and Central Board of Direct Taxes for the co-operation extended by them in giving information to the Committee during the course of evidence.

R. R. MORARKA,
Chairman,
Public Accounts Committee.

NEW DELHI;
October 30, 1964.
Kartika 8, 1886 (Saka).

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I

INCOME-TAX

Trend of revenue from Corporation Tax and taxes on income other than Corporation Tax—Para 42, page 34.

Over the period of three years ending 1962-63, revenue from Corporation Tax and Taxes on income other than Corporation Tax, has shown a net increase of Rs. 121.12 crores as indicated below:

(In crores of rupees)

	1960-61	1961-62	1962-63	Total increase during three years
Corporation Tax . . .	109·70	160·81	220·06	110·36
Taxes on Income other than Corporation Tax . .	81·37	67·19	92·13	10·76

The figures of Income tax do not include the portion of tax assigned to the State Governments.

The Committee enquired about the factors responsible for the varying trend in the revenue from taxes on Income other than Corporation-tax namely,—

	Rs. Crores
1959-60	69·86
1960-61	81·37
1961-62	67·19
1962-63	92·13

The increase in 1960-61 was attributed to improvement in trade conditions and general improvement in collection. The fall in the year 1961-62 was explained as being due to the fact that income-tax from companies was classified as Corporation-tax and, therefore, the earnings under-income-tax went down and there was a rise in Corporation Tax (Rs. 160·81 crores in 1961-62 as against Rs. 109.70 crores

in 1960-61). The increase in the year 1962-63 was ascribed to (i) larger collections of advance tax (ii) completion of a large number of provisional assessments (iii) better yield at source on dividends, interest and salaries, and (iv) special drive undertaken by the Department for collection of arrears. The Committee were informed that whereas in 1961-62 the number of provisional assessments was 16,572, it increased to 29,134 in 1962-63. The collections on account of provisional assessments rose from Rs. 43:72 crores in 1961-62 to Rs. 74·99 crores in 1962-63.

The Committee drew the attention of the witnesses to the fact that the gross collection of taxes on income other than Corporation Tax in 1960-61 was Rs. 168·73 crores whereas in 1961-62 it was Rs. 161·03 crores—a short-fall of Rs. 7·70 crores. Compared to this, so far as the Centre's share of income-tax was concerned, it had come down from Rs. 81.37 crores to Rs. 67.19 crores—a short-fall of Rs. 14·18 crores. In a note* furnished to the Committee subsequently, (Appendix I), it has been explained *inter alia*, that from 1960-61, income-tax on companies was booked under the major head "Corporation Tax". However, all collections of income-tax on companies relating to assessment years 1959-69 and earlier years continued to be booked under the minor head "Taxes on income other than Corporation Tax". Collections of income-tax on companies for the assessment years 1959-60 and earlier years completed in 1960-61 amounted to Rs. 31·87 crores. Such collections in 1961-62 came down to Rs. 15.24 crores because of lesser number of old company assessments completed in the second year. This accounted for a fall of Rs. 16.63 crores under this minor head alone. Another note* furnished at the instance of the Committee (Appendix II), explains how the States' share of Income-tax is worked out.

Variations of the actuals from the estimates under Corporation Tax and taxes on income other than Corporation Tax—Para 43, *page* 34.

2. The Budget Estimates for the year 1962-63 for Corporation Tax and Taxes on income other than Corporation Tax were Rs. 178.45 crores and Rs. 68.65 crores respectively. The actuals under Corporation Tax were Rs. 220.06 crores which were in excess of the Budget Estimates by Rs. 41.61 crores. Under Income-tax the actuals were Rs. 92.13 crores which were in excess of the Budget Estimates by Rs. 23.48 crores. Thus, the actuals exceeded the Budget Estimates by 23.32 per cent under Corporation Tax and by 34.2 per cent under Income Tax.

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*Not vetted by Audit.

The details of the variations are indicated below:—

(Figures in lakhs of rupees)

	1961-62				1962-63			
	Budget Estimates	Actuals	Increase(+) Shortfall(—)	Percentage of variation	Budget Estimates	Actuals	Increase(+) Shortfall(—)	Percentage of variation
III. Corporation Tax—								
(*i*) Ordinary Collections .	1,40,35	1,60,78	+20,43	14	1,78,30	2,20,61	+42,31	23·7
(*ii*) Excess Profits Tax . .	60	15	—45	..	10	—67	—77	..
(*iii*) Business Profits Tax . .	5	—12	—17	..	5	3	—2	..
(*iv*) Miscellaneous . .	..	..	..	..	..	9	+9	..
TOTAL . . .	1,41,00	1,60,81	+19,81	14	1,78,45	2,20,06	41,61	23·32
IV. Taxes on income other than Corporation Tax—								
(*v*) Ordinary Collections .	1,20,85	1,49,52	+28,67	23·7	1,55,60	1,75,22	+19,62	12·6
(*vi*) Surcharge (Central) . .	9,50	5,07	—4,43	—46·6	4,50	5,62	+1,12	24·9
(*vii*) Surcharge (Special) . .	2,50	2,89	+39	15·6	3,00	4,15	+1,15	38·3
(*viii*) Excess Profits Tax . .	10	31	+21	..	20	20	..	..
(*ix*) Business Profits Tax .	5	1,40	+1,35	..	5	1	—4	..
(*x*) Miscellaneous . .	..	1,12	1,12	..	..	1,47	+1,47	..
(*xi*) Receipts in England .	..	73	+73	..	..	73	+73	..
Share of net proceeds assigned to States	—80,79	—93,85	—13,06	..	—94,70	—95,27	—57	..
TOTAL . . .	52,21	67,19	+14,98	28·7	68,65	92,13	+23,48	34·2

The Committee enquired about the reasons for the difference between the revised estimates and the actuals being more than the difference between the budget estimates and the revised estimates as shown below:

1962-63:

	Budget Estimates	Revised Estimates	Actuals	Difference between Budget estimates and Revised Estimates	Difference between revised estimates and actuals
			(In crores of rupees)		
Corporation Tax .	178·45	187·50	220·06	9·05	32·56
Income Tax .	163·35	172·50	187·40	9·15	14·90

The Secretary, Revenue, Expenditure and Company Law explained that the difference arose because of (i) more provisional assessments and (ii) larger advance collections. The actual collections depended upon a variety of factors and they were unable to decide fully what revenue would come in as a result of provisional assessments. The witness admitted that the actual realisations had been greater than the revised estimates for three years in succession but he stated that this feature might not be a permanent one.

In respect of taxes on income other than Corporation Tax, the Committee enquired about the reasons for the variation under "ordinary collections" having decreased from 23.7 per cent in 1961-62 to 12.6 per cent in 1962-63 whereas the total variation under the major head had increased from 28·7 per cent in 1961-62 to 34·2 per cent in 1962-63. The main difference in the total variation under the major head was attributed mainly to the share of net proceeds assigned to the States. Whereas in 1961-62 it went up from a Budget estimate of Rs. 80·79 crores to Rs. 93·85 crores—a difference of Rs. 13.06 crores, in 1962-63 it only went up from a Budget estimate of Rs. 94.70 crores to Rs. 95.27 crores—a difference of Rs. 57 lakhs. As regards the decrease in the variation under "ordinary collections" from 23.7 per cent in 1961-62 to 12.6 per cent in 1962-63 it was explained that in 1961-62, the advance collections were high, so that in 1962-63 there was a decrease in the actual assessment, as advance

collections in respect of 1961-62 got adjusted in 1962-63. While preparing the Budget estimate for 1962-63, they had taken into account the advance collections made in 1961-62. The percentage of variation was less in 1962-63 because while preparing the Budget Estimate they had stepped up the figure in the light of the experience of 1961-62.

According to a note furnished at the instance of the Committee (Appendix III), the amount of advance tax collected during the years 1959-60 to 1962-63 was as follows:—

(Figures in crores of rupees)

Year	Amount of collections of advance tax
1959-60	121·11
1960-61	143·16
1961-62	163·38
1962-63	184·34

In reply to a question, the witness submitted that in considering the percentage of variation, (i) the share of the net proceeds assigned to the States should be kept out, and (ii) due to several accounting processes occurring between Corporation Tax and Income-tax, they should be taken together and the comparison should be made between the budget and the actuals. The percentage of variation arrived at on that basis was stated to be as follows:

1961-62	17·5%
1962-63	19·1%
1963-64	19·8%

The witness agreed that this percentage also was on the high side and should not be regarded as a normal variation.

The Committee enquired about the reasons for the wide variation in respect of surcharges: Surcharges (Central)—(—) 46.6 per cent in 1961-62 and 24.9 per cent in 1962-63; Surcharge (Special) 15.6 per cent in 1961-62 and 38.3 per cent in 1962-63. The Committee also enquired how in respect of 1961-62 the ordinary collections rose from a Budget estimate of Rs. 120·85 crores to Rs. 149·52 crores whereas the surcharge fell from a Budget estimate of Rs. 9.50 crores to

Rs. 5.07 crores. According to a note furnished at the instance of the Committee, (Appendix III), while fixing the Budget Estimates for Surcharge (Central) and Surcharge (Special) for 1962-63, they had taken the Departmental figures of actual collections for 1961-62, but the figures as later verified by the A.Gs. turned out to be more, and the under-estimate at the initial stage was due to this difference between the Departmental figures and the verified figures. Another reason for the difference has been stated to be an increase of 13.9 in respect of the major head "IV-Taxes" (of which the surcharges form a part) and the corresponding increase in the surcharges.

The Committee are glad that during 1962-63 there were increased collections under Corporation Tax and Income Tax due, *inter alia*, to (i) larger advance collections, (ii) completion of a large number of provisional assessments and (iii) special drive undertaken by the Department for collection of arrears. The Committee find, however, that the difference between the Revised Estimates and the Actuals was Rs. 32·56 crores under Corporation Tax and Rs. 14.9 crores under Income Tax, whereas the variation between the Budget Estimates and the Revised Estimates was Rs. 9·05 crores and Rs. 9.15 crores respectively. The larger variation between the Revised Estimates and Actuals points to the need for more accurate and careful budgeting. The overall variation between the Budget Estimates and the Actuals is 23 per cent under Corporation Tax and 34 per cent. under Income Tax. Taking the gross collections under both the heads together, the variation comes to 19.1 per cent during 1962-63. These variations are very much on the high side, and the Committee hope that efforts would be made to improve the budgeting technique and arrive at more accurate estimates of the receipts under both these taxes.

Results of test audit in general—Para 44, *pages* 36-37, *Sub-para* (*a*).

The comments which follow are based on test-audit carried out during the period from 1st September, 1962 to 31st August, 1963. The number of cases reviewed was 82,495 which is six per cent of the total number of 13·81 lakh assessees. As a result of this review under-assessments of tax to the extent of Rs. 2·29 crores were noticed in 5,195 cases and over-assessments amounting to Rs. 3.93 lakhs in 258 cases, besides several instances of lapses in procedure. Of the total number of 5,195 cases of under-assessment 396 cases alone account for Rs. 1.72 crores. Out of the cases in which mistakes have been found, about 800 cases relate to nine Commissioners' charges which had already been examined by the internal audit of the Department.

During evidence, the Chairman, Central Board of Direct Taxes stated that although only 6 per cent of the total number of assessments had been test-audited, in terms of the amount of actual collections the demands covered by the cases seen by Audit would be 75 to 80 per cent.

In reply to a question, the witness stated that the Internal Audit staff had hitherto been checking only the arithmetical calculation of tax and detecting mistakes in calculation. In February 1964 instructions had been issued extending the scope of the internal audit to other points also, *e.g.* mistakes of law or rates. The number of audit parties had been increased to implement the latest instructions.

The Committee are surprised to find that the test-audit of 82,495 cases (6 per cent of the total number of 13·81 lakhs assessees) has revealed under-assessments to the extent of Rs. 2·29 crores (in 5,195 cases) and over-assessments amounting to Rs. 3·93 lakhs (in 258 cases), besides several lapses in procedure. The large number of cases involving under assessment to the tune of Rs. 2·29 crores clearly establish the necessity of streamlining administrative machinery and the Committee suggest that effective steps should be taken in this direction, keeping in view the complexity of income tax law. It appears to the Committee that one reason for the magnitude of the mistakes committed by the Income-tax Officers is the heavy work-load. Considering that there are 13.81 lakhs of assessees to be assessed by about 1300 officers, the work-load on each Income-tax Officer on an average comes to about 1,000 cases a year which has been considered high by the Santhanam Committee in its report on prevention of corruption [item (ix)—page 272]. Any streamlining of the Administrative machinery must take into account the need to reduce this work-load with a view to obtaining the optimum efficiency. They note that the functions of the Internal Audit have been enlarged so as to include the checking of mistakes of law or rates, besides verifying the arithmetical calculation of the tax. The Committee trust that with the enlargement in the nature of the duties performed by Internal Audit, there will be significant improvement in prompt detection of cases of over-assessments and under-assessments. They also suggest that in future individual cases involving an under-assessment beyond a certain amount (say Rs. 10,000) should be investigated in detail and action taken against officers concerned, if under-assessment is found to be due to their negligence or non-observance of rules or *mala fides*. In respect of under-assessments of tax and loss of revenue of Rs. 10,000 and more in indivi-

*According to Audit instructions were issued in August 1963.

dual cases, pointed out by Audit, the Committee would like to be informed as to in how many cases:—

(i) the same I.T.O. was responsible for mistakes in more than one case commented upon in the present Audit Report; and

(ii) the same I.T.O. who has committed the mistake this year also committed mistakes in the previous year which have been detected either in the internal audit or statutory Audit.

Sub-para (b):

4. The position regarding rectification of the under-assessments and over-assessments mentioned in the preceding paragraphs is as indicated below:—

Under-assessments:

	No. of cases	Amount of tax involved Rs. in lakhs
(a) Cases since rectified or being rectified by the Department of Revenue at the instance of Audit.	3,267	104.48
(b) Cases where proper action has still to be taken by the Department of Revenue	1,837	117.07
(c) Cases where no rectification is possible because of the operation of time-bar resulting in loss of revenue	91	6.96
Over-assessments		
(i) Cases since rectified by Department of Revenue	151	1·76
(ii) Cases where action is still to be taken by the Department of Revenue	104	1·46
(iii) Cases where no rectification is possible because of the operation of time-bar	3	0·71

The under-assessment of Rs. 2·29 crores has been the result of:—

(a) errors and omissions attributable to carelessness or negligence while computing the total income or the tax thereon;

(b) failure to follow correctly the provisions of the Finance Acts while working out the tax; and

(c) incorrect application or failure to apply the provisions of the Income-tax Act and the rules framed thereunder in the assessment proceedings.

Giving the latest position regarding rectification of under-assessments, the Secretary, Deptt. of Revenue, Expenditure and Company Law stated that the cases rectified had increased to 3711 from 3267. Cases where action was pending had come down from 1,837 to 862. In 603 cases, they were unable to agree with Audit and the matter was under correspondence with Audit. The number of cases in which rectification was not possible due to operation of time-bar had increased from 91 to 129. Out of an under-assessment of Rs. 2·29 crores reported in this para, there was a difference of opinion regarding Rs. 60 lakhs. The rest had been accepted, out of which notices of demand had been issued for Rs. 1·12 crores. A sum of Rs. 57 lakhs had been collected and the rest was in the process of collection. The amount involved in time-barred cases came to Rs. 8·5 lakhs.

The latest position regarding rectification of over-assessments was stated to be as follows. Cases since rectified had increased from 151 to 183. The number of cases in which action was pending had come down from 104 to 66. The mistakes had not been accepted in 6 cases and the matter was under correspondence with Audit. The number of time-barred cases was the same, viz. 3 cases.

In cases of over-assessment, the Committee enquired whether in the interests of justice to the assessee, the Department was competent to grant a refund (without the assessee applying for it) when the Department discovered *suo motu* that there had been over-assessment. The representative of the Central Board of Direct Taxes explained that the Department could do so, and in fact it had done so, where it was within the time-limit of four years. After this period, the Department had no power to grant a refund.

The Committee regret to find, from the latest figures placed before them, that the number of cases in which rectification of under-assessments was not possible due to operation of time-bar had increased from 91 to 129 and the amount involved from Rs. 6·96

lakhs to Rs. 8·5 lakhs. The Committee trust that the Income-tax officers would act with speed so that the number of time-barred cases would be reduced to the minimum.

Errors and omissions attributable to carelessness or negligence while computing the total income or the tax thereon—Para 45, *pages* 37-38.

5. The total amount of tax short-levied on account of errors and omissions which could have been avoided if greater care and attention had been bestowed came to Rs. 9·74 lakhs.

During evidence, the Chairman, Central Board of Direct Taxes, explaining the remedial measures adopted, informed the Committee that (i) where mistakes occurred as a result of the failure of the system, necessary steps had been taken to correct defects in the system; and (ii) where they occurred due to negligence or carelessness on the part of individuals, Income-tax Commissioners had been instructed to take action against officers responsible for mistakes, about which a progressively stricter view was being taken. The witness read out to the Committee the latest circular of the Board dated 16th June, 1964 on this subject, which stated, *inter-alia*, that if an officer was negligent or careless in his work or ignorant of the law, he should be made to realise his shortcoming and suitable action (such as warning, entry in the confidential report, censure, stoppage of increment, reversion to lower post etc.) should be taken in each case depending upon the gravity of the mistake. The circular made it clear that the Board considered this to be the personal responsibility of the Commissioners.

The Committee are given to understand that under-assessments on account of mistakes in working out the total income or tax have been frequently noticed in audit, and these mistakes could have been avoided if the officers were a little more careful. The Committee hope that the Central Board of Direct Taxes would take effective steps to eliminate such mistakes.

Sub-para (a):

6. A private limited company received a gross income of Rs. 2,25,006 during the assessment year 1957-58 from insurance agency commission. Out of this, a sum of Rs. 6,651 was paid as commission to its agents leaving a net taxable income of Rs. 2,18,355. In the assessment in February, 1958 the Income-tax Officer reckoned the company's net insurance income at Rs. 6,651 instead of Rs. 2,18,255. This resulted in a short recovery of tax to the extent of Rs. 1,09,028. The recovery of this amount had become time-barred.

During evidence, the mistake was stated to have been due to a slip on the part of the Income-tax Officer who, instead of taking the figure in the outer column on the credit side of the statement of account, took the figure in the inner column which was adjacent. It was admitted that had the officer been careful, he would not have made such a mistake. The Committee were informed that the Commissioner of Income-tax had issued a warning to this officer. In reply to a question, the Committee were informed that this case had not been checked by Internal Audit.

As regards recovery of the short levy, it was stated that although the recovery of the amount had become time-barred, they re-opened the assessment under Section 147(a) because the same officer had missed some other item. Those proceedings were reported to be still in progress, but so far as this mistake was concerned, the assessee had agreed to the rectification and a demand amounting to Rs. 61,193 had been raised and realised.

This case discloses a certain amount of negligence on the part of the Income-tax Officer, for which he has been issued a warning. The Committee would like the Board of Direct Taxes to examine whether the issue of warning was an adequate punishment in this case. The Committee were informed that this case had not been checked by Internal Audit. Even under the old instruction the Internal Audit party had to conduct a cent per cent check of cases in which the assessed tax exceeded Rs. 10,000. The Committee would like to know why this case where the assessed demand exceeded Rs. 1 lakh was not audited by the Internal Audit.

Sub-para (b):

7. According to the provisions of the Income-tax Act and the double taxation agreement entered into between India and Pakistan, relief is admissible on income which is taxable both in India and Pakistan at lower of the two rates prevailing in the two countries. Pending settlement of such relief, the assessing officer in India may keep the tax payable on that portion of income which is derived from Pakistan, in abeyance. A company declared a world income of Rs. 46,18,544 for the assessment year 1959-60. Of this, Rs. 12,43,526 was income from India and the balance was derived from Pakistan. Pending settlement of tax relief, the Income-tax Officer decided to keep the tax payable on the Pakistan income in abeyance and to raise demand on the Indian income at the effective rate of tax which was 51.5 per cent. But while raising the demand, the tax was erroneously calculated on 51:5 per cent of the Indian income (*i.e.* Rs. 6,40,216) instead of at 51:5 per cent of the

Indian income of Rs. 12,43,526. This resulted in a short demand of Rs. 3,10,602. The Ministry accepted this mistake and had stated that appropriate action to raise the demand had since been taken.

During evidence, it was stated that the mistake had been rectified and Rs. 2,18,375 had been collected out of Rs. 3,10,602. The remainder was proposed to be adjusted against some refund due to the company earlier.

In a note furnished subsequently to the Committee it was stated that the mistake occurred due to rush at the end of the financial year and that the officer concerned had been warned. The explanation about rush of work etc. is not quite convincing. The Committee take a serious view of such mistakes and hope that necessary steps will be taken to avoid their recurrence.

Sub-para (c):

8. In the case of a firm a totalling mistake of Rs. 20,000 was made in adding up depreciation allowances on sundry assets resulting in an under-assessment of Rs. 16,874 leviable on the firm and on the partners. The Ministry had informed audit that of this sum, a sum of Rs. 1,800 had been recovered from the firm.

During evidence, it was stated that the mistake was due to a clerical error and that steps were being taken to recover the demand by adjustment against certain amounts due to the party. According to a note furnished at the instance of the Committee, since the mistake was only a totalling mistake, the Commissioner of Income-tax had not considered it necessary to obtain the explanation of the Income-tax Officer. **This is yet another case of carelessness resulting in under-assessment. The Committee would like to be informed of the progress of recovery of the demand in this case.**

Sub-para (d):

9. An assessee in his return of income for the assessment year 1950-51 had indicated, among other items, a sum of Rs. 1,48,500 representing his net income from dividends and another sum of Rs. 9,051 representing share of profits from an unregistered firm. The Income-tax Officer while computing the total income omitted to take into account these two items and determined a loss of Rs. 80,893 for that year and this loss was carried forward and set off against the incomes for the assessment years 1951-52 and 1952-53. The net effect of the mistake committed by the Income-tax Officer resulted in short recovery of tax of Rs. 14,227.

During evidence, the Committee were informed that the I.T.O.'s explanation was that the mistake had occurred due to an oversight while giving effect to the appellate orders, and the Commissioner found it difficult to fix responsibility on any particular individual. The Board did not agree with the Commissioner. They had told him that a stricter view should be taken of the case, and accordingly, he had been asked to pursue the matter.

The Committee were further informed that instructions had been issued to all officers that they should exercise proper care in carry ing out the revision of assessments consequent upon appellate orders. Commissioners of Income-tax had also been told that inspecting Assistant Commissioners should, in the course of their inspection, verify income-tax orders giving effect to appellate decisions which involved a reduction in income of amounts exceeding Rs. 50,000.

The Committee would like to be informed of the outcome of this case. They trust that as a result of the instructions said to have been issued, such mistakes would not recur.

Failure to follow correctly the provision of the Finance Acts while working out the tax: Rs. 39·85 lakhs—Para 46, page 38.

10. The types of mistakes which were found on account of the failure to apply the provisions of the Finance Acts while computing the tax were as under:

(i) Incorrect computation of super-tax payable by companies: Rs. 28·54 lakhs.

(ii) Wrong application of rate of tax in the case of a foreign company: Rs. 1·66 lakhs.

(iii) Non-levy of surcharge on earned income included in the total income exceeding Rs. one lakh: Rs. 22,842.

(iv) Non-levy of special surcharge on unearned income: Rs. 9·43 lakhs.

The Committee enquired about the recovery made in respect of the amounts mentioned in all the cases in sub-items (i) to (iv). The Chairman, Central Board of Direct Taxes, stated that they had figures only in respect of individual cases dealt with in the Audit Report in para 47 to 50. For the future, the witness promised to enter into an arrangement with Audit and furnish the information category-wise also.

In view of the magnitude of the tax effect (Rs. 40 lakhs), the Committee would suggest that special steps may be taken to make the assessing officers fully conversant with the provisions in the Finance Acts, year after year, by means of refresher course or such other suitable method.

Incorrect computation of super-tax payable by companies—Para 47, *pages* 39-40.

Sub-para (a):

11. Under the provisions of the Finance Acts, 1956 to 1959 super-tax payable by a company on its total income is fixed at a percentage, but from this, a rebate is allowed at varying rate depending upon the class of the company and the source of its income. This rebate, however, had to be reduced in the event of the company distributing dividends on its ordinary shares in excess of 6 per cent of its paid-up capital. Such a reduction in rebate would thus have the effect of increasing the super-tax liability of the assessee company. Where, however, the amount of rebate due was insufficient to absorb the deduction on account of excess distribution of dividends, the unabsorbed portion was to be carried forward and set off against the rebate admissible in the subsequent years. This carry forward of unadjusted reduction was to be effected even in a case where the company concerned had no positive income in the year in which the excess distribution of dividend took place. It was noticed that in 9 cases where the companies concerned had no positive income in the year in which the excess distribution of dividend took place, the carry forward of unadjusted reduction in rebate of super-tax was not effected resulting in a total short recovery of tax amounting to Rs. 4·24 lakhs.

The Committee were informed during evidence that there was reasonable cause for the officers to construe that the super-tax need not be given or should not be taken into account in a year in which there was no positive income. The correct position was clarified to all the officers on 13th November 1963, and the mistake had been rectified.

The demand raised was Rs. 3·14 lakhs in two cases, and out of this Rs. 3·01 lakhs had been collected and Rs. 13,000 were still pending realisation. In other five cases, the tax had been levied but the collection was only Rs. 13,000 and the balance remained to be collected.

In view of the fact that lapses in computing super-tax payable by companies are on the increase, the Committee would suggest that a general review may be undertaken and suitable instructions issued to the assessing officers.

Sub-para (b):

12. As pointed out in sub-para (a) above, the net super-tax payable by a company depends upon the correct calculation of the rebate to be allowed from the maximum rate of super-tax. The calculation of this rebate in turn depends upon (i) the proper calculation of the amount of dividend distributed during the previous year, and (ii) on a proper calculation of the paid-up capital as on the first day of the previous year. It was noticed in the test audit that in 15 cases owing to incorrect calculation of the paid-up capital as on the first day of the previous year and in some cases even due to failure to effect reduction in rebate at all wherever there had been a distribution of dividend in excess of 6 per cent of the paid-up capital, there was an under-assessment of super-tax to the extent of Rs. 3·40 lakhs.

During evidence, the Committee were informed that out of 15 cases, the audit objection had been accepted in 10 cases. In nine cases, the assessment had been revised and in one case it was time-barred. The audit objection had not been accepted in four cases, and the fifth case was pending. The demand raised in 9 cases was Rs. 1·58 lakhs and the amount collected was Rs. 1·16 lakhs. In five cases, the amount to be collected was Rs. 41,000.

The Committee would like to be informed of the final position regarding recovery in the above cases. The observations of the Committee regarding sub-para (a) above apply to the cases mentioned in this sub-para also.

Wrong application of rate of tax in the case of a foreign company—Para 48, page 40.

13. According to the provisions of the Finance Acts, the rate of super-tax payable by a foreign company which makes prescribed arrangements for declaration and payment of dividend in India and deduction of tax therefrom, is less than that payable by a company which does not make any such arrangement. A foreign company which has not made the prescribed arrangements and which consequently should have been assessed to super-tax at 43 per cent for the assessment year 1960-61 was charged to super-tax at the lower rate of 25 per cent applicable to companies which make the prescribed

arrangements referred to. This had resulted in an under-assessment of Corporation Tax payable by the company to the extent of Rs. 1,65,731. The amount has since been collected.

During evidence, the Committee were informed that by mistake, the rate applicable to the Indian company had been applied to the foreign company by the Income-tax officer and that he had been warned by the Commissioner.

The Committee hope that such mistakes would, in future, be avoided altogether.

Non-levy of surcharge on earned income included in the total income exceeding Rs. 1 lakh—Para 49, page 40.

14. The Finance Acts of 1961 and 1962 lay down that where the earned income included in the total income exceeds Rs. 1 lakh, an additional surcharge equal to 10 per cent of the tax on the earned income in excess of Rs 1 lakh, included in the total income, is payable. In the course of test audit it was noticed that this provision was lost sight of in 11 cases in one Commissioner's charge while computing the assessments for the years 1961-62 and 1962-63. The consequent short levy amounted to Rs. 22,842.

During evidence, the Committee were informed that the objection had been accepted in all the cases. The demand raised was stated to be Rs. 21,930. Out of this, Rs. 17,397 has been realised and the balance of Rs. 4,533 was under collection. It was explained that the mistake had happened because the rate of additional surcharge which was 5 per cent till 1960-61 had been increased to 10 per cent from 1961-62, but the old rate of 5 per cent was wrongly applied in these cases. In response to the suggestion by the Committee, the Chairman, Central Board of Direct Taxes, promised to go into the matter to see why 11 such cases should have occurred in one Commissioner's charge.

The Committee would like to be informed of the outcome of the investigation.

Non-levy of special surcharge on unearned income—Para 50, page 40

15. Under the provisions of the Finance Acts, a special surcharge equal to 15 per cent of the tax on account of unearned income included in the total income of the assessee is leviable. It was noticed in test audit that in 694 cases, this special surcharge was omitted to be levied, leading thereby to a total under-assessment of Rs. 9.43 lakhs.

The Committee were informed, during evidence, that out of 694 cases details had been given by audit regarding 214 cases. Out of these 214 cases, the objections had been accepted in 170 cases; they had not been accepted in 14 cases; they had been partly accepted in 3 cases; and in regard to the remaining cases, the matter was under correspondence with audit. In the accepted cases, demands had been raised and part of the amount had been realised.

The Chairman, Central Board of Direct Taxes, informed the Committee that the Commissioners of Income Tax in Calcutta and Bombay had been asked to carry out a review about the non-levy of special surcharge on unearned income, and the results of the review were awaited. The review would cover assessments made during the last three years and would extend to all cases where the assessed income exceeded Rs. 1 lakh. The Board was contemplating the issue of supplementary instructions in this regard that cases which were likely to be time-barred should be reviewed first.

The Committee would like to be informed of the complete position regarding the 634 cases and the progress of recovery. They would also like to be informed of the results of the review about non-levy of special surcharge on unearned income said to have been ordered in the Income Tax Commissioners' charges in Bombay and Calcutta. The Committee learn from a note furnished at their instance that instructions have been given by the Ministry that the Income Tax Officers should check up the assessments of previous years when they take the next pending assessments and take necessary corrective steps to rectify the mistakes. As the procedure laid down by the Ministry may result in assessments becoming time-barred, special steps should be taken to prevent loss of revenue on this account. They trust that instructions for the prior review of cases likely to be time-barred would have been issued by now.

Incorrect application or failure to apply the provisions of the Income-tax Act and the rules framed thereunder in assessment proceedings—para 51, *pages* 40-41.

16. The bulk of the under-assessments noticed in audit had arisen on account of failure to apply the provisions of the Income-tax Act and the rules framed thereunder or mistakes committed in applying the said provisions. The total amount of under-assessment resulting therefrom is Rs. 121.66 lakhs.

The types of mistakes committed can be broadly classified as follows:

	(In lakhs of rupees)
(*i*) Irregular computation of salary income	1·57
(*ii*) Mistakes committed in determination of income from property	4·18
(*iii*) Mistakes committed while allowing deductions permissible under the head "Profits of business or profession"	41·47
(*iv*) Mistakes committed in the computation of income from other sources	1·90
(*v*) Mistakes committed incomputing income from "capital gains"	3·13
(*vi*) Excessive reliefs or rebates	18·52
(*vii*) Omission to take action to levy additional super-tax on companies in which the public are not substantially interested	30·67
viii) Non-levy of statutory penal interest	2·29
(*ix*) Non-rectification of provisional share income of partners on the completion of the assessment of the firms	16·45
(*x*) Omission to apply properly the provisions of the Income-tax Act, regarding adding of income of other persons in tax payer's assessment	1·48

During evidence, the Committee were informed that there was a decrease in the percentage of cases in which under-assessment was noticed, but there was an increase in the amount involved. The representative of the Central Board of Direct Taxes pointed out that in 1962 the total number of cases checked was 13,357 and the mistakes detected were 12 per cent; in 1963, the total number of cases checked was 38,023 and the mistakes detected were 12.7 per cent; and during the period under review the total number of cases checked was 82,495 and the mistakes detected were only 6·3 per cent.* In view of the large number of mistakes that continued to occur it was stated that a general review had been ordered, to start with, in Bombay and Calcutta. The instructions were that the Inspecting Assistant Commissioners should look into pending cases particularly those that were likely to get time-barred. It was stated that it would be some time before the results of the review were known and that in the light of experience, the review would be extended to other important places.

*According to Audit, this percentage is 16, if the mistakes in proceedings are also included.

The dimension of under-assessment due to mistakes in calculation of development rebate and depreciation has been showing an increase during the past two or three years. The Committee learn from a note furnished at their instance that instructions have been given to the Income Tax Officers that while completing the pending assessments, the past assessments should be checked up and corrective action taken wherever necessary. The Committee are glad that a review had been ordered, to begin with, in Bombay and Calcutta of such cases. The Committee trust that the general review would prove to be highly fruitful. They would like to be informed of the results thereof. The feasibility of extending this review to other important charges may also be examined in the light of the experience gained in Bombay and Calcutta.

Irregular computation of salary income—para 52 pages 41-42.

17. According to the Income-tax Act, provision of rent-free quarters or of quarters at concessional rent is to be regarded as a taxable perquisite assessable under 'salary'. The Income-tax Rules prescribe that in the case of rent-free accommodation the perquisite should be evaluated at 10 per cent (if the quarters are unfurnished) and at 12½ per cent (if the quarters are furnished) of the salary of the employee. It sometimes happens that in the case of private employers the rental value of accommodation provided for the employee rent-free is far in excess of the 10 per cent/12½ per cent standard. It has, therefore, been prescribed in the Income-tax Rules that where the rental value exceeds 20 per cent if unfurnished or 25 per cent if furnished, of the salaries of the employee, the excess of fair rental value of the accommodation over and above 20 per cent/25 per cent of salaries of the employee should also be included in the value of the perquisite. It was noticed that these provisions were not taken into consideration in respect of the assessments of an assessee for the years 1959-60 to 1961-62. The under-assessment of tax involved in this case was Rs. 16,000.

During evidence, the Committee were informed that the audit objection had been accepted and from 1962-63 the assessment was being made correctly. In regard to the assessment for the years 1959-60 to 1961-62, it was stated that action had been taken to rectify the assessment but the matter was in dispute and the tax had not yet been recovered. It was reported to be a case of individual failure, the same officer having adopted 10 per cent under a wrong impression for all the three years, whereas the rules prescribed more.

The Committee were also informed that the accommodation was used partly for office purposes and partly for residential purposes,

and the Income-tax Officer took the proportion as one-third and two-thirds. This point was in dispute and until it was decided, it was not known whether there would be loss of revenue or not. So far as the application of the law was concerned, the officer was definitely wrong, however, if ultimately there was no loss of revenue a lenient view would be taken of the officer's mistake; and therefore, the Department was awaiting the outcome of the appeal before calling for the explanation of the Income-tax Officer.

The Committee would like to be apprised of the result of the appeal and the action taken thereon.

The Committee are given to understand that wrong calculation of value of perquisite is frequently noticed in audit. The Committee therefore suggest that instructions may be issued that calculations of perquisite should be specially checked by the Inspecting Officers.

Mistakes committed in the determination of income from property—Para 53, *page* 42.

18. The owner of a house property is liable to pay tax under the Income Tax Act on the *bona fide* annual value of such property. Where the property is in the occupation of the owner for his residence, the annual value thereof shall first be determined in the same manner as if the property had been let to a tenant and the amount so determined shall be reduced by one half of it or Rs. 1,800 whichever is less. Where the property is owned by two or more persons whose shares are definite and ascertainable, the income from the property as a whole is first ascertained and then allocated according to the share of each person. Thus in such a case, the deduction of Rs. 1,800 for own occupation is to be allowed with reference to the property and not to each of the co-owners. In a case of joint ownership it was noticed that this deduction was allowed to each of the four joint owners of the property for a number of years. The consequential short levy of tax for the assessment years 1954-55 to 1960-61 amounted to Rs. 24,800.

During evidence, the Committee were informed that on the basis of the audit objection action had been taken to rectify the short-assessment. According to a note furnished at the instance of the Committee the Department explained that the legal position in respect of the matter was not free from doubt and that the Income-tax Officer had relied on a decision given in a similar case in revision, wherein allowance for self-occupation was separately given in respect of each of the co-owner. The I.T.O.'s explanation had been accepted by the higher authority. The Committee were informed,

during evidence, that as the matter was not free from doubt, it had been referred to the Ministry of Law for their opinion. Thereafter, it was proposed to issue general instructions for the guidance of all Income-tax Officers.

The Committee would like to be informed of the opinion of the Law Ministry and the instructions issued in the light thereof.

Mistakes committed while allowing deductions under the head "Profits of business or profession"—Para 54. pages 42-43.

19. The most common mistakes in the matter of deduction permitted while computing the income under "business" were:—

(a) incorrect allowance of development rebate;

(b) excess or incorrect allowance of depreciation;

(c) excess allowance of entertainment expenses in the case of companies;

(d) deductions allowed in respect of donations paid to political parties;

(e) deductions given for inadmissible expenses; and

(f) irregular allowance of bonus, and incorrect allowance of commission paid to a partner by a firm.

Some of the cases are dealt with in the following paragraphs.

Incorrect allowance of development rebate—Para 55, pages 43-44

20. In paragraph 24 of the Audit Report (Civil) on Revenue Receipts, 1963, it was reported that in 102 cases Audit noticed incorrect working of development rebate involving and under-assessment of tax of Rs. 5·11 lakhs. Similar mistakes were found in the course of audit for the period under report also, and the total number of cases in which development rebate was wrongly allowed was 165 involving an under-assessment of Rs. 15.54 lakhs. Development rebate at 25 per cent of the cost of the new plant and machinery is permissible if the following conditions are satisfied:—

(i) It is admissible only on new plant and machinery and not on accessories thereto.

(ii) An amount equal to 75 per cent of the development rebate claimed shall be debited to the Profit and Loss Account of the year in which the claim is made and credited to a reserve account which must not be utilised for distribution of profits or dividends or remittance out of India within a period of ten years.

(iii) The assets on which the development rebate had been obtained should not be sold within a period of ten years to any party other than the Government.

(iv) The amount allowable as development rebate will be restricted to the total income of the year if the total income is less than the development rebate allowable and where the total income is nil or there is a loss, the development rebate not allowed in that year shall be carried forward and allowed in subsequent years.

Some instances where, even though the conditions referred to above were not fulfilled, the development rebate was allowed are mentioned below.

Sub-para (a):

21. In the case of a company, condition Nos. (ii) and (iv) referred to above were not fulfilled for the years 1959-60 to 1961-62 but still development rebate amounting to Rs. 10.40 lakhs leading to an under-assessment of tax of Rs. 5.02 lakhs was allowed. The Ministry had accepted the mistakes and had stated that notices for re-assessment had been served on the assessee for all the years involved. Report regarding the completion of these proceedings and recovery of tax was awaited.

During evidence, it was admitted that in this particular case, there was a *bona fide* mistake by the I.T.O. According to a note furnished at the instance of the Committee, the point whether creation of a development rebate reserve by transfer from an existing reserve satisfied the requirement of law was not clear to the officers, and the Commissioner of Income Tax had since issued instructions to all officers explaining the correct position. The Committee were informed, during evidence, that the assessment had since been corrected and demands had been raised, but recovery had not yet been effected.

Outlining the measures taken to avoid a recurrence of such mistakes, the Chairman, Central Board of Direct Taxes, stated that general instructions had been issued to Income-tax Officers to prescribe a comprehensive Development Rebate Register, containing columns giving all details necessary for the purpose of determining such allowance. It was expected that with the proper maintenance of this register, such mistakes would not occur in future. Commissioners of Income-tax had also been instructed to give the staff adequate training in the calculation of development rebate and depreciation allowance. As already stated (*vide* para 16) a general review of these cases had also been ordered in Bombay and Calcutta.

The Committee appreciate the complicated nature of the law on this subject and hope that as a result of the steps taken, there will be a marked improvement in the position regarding the cases involving calculation of development rebate. The Committee may be apprised of the progress of recovery of tax in this case.

Sub-para (b):

22. In the case of a manufacturing company even though condition No. (i) referred to above was not fulfilled in respect of certain items, development rebate was given on accessories to machinery resulting in an under-assessment of tax of Rs. 1.08 lakhs for assessment years 1958-59 to 1960-61. The Department had stated that proceedings to reassess the escaped income had been started.

During evidence, it was explained that development rebate had been allowed on items like tunnel pipe, furnace tiles etc. and the Department had accepted the audit view that these could not be considered as plant and machinery. They had revised the assessment and raised a demand of Rs. 1,96,000 but the amount had not yet been recovered.

The Committee were informed that the matter was not entirely free from doubt. It was difficult to enunciate what constituted accessories as distinct from parts of machinery. What was to be treated as accessories depended on the type of business or industry. There were also conflicting judicial decisions on this point. The Board had given a broad direction that a unit should be a self-contained one to be classified as 'plant and machinery'. Obviously, individual I.T.Os. had to decide the matter on the facts of the case.

According to a note furnished at the instance of the Committee, the explanation of the I.T.O. was that the assets in question were, in his opinion, "plants" and the fact that depreciation had been allowed on these items as plants went to show that development rebate had also to be allowed on such plants. He had further pointed out that two benches of the Appellate Tribunal had also taken the same view. The explanation of the I.T.O. had been accepted by the Commissioner of Income-tax. Bombay High Court in 37 ITR 142 and Mysore High Court in 52 ITR 615 had held different views regarding what constitutes "machinery or plant". In view of the conflicting views, rectifications were carried out pursuant to the audit objection. However, the Supreme Court is stated to have since held in 53 ITR 165 that if a machine is machinery for the purpose of allowing normal depreciation, it is machinery also for allowing extra depreciation and the same principle, it has been stated, will apply to the present case also.

The Committee would like to be informed of the action taken after the Supreme Court's judgment re: (i) the present case and (ii) such cases generally in future. The Committee would also suggest that suitable instructions should be issued to all Income Tax Officers in the light of the judgment of the Supreme Court.

Sub-para (c):

23. In the case of 12 companies, condition No. (ii) referred to above was not satisfied in that the amount carried to the reserve was utilised for paying out dividends and hence the development rebate should have been withdrawn. This was not done, as a result of which there was an under-assessment of tax of Rs. 71,539. The Ministry had stated that of this sum, Rs. 28,036 had since been recovered from the companies. A report regarding the recovery of the balance was awaited.

During evidence the Committee were informed that the audit objection had been accepted in 11 cases out of 12 and a demand of Rs. 49,000 had been raised and realised. In one case the objection had not been accepted and the matter was under correspondence with Audit. The Committee were also informed that, with a view to avoiding a recurrence of such mistakes, necessary instructions had been issued on 3-7-1964.

The Committee would like to be informed of the final position regarding the case which was under correspondence with Audit.

Sub-para (d):

24. The condition at (iii) above was not observed in eight cases with the result that the development rebate given in all these cases should have been withheld. This was omitted to be done resulting in an under-assessment of tax of Rs. 1·11 lakhs. The Ministry had stated that the mistake had since been rectified in one case and action for rectification had been taken in another.

During evidence, the Committee were informed that the audit objection had been accepted in all the cases. The demand raised was Rs. 1,18,231, out of which Rs. 82,928 in respect of 6 cases had been realised and the balance pertaining to two cases was under recovery.

The position regarding recovery of the amount in the two outstanding cases may be intimated to the Committee.

.. 24A. The Committee are alarmed at the large number of cases of under-assessment of income tax due to incorrect determination of Development rebate. The rebate was incorrectly allowed in 165 cases and that resulted in an under-assessment of Rs. 15.54 lakhs. The Committee suggest that comprehensive and clear instructions may be issued to all income tax Officers regarding determination of development rebate for calculation of income tax so that large scale under-assessments are avoided. Suitable action should also be taken in cases of under assessments resulting from negligence or obvious wrong applications of the provisions of the Income Tax Act.

Excess or incorrect allowance of depreciation—para 56, *pages* 44-45.

25. It was stated in paragraph 25 of the Audit Report (Civil) on Revenue Receipts, 1963 that mistakes in the calculation of depreciation allowance resulting in under-assessment to tax were numerous. The position continued to be so in the period under report also. The total number of cases in which such mistakes had been found were 513 and the amount of under-assessment of tax involved was Rs. 18·29 lakhs. The grant of depreciation allowance is subject, *inter alia*, to the following conditions under the Income-tax Act, 1922 --

(i) The assessee should furnish particulars relating to the description of the asset, its written down value, the number of days for which it worked during the year etc., which are prescribed in the rules.

(ii) If the asset was used only for a part of the period during the previous year, only proportionate depreciation calculated according to the number of complete months of the user during the year should be allowed.

(iii) Depreciation should be allowed only at the rates prescribed in the rules.

(iv) In the case of initial depreciation it is admissible only on new building, plant and machinery installed before March 31, 1956.

Some instances where depreciation allowance was calculated in disregard of the above conditions and allowed as deduction, are indicated below:—

Sub-para (a):

26. In the case of a company the condition referred to in (i) above was not fulfilled. Still the Income-tax Officer allowed depreciation to the extent of Rs. 1:75 lakhs resulting in an under-assessment of tax of Rs. 90,631. Proceedings to re-assess the amount were stated to have been taken.

During evidence, the Committee were informed that the audit objection had been accepted and action was taken, but the matter had gone to the court and the proceedings had been stayed by the court.

The Chairman, Central Board of Direct Taxes, outlining the remedial measures taken, informed the Committee that the old form in respect of depreciation allowance was not found adequate and did not show the various additions to the plant and machinery from time to time. A revised comprehensive form had since been prescribed for maintaining a record of depreciation allowance. This revised form was stated to contain all the particulars necessary for the proper calculation of depreciation allowance, and it was hoped that its introduction would go a long way to reduce the mistakes. It was stated that instructions had also been issued to the Commissioners of Income Tax to impart suitable training to the staff employed on the calculation of depreciation allowance, especially in company circles.

The Committee note that the matter is before the court in this particular case. They would await the outcome of the court proceedings.

Sub-para (b):

27. Condition No. (ii) was not satisfied in the case of another company where full depreciation was allowed for 1957-58 even where the assets were used for six months only. This resulted in an under-assessment of tax of Rs. 61,017.

During evidence, the Committee were informed that the mistake was admitted. It was stated that the amount had been reassessed and recovered in full. According to a note furnished at the instance of the Committee, the I.T.O. had explained that the mistake was committed inadevertently. **The Committee have been informed that enquiry has been made from the Commissioner as to what action has been taken on the I.T.O.'s explanation and his reply is awaited. The Committee may be informed of the action taken against the official concerned.**

Sub-para (c):

28. In two cases, the third condition referred to above was not observed and depreciation was allowed at rates different from the rates prescribed, thus resulting in an under-assessment of Rs. 64,624.

in the first case for the years 1956-57 to 1960-61 and Rs. 35,062 for 1957-58 to 1961-62 in the second case.

During evidence, it was explained that in regard to the first case which related to an electricity supply undertaking, the general rates applicable to electricity supply undertakings was 5 per cent but the I.T.O. had by mistake allowed it at 10 per cent.

In the second case, which related to litho machinery, it was stated that there was no fixed rate for printing machines. However for air photographic apparatus, 25 per cent had been fixed and the Income-tax Officer thought that photo offset machinery was analogous to it and applied the same rate, whereas actually, he should have applied only 7 per cent which was the rate applicable to cases where no rate of depreciation had been fixed. It was stated that there were two officers involved and the mistake committed by the first officer was continued by his successor, with the result that the same mistake was committed continuously for four years.

The Committee would like to be informed of the progress made regarding recovery of the additional demand raised in these two cases and the action taken aaginst the officers responsible for incorrect assessments.

Sub-para (d):

29. The fourth condition was not fulfilled in five cases where initial depreciation was allowed on building erected and on machinery and plant installed after 31st March, 1956 involving an under-assessment of tax of Rs. 1,39,826. The Ministry had replied that in three cases involving an under-assessment of tax of Rs. 16,058 the mistakes had been rectified and of this Rs. 12,931 had since been recovered.

During evidence, the Committee were informed that in regard to the five cases a demand had been raised for Rs. 1,88,761, out of which Rs. 1,10,000 had been recovered and the balance was under recovery.

The progress of recovery of the outstanding amounts in respect of all the cases may be communicated to the Committee.

In view of the fact that as many as 513 cases of under-assessment due to incorrect allowance of depreciation were detected involving a sum of Rs. 18.29 lakhs, the Committee suggest that adequate training should be given to the staff especially in company circles. The

large number of wrong assessments as a result of incorrect calculation of depreciation allowance makes it imperative that speedy action is taken to train the staff properly in this respect.

Excessive allowance of entertainment expenses in the case of companies—para 57, page 46.

30. Under the Income-tax Act, 1922, as amended by the Finance Act of 1961, in determining the assessable profits of a company, any expenditure in the nature of entertainment expenses was to be allowed only up to certain prescribed limits as laid in the Act irrespective of the actual expenditure incurred on entertainment.

In the course of test audit, it was noticed that in several cases of companies relating to the assessment year 1961-62, the limits laid down by the Income-tax Act were ignored and consequently excess amounts on account of entertainment expenditure were allowed. In seven such cases, the short levy of tax on account of such excess allowance came to Rs. 0.45 lakhs.

In two cases, the assessment had since been rectified and the Ministry had reported that re-assessment proceedings had been taken in another two cases.

During evidence, the Committee were informed that all these cases had been admitted and rectified. Demands for Rs. 40,596 had been issued and Rs. 33,567 had been collected, and the remainder was stated to be under recovery.

The Committee would like the Board of Direct Taxes to take suitable steps to ensure that Income Tax Officer keep themselves abreast of the changes in the provisions of the Income Tax Act, as amended by the Finance Acts, from time to time.

Deductions allowed in respect of donations paid to political parties—para 58, page 46.

31. Donation paid to a political party is not admissible as a deduction in computing the income under the head "Profits and gains of business." In one case, it was noticed that a sum of Rs. 50,000 given as a donation by a private limited company to a political party was allowed as a deduction while determining its total income for the assessment year 1962-63. The under-assessment of tax on account of this incorrect deduction is Rs. 27,500.

During evidence, it was explained that the Income-tax Officer wrongly thought that it was an allowable expenditure. The audit objection had been accepted and the mistake had been rectified. **The Committee were also informed that the Department had not come across any other similar case.**

The Committee were given to understand that in another case where a similar question arose, a reference was made to the Board and the Board had given a ruling that that amount should not be allowed as a deduction. The Committee suggest that when such references are received and the Board gives a ruling, all other Commissioners may also be informed simultaneously that such mistakes may not occur and uniform application of law is ensured.

Deductions given for inadmissible expenditure—para 59, *pages* 46-47.

Sub-para (a):

32. In the case of a foreign company engaged in contract work with an Indian company, the Income-tax Officer allowed a deduction of Rs. 72,637 in the assessment year 1961-62 on account of expenditure on staff maintained beyond the stipulated date of the contract. The Income-tax Officer had, however, mentioned in the assessment order that the assessment would be rectified if the Indian company reimbursed the amount.

The entire amount was subsequently reimbursed by the Indian company, but a sum of Rs. 43,880 only was added by the Income-tax Officer treating that only 60 per cent of the sum of Rs. 72,637 was taxable in India. As, however, the amount represented reimbursement of expenditure incurred in India and not an income from the contract work, the entire amount should have been assessed and the action in limiting it to 60 per cent was incorrect. The under-assessment of tax involved in this case was Rs. 17,000 approximately.

During evidence, the Committee were informed that a demand for Rs. 18,722 had been raised but the amount had not yet been recovered. It was stated that the foreign company had to get some money from the Indian company and this had been attached.

According to a note furnished at the instance of the Committee, the explanation of the I.T.O. was being obtained.

A final report regarding the recovery of the demand may be submitted to the Committee. Action taken against the officer responsible for this omission may also be intimated.

Sub-para (b):

33. A company, in its return of income furnished for the year 1961-62, deducted from its total income a sum of Rs. 13,639 being expenditure incurred in earning agricultural income. This expenditure is inadmissible since agricultural income is exempt from tax. The Income-tax Officer, instead of adding it back to the income returned allowed the deduction which resulted in an under-assessment to the extent of Rs. 27,278. Further, a sum of Rs. 3,83,980 debited to a rserve account for payment of bonus to the employees was allowed instead of the actual amount disbursed as bonus in that year which was Rs. 2,08,980. Consequently, the short levy of tax on account of these mistakes was Rs. 91,024 which had bee recovered.

During evidence, the Committee were informed that, so far as deduction allowed on account of expenditure incurred in earning agricultural income was concerned it was a simple clerical error. So far as bonus was concerned, it was admitted that it was wrong on the part of the Income-tax Officer to have proceeded in the way he had done. According to a note furnished at the instance of the Committee, the explanation of the I.T.O. was that the mistake was due to oversight. The Committee have been informed that a warning has been issued by the Commissioner to the I.T.O.

Sub-para (c):

34. Wealth Tax payable by companies is not allowable as deduction for income-tax purposes. In two cases, wealth tax of Rs. 1,33,583 was, however, allowed as admissible expenditure in arriving at the income from business leading to an under-assessment of tax by Rs, 58,534. The Ministry had stated that rectification order had since been passed and the additional demand also realised.

According to a note furnished at the instance of the Committee, in both the cases the I. T.Os. had explained that the mistake occurred through oversight. The Committee have been informed that the I. T. Os. have been warned to be careful in future.

The Committee would like to point out that the cases mentioned above do not involve any complicated principle of income determination and the mistakes could have been avoided if the officers had exercised due care. They trust that mistakes due to "oversight" will not recur.

Irregular allowance of bonus and incorrect allowance of commission paid to partners by firms—para 60, pages 47-48.

35. According to the Income-tax Act, any sum paid to an employee as bonus is an admissible deduction in arriving at the business income of the employer. The word "paid" has been defined in the Income-tax Act as actually paid or incurred according to the method of account followed by the assessee. One instance where wrong allowance had been given by the Income Tax Officer is given below.

Sub-para (b):

Though on a commercial basis, the commission paid by a firm to a partner is set off against the profits of the firm it is not allowable in computing the income of the firm for purposes of tax under the Income tax Act. It was noticed that in the case of a registered firm, commission paid to one of its partners was not added back to the income of the firm. This had resulted in an under-assessment of tax to the extent of Rs. 55,000 (approximately) for the assessment years 1957-58 to 1962-63.

During evidence, the Committee were informed that the mistake had been accepted, and the assessment had been revised, making an additional demand of Rs. 1,06,226. It was stated that the amount had not yet been collected because time had been allowed up to the end of September, 1964 due to difficulties in the matter of payment.

In a note furnished at the Committee's instance, it has been stated that the explanations of the officials concernad are awaited.

The Committee would like to be informed of the progress of recovery of the additional demand of Rs. 1,06,226 raised in this case They find that the mistakes have been committed over a number of years from 1957-58 to 1962-63. They would like to be apprised of the action taken against the officials responsible for this lapse.

Mistakes committed in determining income under "capital gains"—Para 62, pages 48-49.

36. Under the Income-tax Act, 1922, an assessee was liable to pay tax on capital gains arising from the transfer of a capital asset by way of sale exchange or relinquishment of the asset. The amount of capital gains should be determined by deducting from the sale price the actual cost of the asset to the assessee plus any expenses incurred solely in connection with the transaction. If, however, the

capital asset became the property of the assessee before the first day of January, 1954, an option was allowed to deduct from the sale price *not* the actual cost of purchase, but the market value of the asset as on 1st January, 1954.

A company was holding 400 shares of the face value of Rs. 250 in another company prior to the 1st January, 1954. These shares were purchased somewhere in 1934 for Rs. 1,05,400. Sometime after 1st January 1954, the company was allowed 5000 bonus shares. These 5400 shares were converted into 27000 shares of different denomination (Rs. 50 each) in 1958. Thus, the company became the owner of the new set of shares after 1st January, 1954. In 1960, 5000 shares of the new denomination were sold by the assessee company for Rs. 11,93,620. While computing capital gains for the assessment year 1961-62 from the sale of the new shares, the Income-tax Officer allowed the assessee to substitute what the assessee stated as the market value of the shares as on 1st January, 1954 for the actual cost with the result that the computation resulted in a capital loss of Rs. 7,16,952. This computation was irregular because the company became the owner of the/shares sold in 1960 only after 1st January, 1954 and under the law it could not exercise the option to substitute a fictitious fair market value of shares as on 1st January 1954, inasmuch as these particular shares were not in existence on that date. The irregular computation of capital gains in this case resulted in an under-assessment of tax of not less than Rs. 2.78 lakhs.

During evidence, the Committee were informed that the officer failed to distinguish between the original and the converted shares. He lost sight of the fact that the converted shares did not exist at the material time and the market value was for the original shares and not for the converted ones. The mistake had been accepted, and action to rectify the under-assessment was under way.

In a note submitted at the Committee's instance, it has been stated that originally the objection was not accepted, but the matter had been reconsidered and the Commissioner of Income-tax had been directed by the Board to get the assessment revised. The point whether on sale of shares received on conversion after 1-1-1954 the fair market value as 1-1-1954 should be substituted for the original cost or not in computing the capital gains on sale, was not free from difficulty. It has been stated that the I.T.O genuinely considered that the fair market value could be substituted for the cost in such a case, and in the circumstances, no action is considered necessary against the I.T.O.

The Committee appreciate that the point involved in the present case in computing the capital gain was not free from doubt. They would like to know the final outcome of the case.

Excessive relief and rebate—Para 63, pages 49-50

Sub-para (a): (1) and (2):

37. The income of new industrial undertakings is exempt from taxation to the extent of 6 per cent of the capital employed. While checking up some of the assessments in test audit where this relief has been given by the Income-tax Department, it was found that excessive reliefs had been allowed:

(i) by giving a rebate even where there was no profit but a loss;

(ii) by incorrect computation of the capital employed for purposes of application of the 6 per cent exemption; and

(iii) by giving the rebate to industrial undertakings which had employed old assets.

The total excessive relief on this account came to Rs. 10.29 lakhs spread over 25 cases. A few instances where this mistake came to the notice of Audit are mentioned below.

38. (1) One of the conditions for admissibility of the above-mentioned tax relief is that the industrial undertaking should not be formed by splitting up or by reconstructing a business already in existence or by transfer to it of building, machinery and plant previously used in any other business. In two cases, it was noticed that the Department allowed the tax relief to industrial undertakings which had employed assets previously used in other business. This had resulted in an under-assessment of tax of Rs. 88,762. The Ministry had stated that the mistakes had been rectified.

The Committee were informed, during evidence, that probably the mistake in these two cases was attributable to faulty understanding of the provisions by the Income-tax Officer. According to the Board's instructions, rebate was to be allowed on the use of *imported* second-hand machinery also from the assessment year 1962-63 under certain circumstances. The likely reason for the mistake was that the Income-tax Officer (i) acted under a wrong impression that the rebate was allowable on all second-hand machinery and (ii) applied the rebate wrongly to 1961-62 also.

According to a note furnished subsequently at the instance of the Committee, the I.T.O.'s explanation in one case is awaited, and in another case the I.T.O. has stated that he was misled by a wrong assertion made by the assessee's auditor that all the conditions for

grant of relief were satisfied. It has been stated that the Commissioner of Income-tax had not considered any action necessary against the I.T.O. as he had given relief on the statement of the auditors.

The Committee find it difficult to understand how in this case the Commissioner had not considered any action against the I.T.O. to be necessary. The Committee consider it unfortunate that an I.T.O. should allow himself to be misled by a wrong assertion made by an assessee's auditor and give relief wrongly. They would like the Board to re-examine the case and take suitable action if necessary. They would also like to be informed of the action taken against the Officer responsible in the other case.

39. (2) As stated earlier, so much of the profits derived from an industrial undertaking as does not exceed 6 per cent per annum of the capital employed in the undertaking is exempt from tax. Under the rules framed by the Central Board of Revenue for the computation of the capital employed, the amount is to be worked out either on the basis of the average value of the assets and liabilities exhibited in the balance sheet of the assessee or on the basis of its capital at the commencement of the year by adding thereto or deducting therefrom moneys brought into or taken out of the business. Where the former method is employed, *i.e.* taking the average value of the assets and liabilities as per balance-sheet, the profits earned by the assessee during the previous year should be ignored, as such profits would already stand included in the total assets and liabilities of the assessee as shown in the balance-sheet.

In two cases it was found that the Income-tax Officer employing the average value of assets and liabilities method added thereto the profits for that year and thereby over-stated the capital employed. This had resulted in an under-assessment of tax in these two cases to the extent of Rs. 4.59 lakhs. The Ministry had stated that action had been taken to rectify these mistakes.

During evidence, the Committee were informed that one of the cases was of provisional assessment, where the Income-tax Officer had accepted the figures given by the assessee without scrutiny. In extenuation, it was stated by the representative of the Central Board of Direct Taxes that usually details were not gone into at that stage. The Board had issued instructions that, where the average capital method was employed, there was no need to add the profit.

The Committee were informed, during evidence, that all the mistakes, including the one in the case of provisional assessment, had been rectified. Demands for Rs. 6,80,000 had been raised and Rs. 6,12,000 had been recovered. The balance was stated to be under recovery.

In reply to a question as to how these mistakes escaped the notice of the picked senior officers who were working in company circles, whereas they had been detected by clerks during test audit, the Chairman, Central Board of Direct Taxes, informed the Committee that these were individual lapses and there was no fault in the system. By way of remedial measures, the witness stated, they were instituting a comprehensive refresher course, in which company assessments was one of the items. The Board had also agreed to the creation of 36 more company circles, to reduce the pressure of work.

The Committee are not unaware of the complicated nature of income-tax law, and company assessments in particular. They are glad to learn that a comprehensive refresher course is being instituted, and 36 more company circles were being created. They trust that this would result in making the assessing officers fully conversant with the provisions of the Income-tax Act and the other intricacies of assessment in regard to companies, so that such mistakes are not committed.

Sub-para (b):

40. Where an assessee derives income from a tea business in Pakistan, 40 per cent of the income is subjected to Pakistan income-tax and the balance of 60 per cent representing agricultural income is assessed under the Pakistan Agricultural Income-tax Act. In India, the entire income is subjected to income-tax. However, relief against double taxation is provided in respect of non-agricultural income under the double taxation avoidance agreement entered into by Pakistan with India and in respect of agricultural income under section 49-D(3) of the Income-tax Act, 1922.

It was noticed that in the case of a tea company for the assessment years 1956-57 to 1959-60, 60 per cent of the income from the tea business carried on in Pakistan was excluded from the Indian assessment while calculating the gross tax payable in India. However, relief was allowed from this gross tax on the whole of the income derived from Pakistan thereby allowing relief even in respect of the 60 per cent of the income which was excluded from Indian taxation.

In addition to this mistake, there were several other calculation mistakes in the matter of application of the tax rates and conversion of the Pakistan currency into Indian currency, allowance of depreciation etc. As a result of giving this excess relief there was an under-assessment of tax to the extent of Rs. 2.03 lakhs.

The Committee were informed during evidence that the mistake in regard to double taxation relief was due to carelessness on the part of the Income-tax Officer. Instead of taxing the whole income, he taxed only 40 per cent and instead of giving a rebate on only 40 per cent, he gave it on the whole income. It was explained that two Income-tax Officers had dealt with the case and the mistake continued for four years because the second I.T.O. followed what his predecessor had done without giving any thought to it. The other mistakes pointed out in the audit para were stated to have been committed by the first I.T.O.

The Committee were informed that the under-assessment had been rectified.

According to a note furnished at the Committee's instance, the mistakes pointed out by Audit occurred in the same case involving six assessments, dealt with by two officers, one succeeding the other. The officer who was responsible for most of the mistakes, it has been stated, has regretted the lapses on his part, and he has been warned to be careful in future. The other officer was responsible mainly for the incorrect computation of the "Indian rate of tax" while allowing relief in respect of agricultural income arising in Pakistan but taxed both in India and in Pakistan. This, according to the note, was a *bona fide* mistake of interpretation of the relevant provisions in the Income-tax Act and no action has been considered necessary against the officer. However, it has been stated that instructions regarding correct computation of the 'Indian rate of tax' have been issued by the Board to the officers of the Department. It has been stated that officers have also been asked to review all cases of this type and rectify the assessments wherever "Indian rate of tax" has not been computed in accordance with these instructions.

The Committee are glad to learn that, with a view to avoiding this type of mistake in the future, instructions have been issued by the Board on the basis of a correct interpretation of the relevant provisions in this regard. The Committee note that officers have been also asked to review all cases of this type and rectify the assessments wherever "Indian rate of tax" has not been computed in accordance with the correct interpretation. The Committee would like to be apprised of the results of the said review.

Under-assessment due to non-imposition of additional super-tax on the undistributed income of a company in which public are not substantially interested—Para 64, page 51.

41. Additional super-tax is payable by companies in which the public are not substantially interested, if they fail to distribute a

certain prescribed percentage of their profits by way of dividends within 12 months of the close of their accounting year. It was noticed that in 101 cases, the provisions relating to the levy of additional super-tax were ignored as a result of which there was an omission to levy tax amounting to Rs. 30.67 lakhs.

During evidence, the Committee were informed that, out of 101 cases, the under-assessment involved was more than Rs. 10,000 in 70 cases and the position regarding them was as follows:

Position of the case	No. of cases	*Under-assessment as per Audit*
		Rs.
Cases where the audit objections had been accepted either wholly or in part	30	14,89,585
Cases where the audit objections had not been accepted	17	3,83,692
Cases which were still under consideration	23	10,87,275
	70	29,60,552

In reply to a question, the Committee were informed that there were 7460 private companies and 3530 public companies, out of which some were Section 23-A* companies. The Board did not have statistics separately under the head "Section 23-A companies". It was stated that this was not considered necessary, because of the internal checks that were in existence. At the end of each month, it was stated that the I.T.O. of the company circle submitted a statement of all cases of Section 23-A companies. That statement was reviewed by the Inspecting Assistant Commissioners and forwarded to the Comissioner, who was then in a position to see why the assessment in respect of these Section 23-A companies had not been completed or the necessary orders had not been passed.

Non-levy of additional super-tax under Section 23-A of the Income-tax Act, 1952 had been adversely commented upon by the Public Accounts Committee last year (vide para 53 of their 21st Report 3rd Lok Sabha). Failure to apply the provisions of Section 23-A appears to be cronic as during test-audit conducted in 1963, the

*Section 23-A refers to the Income-tax Act, 1922. The corresponding provisions in the Income-tax Act, 1961 are in Sections 104 to 109.

number of cases has increased to 101 and the amount of under-assessment involved has risen to Rs. 30.67 lakhs. The Committee regret to note the deterioration in the position. Apparently, the internal checks which are stated to be present are inadequate. The Committee would reiterate that the procedure should be tightened up and the Board should keep a close watch on the position. A report about the rectification carried out in the 101 cases in question may be submitted to the Committee.

One instance of non-levy of additional super-tax under Section 23-A is mentioned below:

Sub-para (a):

42. Under the Income-tax Act of 1922, the distributable income for purposes of application of section 23-A was to be arrived at by deducting from the total income the net amount of income-tax and super-tax payable and also the amount of any other tax levied by the Government or a local authority. It was found that in the case of a company, the net income-tax deducted was over-stated by not taking into account the double income-tax relief which the company had obtained, and wealth-tax paid by the Company. This had resulted in an under-assessment of additional super-tax of Rs. 66,305 for the years 1957-58 and 1958-59. The Ministry had stated that rectifications had since been carried out and the additional demand of Rs. 66,305 had been raised.

During evidence, the Committee were informed that there were in all three such cases. In one case, the under-assessment had been rectified and the additional demand had been collected. In the other two cases, it was stated that on further scrutiny, Section 23-A was not found to be applicable. **The Committee would like to be informed of the circumstances in which the lapse occurred and the action taken to avoid recurrence.**

Non-levy of statutory interest—Para 65, *pages* 51-52, *Sub-para (a)*

43. Under the Income-tax Act, 1961, an assessee is required to file his return of income on or before a prescribed date. This date may on an application made by the assessee in the prescribed manner, be extended without charging interest at the discretion of the Income-tax Officer up to a period not extending beyond the 30th September or 31st December of the assessment year depending upon the date on which the previous year of the assessee ended. For any further delay in the submission of the return of income, the assessee is liable to pay interest at 6 per cent per annum on the net amount of tax

payable on final assessment. In the course of a test-check, it was noticed that in 73 cases (relating to 3 Commissioners' charges) where the returns were filed after the dates aforesaid, the statutory interest of 6 per cent was either not levied or short-levied, thus resulting in short realisation of interest amounting in all to Rs. 14,718.

The Committee were informed, during evidence, that out of 73 cases the mistake had been accepted in 67 cases and the assessments had either been revised or were under revision. In 6 cases, the audit objection had not been accepted by the Department.

It was explained that this was a new provision in the Income-tax Act and mistakes occurred occasionally. The Committee were informed that these cases were checked by Internal Audit, as they involved calculations. The witnesses assured the Committee that this type of mistake was not widely prevalent.

The Committee would like to be informed of the progress of recovery of the interest in these cases.

Sub-para (b):

44. In the case of assessees who are required to pay advance tax, the Income-tax Act provides that if the amount demanded as advance tax by the Income-tax Officer is higher than the advance tax which the assessees estimate as payable by them, they may file an estimate of such advance tax and pay the amount according to the estimate. In order to prevent attempts to evade payment of advance tax by filing under-estimates, the Act of 1922 provided that where such estimates fell short of 80 per cent of the tax determined on final assessment, penal interest had to be charged under Section 18A(6) (corresponding provisions in Income-tax Act, 1961 are in Section 215). Similar penal interest was also leviable under Section 18A(8) of the Income-tax Act, 1922 [corresponding provisions in Income-tax Act, 1961 are in Section 217(1)] by new assessees for failure to pay advance tax voluntarily on the basis of their own estimates. This levy of penal interest was obligatory under the Act. But the interest levied might be reduced or waived by an order passed under Rule 48 of the Income-tax Rules, 1922, subject to the conditions laid down in that rule.

A test check of a few Income-tax wards revealed that in 126 cases a total amount of interest of Rs. 1.30 lakhs leviable under the above sub-sections of Section 18A was neither levied nor waived under orders of the competent authority.

During evidence, the Committee were informed by the Comptroller and Auditor General that the latest position was as follows:

Total No. of cases—632.

Amount involved—Rs. 6.64 lakhs.

The Chairman, Central Board of Direct Taxes informed the Committee that it had now been made the specified responsibility of Internal Audit to check this point, and that the number of mistakes was on the decline.

In view of the fact that the number of cases in which omission to levy penal interest appears to be on the increase, the Committee desire that a general all-India review may be undertaken and necessary instructions issued to the assessing officers for the prompt levy of interest wherever it is due. The Committee regret to find that this type of lapse has occurred in 632 cases (involving an amount of Rs. 6.64 lakhs). A report may be submitted to the Committee regarding rectification of the assessments in these cases and the progress of recovery of the interest due.

Failure to ascertain and adopt the correct share of income of partners on completion of the firm's assessments—Para 66, *page* 52.

45. In paragraph 35 of the Audit Report (Civil) on Revenue Receipts, 1963, it was mentioned that several cases came to the notice of Audit where partners' assessments which were completed provisionally before the assessment of the firms was completed, were not re-opened for taxing the correct share incomes on receipt of information relating to such income from the Income-tax Officer who completed the firms' assessments. Similar lapses were noticed in test audit conducted during the period under review in this report. The number of cases in which the rectification was not done was 287 involving an under-assessment of tax of Rs. 16.45 lakhs.

The Committee were informed, during evidence, that the Board had taken a serious view of the continuing lapses on the part of officers in this regard. Instructions had been issued that the Commissioners should ensure that a Register prescribed by the Board in 1959 for keeping a watch over these cases was properly maintained and was also brought up-to-date. The Inspecting Assistant Commissioners and Internal Audit Parties had been instructed to make a special check in this regard. The Commissioners had also been directed to take departmental action in all cases where loss of revenue occurred as a result of negligence or carelessness on the part

of officers. Explaining the utility of the register, the Chairman, Central Board of Direct Taxes, stated that wherever the provisional share was taken, it was noted in the register and it had to be followed up till the assessment of the firm was completed and the correct share was known.

The Committee enquired whether it was not possible to treat the assessment of the partner as provisional till the final figures were received, if necessary by amending the law in this respect, so that automatically the assessing officer would come to know that something still remained to be done and he would try to complete it in time. The Secretary, Revenue, Expenditure and Company Law explained that the register provided an adequate safeguard against rectifications not being made. An amendment of the law was not favoured as it was likely to give rise to a variety of objections from the public.

The Committee had desired to be furnished with a note indicating how many out of 287 cases mentioned in the Audit para had become time-barred, and the amount involved. This information is still awaited.

The Committee note that the Board have taken a serious view of the continuing lapses on the part of officers in this regard and have issued necessary instructions in the matter. The Committee had expressed their concern last year (vide para 65, Twenty-first Report, Third Lok Sabha) at the delay in the revision of provisional assessments of the partners' share incomes after the completion of the firms' assessments and had also taken a serious view of the failure to keep a proper watch over such cases through the register prescribed for the purpose. The Committee desire that the procedure should be tightened up and the instructions should be strictly enforced. The position regarding rectification of the non-time-barred cases and the quantum of tax recovered may be intimated to the Committee.

Having regard to the extensive nature of the under-assessment due to lapse of this type, the Committee feel that it may be worth while for Government to order a general review of such cases in all Commissioners' charges.

Omission to apply properly the provisions of the Income-tax Act regarding adding of incomes of other persons in tax-payer's assessment—Para 67, page 53.

46. The income of a minor child from a partnership in which his/her father or mother is also a partner, is to be added to the total

income of the father or the mother for purposes of taxation. Similarly, where both the husband and the wife are partners in a firm carrying on a business, the income of both of them from the firm has to be taxed in the hands of either the husband or the wife whoseso-ever total income is higher. In 24 cases involving a total underassessment of Rs. 1.48 lakhs it was found that these provisions were ignored. Two such instances are mentioned below.

Sub-para (a):

47. A Hindu undivided family carrying on a business made a partition and thereafter the family business was carried on by a partnership consisting of the father, his major son and two minor sons. According to the partnership deed drawn for the firm, each of the partners was entitled to interest at the rate of 6 per cent per annum on the capital invested in the firm. The Income-tax Officer added the share income of the minor sons to the total income of the father but omitted to add the interest credited to the capital account. This had resulted in an under-assessment of Rs. 23,218 for the years 1956-57 to 1960-61. The Ministry had replied that action had since been taken to recover the short demand and that out of Rs. 23,218, a sum of Rs. 7,937 had been recovered so far.

The Committee were informed, during evidence, that the law was very clear on the point, and the I.T.O. had missed it. It was stated to be a case of individual failure. The entire demand, the Committee were informed, had since been recovered.

According to a note furnished at the instance of the Committee, the explanation of the I.T.O. concerned was still awaited. The Committee regret this delay. They would like to be informed of the action taken against the defaulting official.

Sub-para (b):

48. In another case pertaining to the assessment year 1962-63, a husband and his wife were partners in two firms. While making the assessment, the Income-tax Officer added the wife's share income from these two firms to the total income of the husband, though the total income of the wife was higher than that of her husband. According to the provisions of the income-tax law in force for the assessment year 1962-63, the share income of the husband have been added to the wife's total income. As a result of the Income-tax Officer's omission to do so, there was an under-assessment of tax of Rs. 13,944. It was stated by the Department that action had since been initiated to recover the amount.

During evidence, the Committee were informed that here again the law was very clear and it was a case of individual failure on the part of the Income-tax Officer. The demand was stated to have been recovered in full.

According to a note furnished at the Committee's instance, the I.T.O. had explained that the mistake was a *bona-fide* one and he attributed it to heavy pressure of work. **The Committee find it difficult to accept heavy pressure of work as a valid reason for committing such obvious mistakes. The Committee would like the Central Board of Direct Taxes to take suitable steps to ensure that such mistakes are avoided in future.**

Irregular determination of income of companies—Para 68, page 54.

Sub-para (i):

49. In the case of income derived from tea gardens, 40 per cent only of that income is treated as taxable, the balance 60 per cent being regarded as income from agriculture. A company had income from a number of tea gardens and also other items of income which are wholly chargeable to income-tax. The company maintained a separate account called the "Head Office" account in which expenditure incurred for earning income wholly chargeable to income-tax as well as a portion of expenditure incurred on behalf of the gardens were booked. While making the return for income-tax, the company deducted from the income relating to the "head office" account the entire expenditure incurred on the tea gardens instead of 40 per cent of this expenditure which alone is admissible. By this adjustment there had been an under-assessment of Rs. 1·93 lakhs for three consecutive assessment years 1959-60 to 1961-62.

During evidence, it was stated that the mistake had been accepted and action had been taken to revise the assessment and recover the amount. In a note furnished at the instance of the Committee it has been stated that the I.T.O. had admitted the mistake and expressed regret for the same. The Commissioner considered the mistake to be a *bona-fide* one and had accepted the I.T.O.'s regrets.

This case indicates negligence on the part of the assessing officer in scrutinising the assessee's accounts and in computing the taxable income. The Committee regret that the mistake should have been committed for three consecutive years. They hope that in assessments involving such large amounts I.T.Os. would exercise proper care and caution, so that there is no under-assessment.

Sub-Para (ii):

50. Tea growers were allotted quotas for export of tea out of India. They were also permitted to transfer any export quota

which was surplus to other tea sellers for monetary consideration. A company which had such export rights transferred the quota rights and made a profit of Rs. 10.42 lakhs out of such transfers for the assessment years 1955-56 to 1961-62. The Income-tax Officer taxed only 40 per cent of the income from sale of export quota treating it as income from sale of tea. As profit from the sale of export quota is not the profit from the sale of tea grown and manufactured as mentioned in the Income-tax Rules and is clearly not agricultural income, the assessment of only 40 per cent of the income was contrary to the provisions of the Income-tax Act and the Rules made thereunder. The entire profit should have been assessed to tax. As a consequence of taxing 40 per cent only instead of 100 per cent, there was an under-assessment of tax in this particular case to the extent of Rs. 3.06 lakhs.

During evidence, it was explained that Income-tax Officers were all the time following a circular issued by the Board in 1935, according to which the price realised from the transfer of quotas was to be treated as if it were income derived from the sale of tea grown and manufactured by the seller and only 40 per cent of the income derived from the sale was to be taxed, since the allocation of the quota had resulted from the growth and sale of tea by the seller in previous years. After Audit raised the objection, the Board reviewed the position. The Law Ministry was consulted, and the circular of 1935 was withdrawn on 30th June, 1964. The Committee were informed that it had been decided, in consultation with the Comptroller and Auditor-General, not to re-open earlier assessments as the exemption had been given in accordance with the Board's circular publicly known to everybody.

This is the second* instance noticed by the Committee this year where certain old orders of the Board which had no application to present-day conditions continued to be applied by field officers until Audit brought the matter to notice and the Board withdrew them. The Committee trust that a suitable machinery would be evolved in the Board to scrutinise and review all old orders and suggest revisions or amendments in the light of the changed conditions or amendments in the light of the changed conditions of today. The Committee would like to be informed of the results of this review.

*The first instance noticed by the Committee has been dealt with in paragraph 56 of their Twenty-seventh Report (Third Lok Sabha).

Income escaping assessment—Para 69, pages 54-56

51. In addition to the under-assessments pointed out in paragraphs 45 to 68 of the Audit Report, cases were also noticed by Audit where though the assessees did not disclose their incomes truly and correctly, and information regarding the income suppressed was available in the records, the assessing officers failed to take note of the undisclosed income while making the assessment.

The Committee were informed during evidence that this was a complicated type of work and one of the reasons for the mistakes was that the officers were not able to draw correct inference from the information contained in the records and make proper use of them. In order to assist them, a book had been published incorporating more than 38 years' experience regarding the method of investigation in such cases.

The Committee are happy to learn that, in order to assist assessing officers in investigating and assessing cases properly where the assessee has deliberately concealed his income but information regarding suppressed income is available in income-tax records, a book incorporating a large number of years of experience in this type of work has been brought out by the Board. The Committee trust that this guide book would be in the hands of every assessing officer and that it would help to eliminate cases where income escapes assessment.

Sub-para (i):

52. A private limited company hypothecated cotton at a cost of Rs. 10·15 lakhs with a bank as security for an overdraft. On account of a default committed by the company in paying back the instalments of the loan; the bank sold a portion of the cotton pledged with it during the year 1953-54 for a sum of Rs. 2,74,406 and credited the sale proceeds to the assessee's loan account. The assessee company omitted to disclose the sale proceeds thus credited to its account while submitting its return of income to the Income-tax Department. Even though the particulars relating to this sale transaction were available in the income-tax records, the omission of the assessee to disclose the sale was not noticed by the Income-tax Officer. On this being pointed out, the Department had brought the sum of Rs. 2,74,406 for re-assessment, resulting in a tax of Rs. 1.42 lakhs. The tax had not yet been paid (January 1964). Penalty proceedings were stated to have been initiated but not yet finalised.

During evidence, the Chairman, Central Board of Direct Taxes, stated that the I.T.O.'s explanation was that the mistake had been committed by the previous officer, and the previous officer, in his

explanation, had stated that there had been no mistake; the amount had not been included in the sales but had been included in the closing stock and this had been taken into account in the assessment for the next year, and therefore, according to him, there had been no loss of revenue. It was stated that the Department initially accepted the audit view and made a re-assessment, but in the light of the original I.T.O.'s explanation they were surprised that the party accepted it and did not raise this plea in appeal.

However, in a note subsequently furnished to the Committee, the Ministry have accepted that there was a suppression of income of Rs. 2,74,406 as pointed out by Audit, but having regard to the method of accounting adopted by the company for this particular consignment of cotton, the amount was assessable for the assessment year 1958-59 and a protective assessment has also been made in March, 1964 for this year, bringing to tax the suppressed income of Rs. 2,74,406. The additional tax so raised for the year 1958-59 is stated to be Rs. 1,41,319. Penalty proceedings are also stated to have been afoot.

The Committee would like to know whether any explanation was obtained from the Income-tax Officer who omitted to bring to tax the suppressed income in the original assessment for 1958-59 made in October, 1960 when the records themselves showed that there had been deliberate concealment. The Committee desire that proper investigation should be made to ascertain whether malafides were involved. They would also like to be informed about the recovery of the additional tax and the final outcome of the penalty proceedings.

Sub-para (ii):

53. Under the Income-tax Act, assessees who pay advance tax get interest from the Government where the amount paid by them by way of advance tax is in excess of the actual tax finally determined as payable by them on completion of their assessments. This interest is an item of income chargeable under the head "Other sources". It was found in the course of audit that in 7 cases interest paid by the Government to the assessees on excess payment of advance tax was not disclosed by the assessees in their returns. The total interest involved in all these seven cases was Rs. 73,542. **The information relating to the payment of interest was already available in the records of the Department but the Income-tax Officers concerned did not detect this omission and consequently there was an under-assessment of tax in these cases to the extent of Rs. 38,233.**

The Committee were informed that in 2 cases the audit objection had been accepted. Out of the remaining 5 cases, in 4 instructions had been given that the tax should be included in the year in which the amount was received by the assessee. There was difference of opinion between Audit and the Department in one case.

The Committee would like to be apprised of the final position regarding the cases reported in this Audit para including the progress of recovery. They trust that assessing officers would scrutinise the facts available in the assessment records with proper care in future.

Loss of revenue—Para 70, pages 55-56.

54. In the course of audit, loss of revenue to the extent of Rs. 6.60 lakhs was noticed. Two instances are given below:

Sub-para (i)

55. In para 87(a) of the Audit Report (Civil) 1962 and in para 30(a) of the Audit Report (Civil) on Revenue Receipts, 1963, it was pointed out that in seven cases where the assessee derived agricultural income from Pakistan, the rebate allowed to the assessees on account of double taxation of agricultural income in Pakistan and in India was not correctly worked out according to law. Six more cases of such excessive relief were noticed during the period under review also. The amount of excessive relief involved was Rs. 8·72 lakhs out of which Rs. 4·12 lakhs became loss of revenue as the rectification of the mistakes became time-barred. The correct legal position was pointed out by Audit to the Department in 1961 itself and was finally accepted by the Central Board of Revenue in October 1962. Had action been taken by the Department on this basis, loss to the extent of at least Rs. 3·64 lakhs could have been avoided.

During evidence, it was admitted that a mistake had been committed. It was explained that the Department had its own point of view and the Law Ministry had to be consulted before finally accepting the audit objection. This was done only in October, 1962 and the cases became time-barred in November, 1962. It was stated in extenuation that all these cases could not be reviewed in one month.

According to a note furnished at the instance of the Committee the mistake was regarding the interpretation of the term "Indian rate of tax" and related to six cases involving twenty assessments dealt

with by different officers. It has been stated that this was a *bona fide* mistake of interpretation of the relevant provisions and no action was considered necessary against the officers. However, instructions are stated to have been issued by the Board to the officers of the Department on the basis of the interpretation of relevant provisions given by audit and accepted by the Department. It is stated that the officers have also been asked to review all cases of this type and rectify the assessments wherever "Indian rate of tax" has not been computed in accordance with this interpretation.

The Committee are given to understand that audit had raised the query in 1961 itself in regard to another case in the same Income-tax Circle and the audit's view had also been accepted by the Commissioner of Income-tax and the Board. In view of this, the Committee regret that the mistake in these cases was not immediately rectified; instead, legal opinion was sought, which resulted in delay and a loss of revenue of Rs. 4.12 lakhs due to rectification becoming time-barred. It appears that a loss of at least Rs. 3.64 lakhs could have been saved if action had been taken by the Department on the basis of the audit's interpretation. The Committee desire that in future, to have the revenue from getting time-barred, at least protective or provisional assessment should be made in time. The Committee note that instructions have since been issued to the officers of the Department to review all cases of this type and rectify the assessments wherever "Indian rate of tax" has not been computed in accordance with this interpretation. The Committee would like to be apprised of the results of the review.

Sub-para (*ii*):

56. An order under Section 23A of the Income-tax Act, as it stood prior to its amendment in 1955, was passed in the case of a private limited company and consequently the Income-tax Officer took action to revise the assessment of the share-holders and included the dividend income deemed to have been distributed to them by the company pursuant to the order under section 23A. The share-holders appealed to the Appellate Assistant Commissioner pleading a technical defect, *viz.* that the year for which their return was called for was wrongly stated in the notice issued to them for re-assessment. The Appellate Assistant Commissioner accepted the appeal. But by the time the appellate order was passed, action to re-open the assessment for the relevant assessment year had become time-barred as a result of which there was a loss of revenue of Rs. 28,954.

During evidence, the Committee were informed that a wrong year was mentioned in the notice by the clerk due to inadvertence and the I.T.O. did not notice it. The delay of two years in the Appellate Assistant Commissioner coming to a decision was explained as being due to heavy work-load.

The Committee would like to be apprised of the action taken against the officials responsible for this lapse. It surprises the Committee that it took two years for the Appellate Assistant Commissioner to dispose of the appeal in this case, and the reason for it was stated to be heavy work-load. The Committee desire that (i) steps should be taken to ensure that Income-tax Officers comply properly with the statutory requirements while issuing notices and (ii) the workload of Appellate Assistant Commissioners should be reviewed, so that there is no occasion for delay in disposing of appeals resulting in loss of revenue by rectification becoming time-barred.

Irregular procedure adopted while making assessments—Para 71, pages 56-57.

57. A test-audit of the income-tax documents also revealed cases where the procedures not authorised by law were adopted by the Department. Two such cases are mentioned below.

Sub-para (i):

58. The Income-tax Act provides for the rectification of errors apparent from record and for re-opening assessment where there has been escapement of income. An assessment completed tentatively leaving a certain issue undecided cannot be re-opened unless specifically covered by any of the provisions of the Income-tax Act. It was noticed in two cases of non-residents having business connection with India that the assessments were completed provisionally without deciding the quantum of Indian profits assessable. The Income-tax Officer stated in reply that the assessee's consent was taken in both these cases for rectification later. Apart from the fact that any such consent is illegal and is not binding on the parties, the tentative assessments were made for assessment years 1953-54 to 1955-56 in one case and in the other for the assessment year 1948-49, and still no such rectification has been made.

According to a note furnished at the Committee's instance, the audit objection has not been accepted in one case, since the figures of income provisionally taken by the I.T.O. are not found to be

lower than those as per the actual assessments made in the U.K. In another case, two officers are reported to have retired since or resigned, and the explanations of two officers are still awaited.

The Committee would like to be informed (i) whether any instructions have since been issued to the assessing officers to avoid such illegal assessments; and (ii) whether the assessment in the second case has since been rectified and if so, what was the additional tax recovered.

Sub-para (ii):

59. A partnership in which a minor is taken as a full-fledged partner is not entitled to registration under the Income-tax Act according to the Supreme Court judgment delivered in 1960. Subsequent to this judgment, it was found that the Department allowed registration to a firm in which a minor had been taken as a full-fledged partner while completing the assessment for the years 1956-57 and 1957-58. On this irregularity being pointed out, the Commissioner of Income-tax had taken action under section 33-B of the Income-tax Act, 1922 for revision of the assessment for 1956-57. Rectification order for the year 1957-58 remained yet to be passed. The additional tax recoverable in this case for these two years would be Rs. 67,000.

During evidence, the Committee were informed that action had since been taken in respect of both the years 1956-57 and 1957-58 and there might be no loss of revenue. According to a note furnished at the instance of the Committee, for one year the Supreme Court's decision was not available to the I. T. O. at the time of assessment and he had followed the law laid down in another decision so far prevailing as known to him; there had thus been no mistake on the part of the I.T.O. for another year, the I.T.O. had explained that he followed the previous years decision The Commissioner of Income-tax had issued a warning to the I. T. O.

In another case, where registration was allowed to a firm for the years 1957-58 to 1959-60 by an order passed in March 1960, no action was taken by the Department to cancel the registration in the light of the Supreme Court judgment though there was sufficient time till the middle of March, 1962 for taking action by the Commissioner. The rectification has now become time-barred involving a loss of revenue of Rs. 1,40,000.

The Committee were informed during evidence, that on receipt of the decision of the Supreme Court the earlier assessments should have been reviewed with a view to taking action under Section 33-B. It was found that this was not always done. General instructions were under issue in this regard. In extenuation of the delay in taking action in the instant case, it was stated that there was delay in getting copies of the judgments of the Supreme Court. On the Comptroller and Auditor-General pointing out that a short summary was available within a fortnight and this could be supplied to the Income-tax Officers, the representative of the Central Board of Direct Taxes accepted the suggestion and promised to take action accordingly.

According to a note furnished at the Committee's instance, the orders were passed by the I. T. O. before the Supreme Court's decision was known, and hence it has been stated that there was no mistake on his part.

As regards the first case, the Committee would like to be informed whether the assessments for the years 1956-57 and 1957-58 have since been rectified and the additional demand recovered. Regarding the second case the Committee note that the I.T.O. had passed the orders before the Supreme Court's judgment was received by him but they are constrained to observe that after the judgment was received, he should have brought the case to the notice of the Commissioner of Income-tax for rectification under Section 33-B. By his failure to do this, a loss of revenue of Rs. 1·40 lakhs has been occasioned. The Committee desire this aspect to be examined and suitable action taken.

The Committee note that the Department proposes to issue general instructions that on receipt of a decision of the Supreme Court in such cases involving important points of law the earlier assessments should be reviewed with a view to taking action under Section 33-B. A copy of the instructions issued may be furnished for the information of the Committee. They would like to be informed of the arrangements made by the Board, in the light of the suggestion made by the Comptroller and Auditor-General, for the prompt supply of Supreme Court's judgments to Income-tax Officers.

Erroneous refunds—Rs. 4·37 lakhs: Para 72, pages 57 to 58.

Sub-para (i):

60. Prior to 1959, the Income-tax Act of 1922 provided that any income-tax paid by a company on its income would be deemed to

have been paid by it on behalf of the share-holders receiving the dividends. Accordingly, the net dividend received by a share-holder was to be increased (or "grossed up") on the basis of the tax paid by the company on the profits out of which the dividends were declared. The amount by which the net income is grossed up was given as a credit in the assessment of a share-holder. If the fund from which the dividend was declared consisted of both taxed and untaxed profits of a company, as for example, income from agriculture and income from profits of a business taxable under the Income-tax Act, the grossing up should be limited only to that portion of the dividend which came out of the taxed profits. For this purpose, departmental instructions were issued in 1957 requiring that the Income-tax Officers assessing companies should work out the correct proportionate taxed and untaxed profits and the percentage by which the net dividend is to be grossed up for circulation among all the Income-tax Officers assessing the share-holders.

It was noticed during local audit that these instructions were not followed and the percentage of taxed profits as declared by the companies in the dividend warrants was taken as correct without further verification. A test check conducted in these cases revealed that the percentage of taxed profits fell short of those shown in the dividend warrants on the basis of which refunds were allowed to the share-holders. In seven such cases the excess refund allowed amounted to Rs. 80,000.

The Committee were informed during evidence that the mistakes had been admitted in all the 7 cases. A demand of Rs. 1,92,000 had been raised and a part of it had been recovered and the remainder was under recovery.

The Committee desire to be apprised of the progress of recovery of the outstanding amount. They also hope that suitable instructions will be issued to the Income-tax Officers so that such mistakes do not recur whenever old assessments relating to the years prior to 1959-60 are completed or re-opened hereafter.

Sub-para (ii):

61. Under the Income-tax Act, if a person transfers shares before the declaration of dividend thus shifting the right to receive the dividend to another person, the dividend attributable to the period up to the date of transfer should be assessed as the income of the transferor even though on the date the dividend is declared the transferee is the owner of the shares. This provision is aimed at

preventing avoidance of tax by selling shares on the eve of declaration of dividend and repurchasing them later. In computing the dividend income in such a case, the credit on account of tax deducted at source from dividends should not be given to the transferor but should be afforded to the transferee only.

In a case which came to notice during test check, a company sold shares of the value of Rs. 1,13,45,000 during the accounting period relevant to the assessment year 1957-58 to other companies which all belonged to the same group. In assessing the transferor company, the assessing officer had taken a sum of Rs. 6,50,700 as the income attributable to the period up to the transfer of the shares. But instead of taxing this amount he grossed it up to Rs. 8,82,305 (by taking net amount the tax deducted at source). He included it in the assessment of the transferor company and gave credit to a sum of Rs. 2,31,605 (Rs. 8,82,305 minus Rs. 6,50,700) as deduction of tax at source in that assessment. The grossing up of dividend and grant of tax credit in this case was illegal and the erroneous assessment in this case resulted in excess refund of Rs. 1,12,330. The Ministry had stated that action had since been taken to rectify the mistake.

The Committee enquired whether this case in which shares worth Rs. 1,13,45,000 were transferred to other companies belonging to the same group was not big enough to attract the attention of the I.T.O. to the relevant provisions of the Income-tax Act. The Chairman, Central Board of Direct Taxes explained that Section 44-F of the Income-tax Act, 1922 (corresponding provisions in Income-tax Act, 1961 are in Sections 94 and 270) which applied to this case was a complicated one and came into use rarely. Due to a mistake in comprehending the provision, the tax credit had been given to the transferor instead of to the transferee.

The Committee desired to know, during evidence, whether the Department examined the possibility of corruption in such cases. The Secretary, Revenue, Expenditure and Company Law stated that at the time of scrutinising the explanation of the I.T.O. these aspects were kept in view. According to a note furnished at the instance of the Committee, the I.T.O. had stated that the mistake was a *bona-fide* one, and the Commissioner of Income-tax had not considered any action necessary as the provisions of Section 44-F were of very uncommon application.

The Committee would like to be informed about the recovery of the excess refund of Rs. 1,12,330 granted in this case. They also

suggest that suitable instructions clarifying provision of Section 44-F of the Income-tax Act, 1922 should be issued to all Income-tax Officers so that such lapses do not recur.

Over-assessments—Rs. 3·93 lakhs: Para 73, page 59. Sub-para (a):

62. Under the Finance Acts, a company has to pay super-tax at a fixed rate on the whole of its taxable income but a rebate is allowed at varying rates depending upon the class of the company and the source of its income. According to these provisions, a certain company was required to pay super-tax at the maximum rate of 50 per cent from which a rebate was admissible at 30 per cent for the assessment years 1957-58 to 1959-60. This rebate was, however, allowed only at 20 per cent resulting in an over-assessment of tax to the extent of Rs. 43,630. It was also noticed that the calculations for all these years were checked by the Internal audit party of the Department and the error was not detected.

During evidence, it was stated that the mistake had been corrected and refund granted. The Committee were informed that the scope of Internal Audit had been enlarged to include the checking of the corrections of the rate also.

According to a note furnished at the Committee's instance, the I.T.O. concerned had since resigned and the question of any action did not arise.

The Committee trust that such mistakes will not hereafter escape detection by Internal Audit.

Sub-para (b):

63. Till the assessment year 1959-60, the Finance Act of every year made provision for reduction in rebate admissible to those companies which distributed dividends in excess of 6 per cent of their paid-up capital. The reduction in rebate was abolished with effect from the assessment year 1960-61. Howeved, the rebate on super-tax of a company was wrongly reduced by Rs. 25,567 for the assessment year 1960-61 and 1961-62, thereby creating an excess demand to that extent. On this being pointed out, necessary refund had been authorised.

During evidence, it was explained that by mistake the old law had been applied and super-tax was charged for 1960-61 and 1961-62 at the higher rate. Full rebate had since been allowed and the whole amount of Rs. 21,528 over-assessed had been refunded.

According to a note furnished at the instance of the Committee, the I.T.O. had explained that the mistake was a *bona fide* one. A warning had been issued by the Commissioner to the I.T.O. for mistakenly applying the old law.

The Committee trust that such mistakes (of applying an old law) would not be repeated.

Income-tax demands written off by the Revenue Department—Para 74, pages 59—61.

64. During the year 1962-63, the Income-tax Department had written off a total demand of tax of Rs. 4,39,91,353 which was classified under the following broad headings:

Amounts written off as irrecoverable due to—

	Rs.
(i) Assessees having died leaving behind no assets	5,16,473
(ii) Assessee companies having gone into liquidation.	41,09,806
(iii) Assessees having become insolvent	79,97,658
(iv) Assessees being untraceable.	37,29,393
(v) Assessees having left India.	71,49,478
(vi) Assessees who are alive but have no attachable assets.	67,17,083
(vii) Amount being petty including warrant fees, etc.	353
(viii) Amount written off as a result of settlement with assessees	1,33,85,744
(ix) Demands rendered unenforceable by subsequent developments, such as duplicate demands, demands wrongly made, demands being protective, etc.	3,85,365
TOTAL	4,39,91,353

In reply to a question regarding "(iv) Assessees untraceable", it was stated that the number involved was 619. According to a note furnished at the instance of the Committee, the number of individuals was 438 and the number of firms was 32 (registered 3 and unregistered 29). Among individuals the number of foreigners was stated to be 28.

The Committee pointed out that under the category "(viii)—Amount written off as a result of settlement with the assessees", the

amounts involved were very large and what was more, there was a sharp rise in 1962-63, as indicated by the following figures:

	Rs.
1960-61	54·37 lakhs
1961-62	30·39 lakhs
1952-63	133·85 lakhs

The Committee enquired whether the original assessments were defective or whether there was a possibility of any collusion. The Secretary, Revenue, Expenditure and Company Law, explained that the amount waived in one case was very large (Rs. 61,75,000). He stated that all these settlement cases were reviewed by a Committee of Commissioners of Income-tax, then by a Director and ultimately by the Board. It was the result of the combined work of a number of officers. Sometimes, the party made an application about its inability to pay and the Department made enquiries to find out the correct position. In settlement cases, they made independent enquiries to find out what were the chances of recovering more than what was being settled. Their approach was to recover to the fullest extent possible. The witness added that in a number of cases, the assessments had been made on the Department's own assumptions, and large sums were added because of certain things not being explained by the assessees. Ultimately, they found that there was no way to recover the dues and they were written off. In reply to a question, the witness stated that most of these cases were more than five years old.

In a note furnished at the instance of the Committee, it has been stated that the highest amount written off in a single case was Rs. 61,75,590. The assessee was a non-resident and he did not keep any accounts of his income from property etc. in India. Therefore, assessment for the years 1947-48 to 1958-59 was made on an estimate resulting in a tax liability of Rs. 1,11,67,170 out of which a sum of Rs. 29,91,580 was collected by attachment and sale of his assets as well as from his rental income, leaving a balance of Rs. 81,75,590. The assets of the assessee in India were not sufficient to cover even a portion of this demand. The assessee died in 1957 and his legal heir requested the Board to make a settlement on the basis of a reasonable estimate of the assessee's income for the period in question. Taking into account the difficulties in recovery, the Board, with the approval of the Finance Minister, settled the liability at Rs. 20 lakhs over and above the sum of Rs. 29,91,580 already collected. This sum of Rs. 20 lakhs was paid by the legal heir of the assessee and the balance of Rs. 61,75,590 was written off.

Out of the demand of tax of Rs. 4,39,81,353 written off, the Committee desired to know in respect of items (ii) to (vi) of para 74 of the Audit Report the amount of demands created after the companies had gone into liquidation, etc. This analysis has been furnished by the Ministry of Finance in respect of cases involving write off of demand of Rs. 1 lakh and more as indicated below:—

	Rs.
(*ii*) Demand created after the companies have gone into liquidation	10·46 lakhs
(*iii*) Demand created after the assessees have become in olvent.	7·25 ,,
(*iv*) Demand created after the assessees have become untraceable.	4 50 ,,
(*v*) Demand created after the assessees have left India.	26.61 ,,
(*vi*) Demand created after knowing that the assessees though alive have no attachable assets	31 90 ,,
Rs.	80.72 ,,

The Committee find from the above statement that a tax demand of Rs. 80·72 lakhs involving write off of demands of Rs. one lakh or more and relating to assessments made after the assessees became insolvent, assessees having left India, assessees having become untraceable and in the case of companies after their going into liquidation have been written off. This shows that in all these cases there was considerable delay in completing the assessments, leading to demands becoming irrecoverable. The Committee desire that enquiries should be made to find out why the assessments were delayed and responsibility fixed in cases where the delay was due to the negligence of the officers.

Sub-para (a):

65. As a result of a delay of four years in making the assessments for the year 1948-49 of a foreign company whose assets were acquired by a State Government on payment of a suitable sum by way of compensation, tax dues amounting to Rs. 27·59 lakhs become irrecoverable and were written off by the Department in March, 1960. The Department had stated that the delay was due to the time taken to get the particulars of the assets of the company to arrive at the correct taxable amount. It is, however, observed that the value of the assets of the company had been settled between the company and the State Government in 1950 and that if the assessments of the

company had been finalised expeditiously, the amount of tax payable by the company could have been recovered from the final instalment of compensation of Rs. 81·66 lakhs paid by the State Government to the company in March, 1951. The loss could, thus, have been avoided if the assessments had been expedited or if there had been better co-ordination with the State Government.

During evidence, it was admitted that there had been no proper liaison with the State Governments and that was the reason why the assessment could not be made in time.

On the general question, the Committee were informed that instructions had since been issued that all company assessments, excepting those requiring special investigation, should be completed in the assessment year itself. A larger number of officers had also been put on this work.

In reply to a question whether any special action was taken in respect of foreign companies and foreign nationals who were likely to leave India, the Committee were informed that the Reserve Bank had decided, on the suggestion of the Department that no remittances should be allowed unless a tax clearance certificate was obtained from the Department. There was provision in the Income-tax Act to assess a party even in the middle of the year if the Department came to know that somebody was likely to leave India The State Governments and other Ministries had also been requested to inform the Income-tax Department as soon as a business concern was being acquired so that Income-tax assessments could be made quickly and the demands realised.

The Committee have been informed in a note furnished at their instance that as the delay in completion of assessments is not attributable to the I.T.Os., their explanations have not been called for.

The Committee are surprised to learn that the delay in completion of assessments is not attributable to the I.T.Os. It has been admitted on the other hand that the assessment could not be made in time as there had been no proper liaison with the State Government. The Committee would like to know on whom lies the responsibility for failure to have proper liaison with the State Government and the delay of four years, which resulted in loss of revenue amounting to Rs. 27·59 lakhs. The Committee feel that there has been lack of vigilance on the part of the officers, and this is a fit case for a further probe to determine responsibility and take suitable action against the defaulting officers.

The Committee note that instructions have since been issued that company assessments should, as far as possible, be completed in the assessment year itself and that more officers have been put on this work. They also note that in the case of foreign companies or foreign nationals likely to leave India, the Reserve Bank has been requested not to permit remittances abroad until a tax clearance certificate is obtained from the Income-tax Department. The Committee also note that steps have been taken to have proper liaison with State Governments and other Ministries where a business concern is being acquired. They trust that these measures would save the State from such huge write-offs as had to be done in this case.

Sub-para (b):

66. A foreign company who owned shares in two Indian companies and which was resident and ordinarily resident for purposes of income-tax wound up its business in India and transferred all its assets to the foreign country without the knowledge of the Department before the following tax demands could be collected:—

Assessment year	Date of demand	Tax demand
		Rs.
1950-51 Supplemental	October, 1954	4,224
1953-54	October, 1954	3,57,180
1954-55	December, 1955	3,07,028
	TOTAL TAX DEMAND	Rs. 6,68,432

At the time the assessments were completed, the company was not functioning in India and the claims made by the Department in this behalf before the liquidator of the company in the foreign country were rejected by him in May, 1955 and December, 1955.

As the amounts could not be collected the entire outstanding demands of Rs. 6.68 lakhs were written off in August, 1960. In this case, the returns were filed on the 5th November, 1953 and the 1st October, 1954 for the assessment years 1953-54 and 1954-55 respectively; and if immediate action had been taken to assess and collect the demands, the Department would not have lost the entire amount. It was stated by the Commissioner of Income-tax in October, 1963 that suitable departmental action was taken against the Income-tax Officer who failed to take timely action.

During evidence, the Committee were informed that this was case of lapse on the part of the Income-tax Officer. According to a note furnished at the instance of the Committee, the I.T.O.'s explanation was found to be unsatisfactory and his increment was stopped for one year.

This is a clear case where the tax demand had to be written off because of lack of vigilance on the part of the income-tax

Officer. The Committee learn that one of the usual methods of tax avoidance is to send income-tax returns just before companies go into liquidation since, under the Companies Act, tax demands unless made payable within twelve months prior to the date of liquidation do not get priority. The Committee would like Government to examine this aspect carefully and see what remedial steps can be taken to overcome this difficulty.

Foreign companies can easily escape payment by transferring all assets to their home country, and under international law, the tax demands of one country cannot be enforced in the other unless specifically provided for in bilateral agreements. In this particular case, the claims made by the Department before the liquidator of the company in the foreign country were rejected. The Committee would therefore like Government to consider the feasibility of proposing a provision in the double taxation agreements with foreign countries for enforcement of Indian tax demands in the foreign countries.

Arrears of tax demands—Para 75, *pages* 61-62

67. The arrears of tax demands up to 1962-63 and the collection of tax made against such arrears are indicated below:—

(Figures in crores of rupees)

	Arrears of demands created in 1960-61 and earlier	Arrears of demands created in 1961-62
Arrears on 1-4-1962	177·79*	111·05*
Collections during 1962-63	15·07	60·19
Balance	16·72(A)	50·86(B)
Add		
(*a*) Demand raised during 1962-63		283·99
(*b*) Collections out of (*a*)		188·28
Balance (a)—(b)		95·62(C)
Total (A)+(B)+(C)		309·20
Less		
Demands written off and reduced on appeals, rectifications, etc. during 1952-63		37·49
Total arrears of tax demands as on 31-3-1963		271·71

*The arrears as on 31st March, 1962 given in Audit Report (Civil) on Revenue Receipts, 1963 is Rs. 287·32 crores, whereas the arrears as on 1st April, 1962 shown above is Rs. 288·84 crores. The difference of Rs. 1·52 crores is due to corrections since made as a result of checking of the Demand and Collection Registers by Internal Audit.

As stated in paragraph 72 of the Twenty-first Report of the P.A.C. (Third Lok Sabha), one of the reasons for the arrears of tax is the collection of tax stayed on account of appeals having been preferred against the assessments to the appellate authorities or revision petitions filed before the Commissioners of Income-tax. The total number of appeal cases pending with the Appellate Assistant Commissioners as on 30th June, 1963 was 74,120 out of which the appeals filed up to 31st March, 1962 were 8,591 the appeals filed during 1962-63 were 40,072 and appeals filed during 1963-64 were 25,457. The total number of revision petitions pending with Commissioners of Income-tax as on 30th June, 1963 was 5,451 out of whcih 2,893 cases were pending for more than one year.

The amount of tax collection held in abeyance by Income-tax Officers as on 30th June, 1963 was Rs. 27.22 crores as indicated below:—

	Number of cases	Collections of tax stayed. (in crores of Rs.)
Appeals before the Appellate Assistant Commissioner	4,101	18·38
Appeals before the Income-tax Tribunals	462	3·33
Appeals before the High Courts and the Supreme Court	349	5·33
TOTAL	4,912	27·04
Revision petitions pending with Commissioners as on 30th June, 1963		0·18
GRAND TOTAL		27·22

According to a note furnished at the instance of the Committee (Appendix IV), the gross arrears of income tax as on 31-3-1963 amounted to Rs. 270·43 after treasury adjustments and checking by internal audit parties (as against the figure of Rs. 271·71 crores given in the Audit para which was provisional figure). A statement showing the yearwise and chargewise break-up of the gross arrears of Rs. 270.43 crores is given in the Annexure Appendix IV. The amount estimated to be irrecoverable out of the gross arrears

of Rs. 270.43 crores is Rs. 45.23 crores and the break-up of the same is as given below:—

	Rs. in crores
(*i*) Due from persons who have left India leaving no assets	9·44
(*ii*) From companies under liquidation	6·04
(*iii*) From others	29·75
	45·23

According to another note furnished at the instance of the Committee, the yearwise break-up of the 8,591 appeals (filed up to 31-3-1962) pending with the Appellate Assistant Commissioners as on 30-6-1963 is as follows:—

Year of institution	No. of appeals pending
1948-49	1
1951-52	1
1952-53	7
1953-54	7
1954-55	11
1955-56	59
1956-57	77
1957-58	181
1958-59	269
1959-60	498
1960-61	944
1961-62	6536
	8591

During evidence, the Committee enquired why as many as 613 appeals instituted during or prior to 1958-59 were pending on 30-6-1963. The Chairman, Central Board of Direct Taxes stated that most of the older cases were pending for want of a decision by the High Court or the Supreme Court, or because the reference of some assessee was pending in another case. Sometimes, at the request of the assessee himself the appeal was kept pending, as he wanted to avoid litigation charges. The Committee were informed that where the amounts involved were big, Commissioners were always requested to see that the appeals were quickly decided one way or the other. With a view to reducing the work-load of the

appellate authorities, which was stated to be one of the causes for accumulation of arrears, a few more posts of Appellate Assistant Commissioners had been sanctioned. At present the effective arrears with each Appellate Assistant Commissioner was stated to be about 7 months' work-load. The Public Accounts Committee had suggested earlier that it should be not more than 4 months' work-load, and the Department was reviewing the position on that basis and if necessary more posts would be created.

The Committee desired to be furnished with full particulars regarding 27 appeals which were pending up to and including 1954-55. According to a note furnished subsequently by Government out of these 27 appeals, 11 appeals (2 of 1952-53, 2 of 1953-54 and 7 of 1954-55) have since been decided and the final position regarding pending appeals and the yearwise break-up is now as under:—

Year of institution	No. of appeals pending
1948-49	1
1951-52	1
1952-53	5
1953-54	5
1954-55	4
	16

Out of these 16 pending appeals, 13 are in the charge of one Commissioner of Income Tax and 3 are in the charge of another. The amount involved in the former 13 appeals is Rs. 60.97 lakhs and recovery made is Rs. 4.86 lakhs, while the amount involved in the latter 3 appeal is Rs. 4.72 lakhs and recovery made is nil. The reasons for pendency have been stated to be, inter alia, (i) non-cooperation of the assessee; (ii) request of the assessee to keep the appeal pending; and (iii) non-completion of remand report by the I.T.O.

During evidence, the Committee enquired about the steps if any, taken by Government to implement a proposal to appoint Tax Recovery Officers. The Chairman, Central Board of Direct Taxes, explained that they had entered into arrangements with the State Governments under which a certain number of departmental officers had been sent to various States for training. Government proposed to take up one or two small divisions as an experimental

measure. In the meantime, they were continuing to take the assistance of the State Governments in regard to the collection of arrears, of tax demands. It would be some years, according to the witness, before the Income-tax Department could take this work upon themselves.

The Committee find that out of the gross arrears of Rs. 270.43 crores as on 31-3-1963, a sum of Rs. 31.66 crores pertains to the period 1952-53 and earlier years and one-third of this amount relates to one Commissioner's charge alone. In the same Commissioner's charge, 13 appeals up to and including 1954-55 are also pending. The Committee desire that special steps should be taken to clear the old arrears and expedite the disposal of the pending appeals in this Commissioner's charge.

From the note submitted by Government stating the action taken on the Committee's recommendations in their Sixth and Twenty-first Reports regarding the clearing of arrears, the Committee find that (i) Government have impressed on all Commissioners of Income Tax the necessity of making an all-out effort for collecting arrears; (ii) in order to avoid accumulation of arrears a new section (Section 140-A) has been introduced in the Finance Act, 1964, under which an assessee whose net income-tax liability exceeds Rs. 500 has to pay the tax voluntarily within 30 days of the furnishing of the return, failing which he will be liable to penalty up to 50 per cent of the tax. While the remedial measures taken by Government may help in preventing future accumulation of arrears, the Committee are concerned with the past arrears, which are of the order of Rs. 270.43 crores as on 31-3-1963. They are glad to note that as regards old arrears, the percentage of collection in 1962-63 (Rs. 75.26 crores out of the arrears Rs. 288.84 crores as on 1-4-1962) was higher, viz. 26 per cent as compared to 13.2 per cent during the previous year. However, further arrears have accumulated during 1962-63, and out of the total demand of Rs. 596.93 crores up to 1962-63, the arrears amount to Rs. 270.43 crores (about 45 per cent). The Committee would reiterate that in the context of the present national emergency and economic environment, it is imperative that the past arrears should be realised by intensifying the collection effort, and current collections should not be allowed to accumulate.

The Committee find that as on 31-3-1963 the number of appeals pending was 74,120 and the number of revision petitions pending was 5,451. They note that some more Appellate Assistant Commissioners have been appointed to ease the position. Thy have been told that the arrears with each Appellate Assistant Commissioner

at present is 7 months' workload. The Committee desire that further necessary action may be taken to bring down the arrears, so that the workload with each Appellate Assistant Commissioner does not exceed 4 months' workload. The Committee find that the oldest pending appeal relates to the year 1948-49. Vigorous steps should be taken to dispose of appeals pending for such a long number of years.

Arrears of assessment—Para 76, pages 62-63

68. It was noticed that as on 31st March 1963, 9.09 lakhs of cases were outstanding with Income-tax Officers pending assessment. The year-wise break-up of the outstanding cases is indicated below:—

Year in which proceedings were instituted	Number of cases pending on 31-3-1963
1959-60 and earlier years	20,548
1960-61	41,677
1961-62	1,60,075
1962-63	6,86,359
TOTAL	9,08,659

The category-wise break-up of these outstanding cases is indicated below:—

Category	Number of cases pending
I. Business cases having income of over Rs. 25,000	64,034
II. Business cases having income of over Rs. 15,000 but not exceeding Rs. 25,000	66,677
III. Business cases having income of over Rs. 7,500 but not exceeding Rs. 15,000	1,56,433
IV. All other cases except those mentioned in catgory V and refund cases	3,59,396
V. Small income scheme cases, Government salary cases and non-Government salary cases below Rs. 18,000	2,62,119
	9,08,659

The number of assessments completed out of the arrear assessments and out of current assessments during the past five years is given below:—

[Number of assessments completed]

Financial year	Number of assessments for disposal	Out of current	Out of arrears	Total	Number of assessments pending at the end of the year
1958-59	15,87,228	7,04,775	4,26,581	11,31,356(71·2%)	4,55,872
1959-60	16,72,001	7,29,550	4,33,674	11,63,224(69·6%)	5,08,777
1960-61	18,26,012	7,32,248	4,74,647	12,06,895(66·1%)	6,19,117
1961-62	20,21,330	8,06,265	5,02,658	13,08,923(64·8%)	7,12,407
1962-63	22,18,376	7,96,815	5,12,902	13,09,717(59·4%)	9,08,659

Thus, there has been progressively a decline in the percentage of assessments completed from 1958-59.

During evidence, the Committee enquired from the witness what action had been taken on the recommendation made by the Direct Taxation Enquiry Commission regarding summary disposal of small income cases (*vide* para 73 of the 21st Report of P.A.C., Third Lok Sabha). The Chairman, Central Board of Direct Taxes, read out to the Committee the Board's circular issued in January 1964 on this subject, giving ample discretion to the Income-tax officers to deal with such cases. The Committee were informed that in the last few months the disposal of small income cases had gone up, and there was also substantial improvement in the average disposal per officer.

While there is some improvement in the total number of cases per annum, in which the assessments were completed, the percentage has been falling. The Committee view with concern the progressive decline in the percentage of assessments completed from 1958-59 (71.2 per cent in 1958-59; 69 6 per cent in 1959-60; 66.1 per cent in 1960-61; 64.8 per cent in 1961-62 and 59.4 per cent in 1962-63). The number of cases pending disposal in respect of 1962-63 comes to 40 per cent of the total cases for disposal. There are 9.09 lakhs of cases pending with Income-tax Officers and the net demand locked up is estimated to be of the order of Rs. 8.77 crores. This is not a very satisfactory position. The Committee hope that as a result of the steps taken by Government regarding small income cases (6.21

lakhs out of the total of 9.09 lakh cases), and a vigorous drive which the Committee desire should be launched to clear arrears of assessment (lest recovery should become time-barred), the declining trend would be reversed and the percentage of assessments completed would record a significant improvement during the coming year.

Frauds and evasions—Para 77, page 64

69. The Income-tax Act contains provisions for levy of penalty and for launching prosecutions in cases where the tax payers are found to have deliberately concealed their incomes. The following table gives the particulars showing the number of cases in which such penalties were levied or prosecutions launched, together with the amount of extra tax realised on the concealed income, amount of penalty levied or composition money taken for compounding the prosecution proceedings. The figures relate to 1962-63.

	Rs.
1. Number of cases in which penalty under section 28(1)(c) 271(1)(c) was levied in 1962-63	3,750
2. Number of cases in which prosecution for concealment of income was launched	2
3. Number of cases in which composition was effected without launching prosecution	2
4. Concealed income involved in (1) to (3)	5,06,54,312
5. Total amount of penalty levied in (1)	84,86,206
6. Extra tax demanded on concealed income (1) to (3)	1,96,67,415
7. Cases out of (2) in which convictions were obtained	2
8. Composition money levied in respect of cases in (3)	33,000
9. Nature of punishment in respect of (7)	Fined Rs. 250/- or simple imprisionment for two months for both the assessees.

During evidence, the Committee enquired why out of 3750 cases prosecution had been launched only in 2 cases. The Chairman, Central Board of Direct Taxes, explained that in view of the law as it stood before 1961 and the attitude of the Courts in awarding lenient penalties and fines, the Department was not very keen to launch prosecutions. The law had now changed. Government

could levy penalty and also launch prosecution, and as a preventive measure they proposed to go in for more prosecutions. Instruction had accordingly been issued to Commissioners that in all cases of deliberate concealment where there was sufficient evidence, the Department should as a rule resort to criminal prosecution. They were also proposing to send some officers to America for receiving training in improved techniques of prosecution.

The Committee are glad to learn that, availing of the more stringent provisions of the present law, the Department propose to launch more prosecutions in cases of deliberate concealment of income, and that some officers are being sent to America for being trained in improved techniques of prosecution.

The Committee find that the amount of concealed income unearthed in 1962-63 was only Rs. 5.96 crores as compared to Rs. 7.12 crores in 1961-62. The Committee feel that large sums have still not been detected and brought under the tax net, and there is considerable scope for improvement in the Department's operations in this respect.

II

OTHER REVENUE RECEIPTS

Ministry of Works and Housing

Arrears of rent from private parties—para 78, pages 65-66.

70. At the end of 1962-63, a total amount of Rs. 26.46 lakhs was awaiting recovery on account of rent of buildings allotted to private persons and organisations. The rules require that rent in such cases should be recovered in advance. The amount was reduced to Rs. 19.81 lakhs as on 1st October 1963. Out of this amount, a sum of Rs. 2.51 lakhs has been outstanding for over five years.

During evidence, the Committee were informed that as on 31st March, 1964, the total amount of rent awaiting recovery was Rs. 18.24 lakhs. The break-up of the arrears as on 31st March, 1963 and on 31st March, 1964 was stated to be as follows:—

	As on 31-3-63	As on 31-3-64
	(In lakhs of rupees)	
Private persons and organisations	13·61	·73
Unauthorised occupants	0·13	0·08
Damages	2·77	2·69
Outstandings from markets	9·02	8·30
Outstandings against Embassies	0·93	0·44
	26·46	18·24

In reply to a question why rent was not recovered from private parties in advance as required by the rules, the Secretary Works and Housing stated that while every effort was made to enforce the rules in this regard, they were found difficult of application. Demand notices were sent, but some allottees did not pay in advance. Periodical reminders were sent; but in the meantime rent accumulated. It was stated that under the Rent Control Act, eviction proceedings could not be started immediately.

The Committee note that outstandings of rent of buildings allotted to private persons and organisations awaiting recovery as on 31-3-1964 have come down to Rs. 18.24 lakhs from Rs. 26.46 lakhs as on 31-3-1963. There is, however, not much improvement in the recovery of outstandings from markets, which has come down to only Rs. 8.30 lakhs as on 31-3-1964 from Rs. 9.02 lakhs as on 31-3-1963. In the recovery of damages from unauthorised occupants, there has been no progress at all (Rs. 2.76 lakhs as on 31-3-1963 and Rs. 2.77 lakhs as on 31-3-1964). The Committee desire that energetic steps should be taken to realise these outstandings at an early date.

Sub-para (i):

71. A house requisitioned by Government in 1947 was allotted to a private individual after about a year, in April, 1948, at a monthly rent of Rs. 142 per month. No rent was recovered by Government from May, 1957 onwards, and the arrears for the period ending 31st March, 1963 amounted to about Rs. 10,000. The tenant died in October, 1963 but the building still continues to be in occupation in the name of the deceased. Audit was informed in January, 1964 that a sum of Rs. 30,000 had been deposited as earnest money on behalf of the tenant, with the State Government owning the house, for purchasing the property and that the State Government had informed that the matter was under their consideration.

During evidence, the Committee were informed that the allottee had paid rent up to April 1956, but thereafter he stopped doing so, ostensibly on account of the negotiation for the purchase of the premises. The purchase was to be with retrospective effect, so that no rent liability would fall on the buyer. It was stated that if the sale was made retrospectively, some adjustment might be possible. The Central Government had been trying to get the sale finalised for a number of years, but without success. The State Government concerned had been addressed repeatedly, but the only reply that was received was that the matter was under consideration. The Committee were informed that in view of the uncertainty of the probable time that the finalisation of the sale would take, Government had now finally decided to start eviction proceedings against the party and recover rent under the Public Premises (Eviction of Unauthorised Occupants) Act, 1958.

The Committee would like to be informed of the successful conclusion of eviction proceedings and the realisation of the rent due from the allottee (towards which they trust that necessary and adequate steps would be taken, including co-ordination with the State Government who hold the earnest money of Rs. 30,000).

During evidence, the Committee desired to know in how many cases premises originally requisitioned by Government for public purposes were later allotted to private parties. The Committee were informed, in a note *subsequently furnished by Government (*vide* Appendix V) that there were 13 such cases.

The Committee are of the opinion that in cases where premises are requisitioned for public purposes Government should as soon as those purposes are over take prompt steps to de-requisition the premises instead of allotting them to private parties. It is the moral responsibility of the Government to restore such premises to their rightful owners, as soon as they are not required for the public purpose.

Sub-para (ii)

72. An Ice Plant room and a small room adjacent to it, were allotted in September, 1949 to a private individual on a licence fee of Rs. 184/7 - per month for running an ice factory. The licence of the allottee was revoked with effect from 5th September, 1960 as the site was required for construction of a multi-storeyed building and he was asked to pay damages @Rs. 574.24 per month up to 30th September, 1960 and @Rs. 587.20 per month thereafter. The allottee, however, continued to pay the rent at the old rates and consequently arrears amounting to about Rs. 12,000 on this account have accumulated during the period from 5th September 1960 to 31st March, 1963.

Explaining the background of the case, the witness stated that this person was a refugee and the licence had been given to him temporarily. When he was asked to vacate, he requested that against his rehabilitation claim of Rs. 90,000 he might be allotted some other plot where he could move his factory and continue his business. An alternate site was allotted to him in 1962, but there were difficulties in his taking possession, as he had to find some more money. It was stated that he pleaded for time and at his request several extensions were given to him. In 1963, the Delhi Development Authority raised an objection that this site could not be used for a factory and the allotment had to be cancelled. Another plot was now being allotted to him in another locality where the site was meant for factories. It was stated that by October this year he was expected to vacate and Government were determined to take action against him. The arrears of rent up-to-date were stated to be Rs. 15,000 approximately, and no difficulty was anticipated in realising the same as Government had with them the sum of Rs. 90,000 paid by him for the alternate plot.

*Not vetted by Audit.

The Committee regret to observe that there has been inordinate delay on the part of Government in handling this case, as a result of which the construction of a multi-storeyed building in and around this plot as planned by Government has been indefinitely held up. The Committee note that the individual concerned is expected to move to the alternate plot allotted to him in another locality by October and that Government are determined to take action against him. The Committee await a final report in this behalf as well as in regard to the recovery of the dues.

Sub-para (iii)

73. In respect of Government accommodation allotted to the Delhi School of Social Work in July 1947, it was decided in December, 1960 to charge rent with effect from 1st December, 1960, at the rate of Rs. 35 per month per 100 sq. ft., based on the market rates, instead of Rs. 22.75 per 100 sq. ft., fixed originally. The School authorities intimated in March, 1961 that they were approaching the University Grants Commission for increased financial assistance to enable them to pay the arrears for the year 1960-61. The school was taken over by the Delhi University with effect from 1st April, 1961 and since then the matter is stated to have been under correspondence with the Ministries of Education and Works, Housing and Rehabilitation, and the University Grants Commission. The arrears of rent awaiting recovery for the period from 1st December, 1960 to 31st March, 1963 amounted to Rs. 1.4 lakhs.

During evidence, the Committee were informed that the matter had been considered by the Ministry of Education in consultation with the Ministry of Finance, and the final decision taken by Government in June 1964 was that instead of giving a grant, accommodation might be provided to this institution at a nominal rent of Re. 1 per annum per barrack with retrospective effect from 1st April 1960. As a result of this decision, the arrears of Rs. 1.4 lakhs had been reduced to Rs. 6.

In this connection the Comptroller & Auditor General drew attention of the Committee to the following extract from the Ministry of Works, Housing & Rehabilitation Circular letter No. 12(19)/56-WII dated 12th June, 1956:

> "If there is any organisation, which deserves some financial assistance at the hands of Government the appropriate course is for the Ministry, which is administratively concerned with that organisation to render financial assistance to it in the form of a cash grant rather than for Government to provide any Government accommodation at a concessional rate, which would in effect, be a concealed subsidy".

According to a note furnished by Government at the instance of the Committee, the following are the other institutions in occupation of Government premises at a token rent of Re. 1 per annum:—

1. New Delhi Club.
2. Talkatora Club.
3. Minto Road Club.
4. University of Delhi.

Last year, the Committee had recommended in a similar case (vide para 31 of 24th Report, Third Lok Sabha) that, instead of giving a hidden subsidy in this manner, Government should charge full rent and reimburse the amount, if necessary, by way of cash grants. The Committee's recommendation thus reinforced Government's general policy set out in Ministry of Works, Housing and Supply circular letter No. 12(19)/56-WII dated 12th June, 1956 (Appendix VI). The Committee are therefore surprised at Government's decision in this case which constitutes a departure from both. They would reiterate their earlier recommendation and suggest that all these cases may be reviewed in the light thereof.

Arrears of rent outstanding in respect of the markets under the administrative control of the Directorate of Estates—Para 79, page 66.

74. In paragraph 53 of the Audit Report (Civil) 1963, mention was made of the arrears of rent outstanding in respect of the markets under the administrative control of the Directorate of Estates. The table below brings out the latest position in this regard:—

(In lakhs of rupees)

Period	Balance as on 1-4-62	Realisation during the year 1962-63	Balance as on 1-4-63	Remarks
(I) Period upto 1-4-1958				
(*a*) From persons dealing direct with the Directorate of Estates	2·48	0·32	2·16	*The balance has been reduced to Rs. 1·91 lakhs as on 1-10-63.
(*b*) From persons from whom the recoveries have to be made through the Settlement Commissioner	2·52	1·60	0·92	
(II) Period from 1-4-1958 to 31-3-1962	3·68	0·05	3·63	
	8·68	1·97	6·71	

During evidence, the Secretary, Works and Housing, stated that as on 1-4-1964, the arrears were Rs. 6.25 lakhs and on date (*i.e.* 30-7-1964) they had been reduced to Rs. 4.95 lakhs. The delay in realisation was attributed to the tedious process involved in recovering the dues from rehabilitation claims through the Settlement Commissioner.

According to a note furnished at the instance of the Committee the number of lease/licence deeds not so far executed in respect of these markets is 1226 as per details given below:—

1.	Sarojini Market	374
2.	Kamla Market	256
3.	Pleasure Garden Market	367
4.	New Central Market	204
5.	Ex-licencees of Raisina Road Market (since wound up) who were shifted to Andrews Ganj and Nanakpur	25
		1,226

The Committee do not find any appreciable improvement in the clearance of arrears of rent outstanding from markets. They are surprised that there are as many as 1,226 lease licence deeds still to be executed in respect of some markets. The Committee suggest that adequate measures should be taken to expedite execution of the pending lease/licence deeds. The Committee would like to know the special steps which are proposed to be taken for the speedy liquidation of the arrears of rent and for ensuring that the current dues are not allowed to fall into arrears.

Demands raised, recoveries made and the outstanding arrears of rent in respect of Central Government properties located in Delhi and expenditure incurred on the organisation of the Directorate of Estates—Para 80, page 67.

75. The following statement shows the assessment, realisation and outstandings as well as expenses incurred in respect of rents for Central Government buildings located in Delhi:—

(In lakhs of rupees)

Year	Assessment for the year	Recovery effected during the year	Balance outstanding at end of year	Amount written off	Expenditure on the organisation of Directorate of Estates
1	2	3	4	5	6
1959-60	165	163	37	0·55	20·95
1960-61	180	176	41	0·02	23·07
1961-62	181	163	59	0·04	25·01
1962-63	172	154	77	2·04	23·17

In extenuation of the increase in the arrears, the Secretary, Works and Housing, stated during evidence that they did not get full information from the various Ministries month by month and there was a backlog of 3 to 4 months' rent awaiting adjustment, which accounted for the bulk of the assessment and the recovery. There were also difficulties in reconciling the statements. A special cell had been created in 1947 for this purpose and this cell had reconciled all the statements up to 1956, and had now taken in hand the statements pertaining to the next two years. The witness stated that they had also created a new Section to chase the outstandings. They were also trying to mechanise the accounting system to improve the situation.

In justification of the increase in the amount written off during 1962-63 (Rs. 204 thousands) as compared to 1960-61 (Rs. 2 thousands) and 1961-62 (Rs. 4 thousands) the witness stated that outstandings up to 28th February, 1954 were reviewed and Government decided to write off the amounts involved in cases in which no further progress could be made or in which verification of recoveries was not possible for want of old records. According to a note furnished at the instance of the Committee, the total amount of Rs. 2.04 lakhs covers nearly 11,000 cases, 98 per cent of which were of amounts less than Rs. 100 each.

The Committee observe that every year there is a gap between the assessments for the year and the actual realisations. This gap has been on the increase (Rs. 2 lakhs in 1959-60, Rs. 4 lakhs in 1960-61; and Rs. 18 lakhs in 1961-62 and 1962-63). This would indicate that apart from the old arrears even the current dues are getting into arrears. The Committee desire that (i) a vigorous drive should be launched to clear the arrears and (ii) steps should be taken to realise the current demands promptly by enlisting the co-operation of all the Ministries.

Ministry of Home Affairs

Arrears of Sales tax of Delhi Administration Para 81, pages 67-68.

76. The position of arrears of tax demands as on 1-4-1963 is as shown below:—

Year	(In lakhs of rupees)
Prior to 1959-60	53·56
1959-60	8·47
1960-61	4·64
1961-62	5·75
1962-63	22·72
	95·14

The recovery actually made up to 30-9-1963 against the effective arrears of Rs. 30.33 lakhs was Rs. 15.54 lakhs.

Giving the latest position, the Chief Commissioner, Delhi, stated during evidence that as on 1-4-1964 the arrears were Rs. 90.64 lakhs. The net recoverable arrears were stated to be only Rs. 31.31 lakhs, the balance of Rs. 59.33 lakhs being accounted for as under:—

(In lakhs of rupees)

(*i*) Amount reduced in appeals/revisions . . .	0·86
(*ii*) Amount proposed to be written off . . .	54·38
(*iii*) Recovery stayed by the High Court . . .	2·73
(*iv*) Recovery stayed by the Chief Commissioner . .	0·08
(*v*) Amount involved in insolvency cases . . .	1·28
	59·33

The Committee were informed that the total demand of sales tax raised from 1-4-1963 to 30-9-1963 was as follows:—

	Local Rs.	Central Rs.	Total Rs.
Demand paid with the returns .	2,67,73,562	1,14,91,419	3,82,64,981
Demand raised as a result of assessments	14,64,243	8,17,010	22,81,253
TOTAL DEMAND . .	2,82,37,805	1,23,08,429	4,05,46,234

Accumulation of arrears was attributed to (i) some assessments being made at the end of the year and spilling over to the next year and (ii) some persons going out of business during the year and collection of tax from them becoming difficult as a result thereof.

The Department had stated that out of this amount the effective recoverable arrears as on 30-9-1963 were only to the extent of Rs. 30.33 lakhs, the balance of Rs. 64 81 lakhs being accounted for as under:—

(In lakhs of rupees)

(*i*) Amount reduced in Appeals Revisions . . .	3·22
(*ii*) Recovery stayed by High Court	4·17
(*iii*) Recovery stayed by Chief Commissioner . .	0·05
(*iv*) Amount held up with Northern Railway but may have to be written off as unenforceable	1·61
(*v*) Amount involved in insolvency cases . . .	1·38
(*vi*) Amount proposed for write-off	54·38
	64·81

Explaining the amount of Rs. 54.38 lakhs proposed to be written off, the Chief Commissioner stated that this related to the period prior to 1956-57. At that time, there was no provision to check bogus dealers and the Administration had to register them without any check. Demands in their cases were inflated with a view to "squeeze them out" and the actual loss might not be as much as it would appear from the amounts shown as unrealisable. The number of bogus dealers prior to 1956-57 was reported to be 74 and the amount involved in their cases Rs. 41.58 lakhs. The Chief Commissioner stated that 20 of them had been criminally prosecuted and the Administration was trying to lay their hands on the remaining 54, who would be dealt with in the same manner.

In a note furnished at the instance of the Committee, it has been stated that (i) the largest amount written off in a single case was Rs. 5.98 lakhs; (ii) in 10 cases the amount proposed to be written off exceeded Rs. 1 lakh, and the total amount involved in these cases was Rs. 29.59 lakhs; and (iii) in 6 cases the amount proposed to be written off was between Rs. 50,000 and Rs. 1 lakh, and the total amount involved in these cases was Rs. 4.50 lakhs.

As regards remedial measures, the Committee were informed that a Bill to amend the Sales Tax Act was going to be introduced in the next session of Parliament and this amending Bill was stated to contain several provisions designed to plug loopholes.

In reply to a question whether any progress had been made with regard to the shifting of the burden of sales tax from the last point to the first point as recommended by the Committee last year (*vide* para 4, 21st Report, Third Lok Sabha), the Chief Commissioner stated that this was feasible only in cases where the importers were limited in number. This was so in the case of drugs and medicines and kirana merchandise. The list was being examined further and a decision was expected to be taken soon.

The Committee are glad to learn (i) that a Bill to amend the Delhi Sales-tax Act is proposed to be introduced shortly in Parliament to plug the loopholes regarding evasion of sales-tax, and (ii) that the question of shifting the burden of sales-tax from the last to ths first point in respect of more commodities in order to prevent evasion of tax is expected to be finalised soon. They await a further report in regard to both the above matters.

The Committee do not find any appreciable improvement in the clearance of arrears of sales-tax (Rs. 90.64 lakhs on 1-4-1964 as compared to Rs. 95.14 lakhs as on 1-4-1963). They suggest that vigorous steps should be taken to liquidate old arrears and to avoid accumulation of current demands.

77. Out of the amount of irrecoverable arrears of Rs. 43.87 lakhs mentioned in para 4 of the Audit Report (Civil) on Revenue Receipts, 1963, which according to the Department had been recommended for write-off, only a sum of Rs. 232 had actually been written off up to September, 1963.

The Chief Commissioner explained during evidence that the Sales Tax Commissioner was authorised to write off only amounts below Rs. 250, and these Rs. 232 related to two such cases. Regarding the rest, the Delhi Administration had approached the Home Ministry for authority to write them off. The necessary powers had been delegated to the Delhi Administration towards the end of May 1964. According to the latest orders, subject to certain conditions, the Chief Commissioner had been given full powers and the Commissioner of Sales Tax had been delegated power to write off up to a maximum of Rs. 5000 in each case (as against Rs. 250 previously). The Committee were informed that speedy steps were being taken and the writing off of a little over Rs. 20 lakhs was expected to be completed within a few days.

Now that larger powers of write-off have been delegated to the Delhi Administration, the Committee hope that early action would be taken to write off the arrears which are found to be irrecoverable.

III

ACTION TAKEN ON OUTSTANDING RECOMMENDATIONS

78. The replies received from the Ministry of Finance (Department of Revenue and Company Law) stating the action taken on the recommendations contained in the 21st Report of the Public Accounts Committee (Third Lok Sabha) on Audit Report (Civil) on Revenue Receipts, 1963, have been included in Part III* of this Report.

The Committee note that in the following cases, the replies furnished by the Ministry of Finance (Department of Revenue and Company Law) are of an interim nature:—

Para No. of 21st Report	Information desired by the Committee
7	Re-organisation and strengthening of the Internal Audit and Appraising Departments.
8	Do.
17	Non-settlement regarding duty recoverable from a foreign Government.
26	Report regarding result of disciplinary action taken against the officer responsible.
33	Report regarding outcome of court proceedings and action taken against the officers responsible.
36	Position regarding amendment of the existing rules.
40	Steps taken to improve the working of Internal Audit Parties.
42	Position regarding remaining 96 cases.
50	Final position regarding recovery of tax
52	Do.
54	Final position regarding recovery of tax.
55	Do.

*Not printed (One cyclostyled copy laid on the Table of the House and five copies placed in the Parliament Library).

The Committee would await a further report in regard to these matters.

79. Replies, duly vetted by Audit, have not been received in respect of the following paragraphs:

Para No. of 21st Report	Information desired by the Committee
27	Classification of Badami unbleached paper as printing and writing paper.
29	Clearance of excess quantity of sugar at concessional rates of duty.
30	Loss of revenue owing to irregular condonation of stock deficiencies.
34	Arrears of Union Excise Duty.
37	Arrears in the assessment and collection of excise duty on rubber.
68	Result of the enquiry.

The submission of the final vetted replies in respect of the above paragraphs may be expedited.

Arrears of Customs Duty (Note Pass cases)—Para 20 of 21st Report (Third Lok Sabha)

80. The P.A.C. (1962-63) had desired that the finalisation of outstanding Note Pass cases (12,642) should be vigorously pursued. The position of outstanding Note Pass cases for the quarter ending September, 1963 and December, 1963 was as follows:—

Quarter ending	Less than 3 months	More than 3 months	Total
30-9-1963	4,741	7,766	12,507
31-12-1963	5,210	9,061	14,271

The position as disclosed by the above figures is disappointing. The Committee desire that a vigorous drive should be launched to finalise the outstanding Note Pass cases as early as possible.

Recoveries in the remaining cases taken up by the Special Cell (Income-tax)—Para 32 of 6th Report and para 76 of 21st Report (Third Lok Sabha)

81. The P.A.C. (1962-63) had been informed that 18 cases originally referred to the Income-tax Investigation Commission were in various stages of investigations. The Committee had desired that a report might be submitted to them regarding the completion of these 18 cases. This report is still awaited. **The Committee hope that these case have been disposed of by now. They would like to be apprised of the latest position.**

Non-settlement of the differences between the Customs Department and Bombay Port Trust regarding dues on unclaimed goods—para 7 of 6th Report and para 77 of 21st Report (Third Lok Sabha)

82. The P.A.C. (1962-63) had expressed their concern that the differences between the Customs Department and the Bombay Port Trust had remained unresolved for a period of more than 11 years. They had hoped that the Ministries of Finance and Transport would smoothen their differences in a spirit of co-operation and arrive at agreed arrangements without any further delay. **The Committee have been informed that an agreed formula has since been worked out by mutual discussion. They would like to be informed about (i) the details of the agreed formula, (ii) the position regarding its acceptance by the Ministry of Transport (to whom, it is stated, it has been sent for acceptance), and (iii) the early implementation of the agreed arrangements.**

NEW DELHI;
30th October, 1964
Kartika 8, 1886 (S)

R. R. MORARKA,
Chairman,
Public Accounts Committee.

APPENDICES

APPENDIX I

(*Vide* Para 1 of the Report)

MINISTRY OF FINANCE

(Department of Revenue and Company Law)

QUESTION:

The gross collection under "IV. Taxes on income other than Corporation Tax" (before deducting States' share) for 1960-61 comes to Rs. 168.73 crores. The corresponding figure for 1961-62 is Rs. 161.03 crores showing a fall of Rs. 7·70 crores. What are the reasons therefor?

REPLY OF THE MINISTRY:

The gross collections under major head IV are classified under several minor heads. The minor heads under which there has been variation between the two years and the reasons for the same are given below:—

Rupees in crore

Minor Head	1960-61	1961-62	Variations (+)	Variations (—)
I.T. on companies	31·87	15·24	..	16·63
Deductions at source	32·15	43·15	11·00	
E.P.T.	2·31	31	..	2·00
Advance tax (net)	2·10	10·52	8·42	
I.T. & S.T.—Other collections	89·19	81·02	..	8·17
All other minor heads grouped together	11·11	10·79		32
	168·73	161·03	19·42	27·12

Net difference is 7.70 crores.

The reasons for variations under each head are given below:—

I.T. on Companies:

Up to 1959-60, income-tax on companies was booked under the major head "IV. Taxes on income other than Corporation Tax". From 1960-61, income-tax on companies was booked under the major head "III. Corporatin Tax". However, all collections relating

to income-tax on companies relating to the assessment years 1959-60 and earlier years continued to be booked under the major head "IV. Taxes on income other than Corporation Tax". The number of assessments for 1959-60 and earlier years will become less and less as the years go by and ultimately a stage will be reached when there will be no collections on account of income-tax on companies under the major head IV.

Collections out of income-tax on companies, for assessment years 1959-60 and earlier years completed in 1960-61, amounted to 31·87 crores. Such collections in 1961-62 amounted to 15·24 crores because of lesser number of old company assessments completed in the second year. This would account for a fall of 16:63 crores under this minor head alone.

Deduction at source:

There was an increase of 11 crores under this minor head. This was mainly due to—

(1) increase in dividends declared by companies; and

(2) increase in income from salaries subject to deductions at source.

We have no figures regarding the total dividends declared by all the companies. However, as per All-India Statistics, the income assessed under the head 'Salaries' in 1960-61 was 291·08 crores which increased to 339·25 crores in 1961-62.

E.P.T.:

E. P. T. was abolished with effect from 1-4-46. Some old arrears are however outstanding. It is, therefore, not possible to estimate accurately the collections under this head in any year. There was a fall of 2 crores under this minor head.

Advance tax (net):

The comparative figures for 1960-61 and 1961-62 are given below: —

	1960-61		1961-62	
		(Rupees in crores)		
Gross collections		64·41		61·07
Deductions				
(i) Adjustments to other heads	49·39	62·31	42·62	50·55
(ii) Refunds to assessees	12·92		7·93	
Net balance		2·10		10·52

Only net collections under Advance Tax come in the final budget collections. The difference between the gross collections and net collections is explained below. Most of the assessees pay tax in advance which is credited as a lumpsum under the head "Advance Payment of Tax". As and when regular assessment is made, an adjustment is carried out in the books of the Accountant General or Treasury debiting advance tax and crediting the regular minor heads of accounts such as "income-tax on companies", "income-tax—other collections", "super-tax"—"other collections", etc. The adjustments under the head "Advance Tax" will depend on the rate of progress of assessments as well as the speed with which Treasury Officers or Accountant Generals make the adjustments. The refunds on account of advance tax will also depend on the rate of progress of assessments.

I.T. & S.T.—Other collections:

Under this head will be accounted the following:—

(1) Collections as a result of provisional assessments.

(2) Cash collections out of arrears and current demands.

(3) Part of adjustments from advance tax on completion of regular assessments.

No details of collections are available under each of these three heads. Therefore, it is not possible to say why there has been a fall. However, the fall in the adjustments is quite apparent from the figures given above.

• • • •

QUESTION:

Why is there an increase in collections under "IV. Taxes" in 1962-63 as compared with 1961-62?

REPLY OF THE MINISTRY:

There were increased collections due to the following two reasons—

(1) increase in rates of tax; and

(2) increase in incomes.

APPENDIX II

(*Vide* Para 1 of the Report)

MINISTRY OF FINANCE

(Department of Revenue and Company Law)

QUESTION:

How is the States' share of tax on income other than Corporation *Tax worked out?*

REPLY OF THE MINISTRY:

The gross collections and the States' share in respect of the years 1960-61, 1961-62 and 1962-63 are given below:

	1960-61	1961-62	1962-63
	(Rupees in crores)		
Gross collections	168·74	161·04	187·40
States' Share	87·37	93·85	95·27
Balance	81·37	67·19	92·13

All receipts under the major head "IV. Taxes on income other than Corporation Tax are not divisible but only some of them. The divisible items are as under:

(1) I.T. on companies in respect of 1959-60 and earlier assessment years.

(2) I.T. and S.T. on assessees other than companies (except union emoluments)

(3) surcharge special

(4) deduction of tax at source (except on union emoluments).

(5) E.P.T. and B.P.T.

Out of the divisible items, cost of collection and the share of Union territories (1 per cent up to 1961-62 and 2½ per cent from 1962-63) are deducted to arrive at the net divisible pool

According to the recommendations of the Second Finance Commission, States were entitled to 60% of the net divisible pool and the remaining 40% was the share of the Centre. The Third Finance Commission recommended that the States will be entitled to 66 2/3% and the Centre 33 1/3%. The recommendations of the Third Finance Commission are applicable from 1962-63.

From the share payable to the States, adjustments are also made for the excess or short payments made in the earlier years. This is done by the Department of Economic Affairs in consultation with the Comptroller & Auditor-General. This Department is not, therefore, aware of the figures of such adjustments made in each year.

APPENDIX III

(*Vide* Para 2 of the Report)

MINISTRY OF FINANCE

(Department of Revenue and Company Law)

Audit Report (Civil) on Revenue Receipts, 1964

Item 1: *para 43, page 35 (Table), variations of the actuals from the estimates under Corporation Tax and Taxes on income other than Corporation Tax.*

NATURE OF INFORMATION REQUIRED

(i) What was the amount of advance tax collected during the years 1959-60, 1960-61, 1961-62 and 1962-63?

(ii) What are the reasons for the variation of 24.9% in respect of Surcharge (Central) & 38.3% in respect of Surcharge (Special during the year 1962-63?

REPLY OF THE MINISTRY

(i) The required information is as under:—

(Figures in crores of rupees)

Year	Amount of collections of advance tax
1959-60	121·11
1960-61	143·16
1961-62	163·38
1962-63	184·34

(ii) The main reasons for the variations are as under:—

While fixing the budget estimate of 4.5 crores for Surcharge (Central) and 3 crores for Surcharge (Special) for 1962-63, the following two factors were taken into consideration:

(a) Departmental figures of actual collections for 1961-62 which amounted to 4.66 crores and 2.82 crores respectively;

(b) Reduction in rate of Surcharge (Central) on salary income with effect from 1962-63 assessment from 5 per cent to 2½%.

The actual collections for 1961-62 as later verified by A.Gs. turned out to be 5.07 crores and 2.89 crores respectively. Thus the under estimate was at the initial stage due to the difference between the departmental figures and verified figures.

Another reason which would explain the difference between the estimates and actuals is the general increase in the collections under the major head 'IV. Taxes' of which these two surcharges form a part. The increase in 'IV. Taxes' during 1962-63 between the estimates and actuals was to the extent of 13.9%. Hence, there was bound to be corresponding increase in the surcharges also.

APPENDIX IV

(*Vide* Para 67 of the Report)

Additional information required by the Public Accounts Committee on Central Government Audit Report (Civil) on Revenue receipts, 1964.

Item 12:—*Page 61, para 75—Arrears of tax demands.*

(a) The year-wise and charge-wise break-up of the gross arrears of Rs. 271.71 crores may be furnished.

(b) How much of the amount of Rs. 271.71 crores is estimated to be written off on account of any of the reasons given in paragraph 74 of the Audit Report?

REPLY OF THE MINISTRY

(a) The figure of gross arrears of 271.71 crores given in the Audit Report, 1964 were only provisional figures. The final figures after treasury adjustments and after checking by internal audit parties are now available and according to these figures, the gross arrears of income tax as on 31-3-1963 amounted to Rs. 270.43 crores. A statement showing the year-wise and charge-wise breakup of the gross arrears of Rs. 270.43 crores is enclosed. (*Vide* Annexure) It will be seen from the statement that the arrears relating to the seven years 1953-54 to 1960-61 have been given in a lump. Accurate figures regarding the break-up of these arrears for each year are not readily available at present.

(b) The amount estimated to be irrecoverable out of the gross arrears of Rs. 270.43 crores is 45.23 crores and the breakup of the same is given below:—

	Rs. in crores
(*i*) Due from persons who have left India leaving no assets	9·44
(*ii*) From companies under liquidation	6·04
(*iii*) From others	29·75
	45·23

[This has been vetted by Audit.]

S. A. L. NARAYANA ROW,
Joint Secretary,
M.F. (Deptt. of Rev. & Company Law)

M.F. (D.R. & C.L.) UOF No. 14/77/63-IT(B), dt. 7/7/1964.

ANNEXURE

(Figures in thousands)

Commissioners' Charge	Arrears relating to 1952-53 and earlier years	Arrears relating to 1953-54 to 1960-61	Arrears relating to 1961-62	Arrears relating to 1962-63	Tot
1	2	3	4	5	6
Andhra Pradesh	3,817	20,235	9,603	23,728	57,383
Assam	2,604	5,352	3,003	10,071	21,030
Bihar and Orissa	4,723	30,094	10,884	29,519	75,220
Bombay City I	27,027	1,15,836	50,923	1,44,899	3,38,685
Bombay City II	49,803	1,20,483	34,838	84,755	2,89,879
Bombay Central	12,968	94,861	16,744	39,628	1,64,201
Poona	6,599	14,992	6,902	22,825	51,318
Delhi	26,029	90,798	16,214	59,868	1,92,909
Gujarat	636	26,100	11,972	36,879	75,587

1	2	3	4	5	6
Kerala	1,283	17,383	4,628	17,358	40,652
Madhya Pradesh	1,533	38,477	20,476	34,339	94,825
Madras	8,223	29,897	16,500	56,831	1,11,451
Mysore	587	11,566	6,417	33,033	51,603
Punjab	4,068	15,908	13,853	29,433	63,262
Uttar Pradesh	36,191	50,349	19,115	30,431	1,36,086
West Bengal	1,09,200	3,00,457	1,16,315	1,96,860	7,22,832
Calcutta Central	21,288	96,803	21,848	77,411	2,17,350
TOTAL	3,16,579	10,79,591	3,80,235	9,27,868	27,04,273

APPENDIX V

(*Vide* Para 71 of the Report)

GOVERNMENT OF INDIA

MINISTRY OF WORKS AND HOUSING

SUBJECT:—*Paragraph 78 of the Audit Report (Civil) on Revenue Receipts 1964—Arrears of rent from private parties—Further information desired by the Public Accounts Committee regarding requisitioned houses allotted to private parties.*

In their meeting held on the 30th July, 1964 the Public Accounts Committee desired, *inter alia*, full particulars about cases in which premises were requisitioned for public purposes and were later allotted to private parties.

2. The desired information is enclosed. (Annexure) It would be seen that except in one case of an accredited press correspondent where rent is being recovered under F.R. 45-A, rent in all other cases is being recovered under F.R. 45-B. As the rents recovered from allottees cannot legally exceed what is payable to landlords plus departmental charges, there is no financial burden on Government. In the case of the press correspondent, he is being charged as much rent as is being paid to the landlord; under F.R. 45-B he would have been required to pay Rs. 43 p.m. instead of Rs. 42 p.m. The difference of Re. 1 is on account of departmental charges.

C. P. GUPTA,
Jt. Secy. to the Govt. of India.

ANNEXURE

[Vide *Para 71 of the Report*]

Full particulars regarding the cases in which premises were requisitioned for public purposes and were later allotted to private parties.

Sl. No.	Particulars of the premises	Date of leasing or requisitioning	Particulars of private party/orgn. to whom allotted	Rate of rent	Reasons for allotment
1	2	3	4	5	6
1	York Hotel, New Delhi	1-11-1941	M/s. York Restaurant	F.R. 45-B with Deptt. charges	York Hotel premises at New Delhi were requisitioned in 1942 from Mr. Mohammed Din Chhatriwala, landlord, under the Defence of India Rules 1939 for use by the Defence Department. There are 12 double room suites on the first floor, and the second floor., in addition to the accommodation on the ground floor. At the time of requisition, on the ground floor, one Sardar Nehohal Singh was running a hotel and one Mr. Mohammed Ashkin, a Bakery. As the accommodation on the ground floor was not required for Government use, the hotel and the bakery were allowed to continue.
	York Hotel Bakery	Do.	M/s. Nanor Bakery	Do.	
					The Defence Deptt. was using the accommodation as Air Reception Centre and, in 1947, when the accommodation was no longer required by them, control thereof was given to the Estate office. The Estate Office used the said accommodation as Govt. Hostel for the convenience of the members of the Constituent Assembly, as, at that time, in the neighbouring areas no suitable accommodation was available. In due course of time, accommodation on the first floor and second floor became part

					of the general pool. At the time of partition of India, in 1947, the portion occupied by Mr. Askhin for bakery fell vacant after he migrated to Pakistan and it was allotted to Shri Manohar Singh, a displaced person, by the Rehabilitation Department. His tenancy was thereafter continued and duly regularised by the Ministry of Works and Housing. M/s. Nehohal Singh Lakhmir Singh, who were running the restaurant abandoned the idea of running it and hence in August, 1947 it was decided that the said accommodation might be let out to a private party to run a restaurant. These premises are at present occupied by the 'YORK RESTAURANT'. Sometime back, Govt. reviewed the position of de-requisitioning the entire property but the proposal had to be kept in abeyance on account of a court injunction in respect of this property.
2	26, Basaka Singh Bldg.	1-11-1944	Bharat Sewak Samaj	Do.	The premises were allotted to the Bharat Sewak Samaj in September, 1953.
3	27, Sujan Singh Park	3-8-1945	Smt. Lado Rani Zutshi	Do.	The allotment was made with effect from 22-7-1961.
4	16/90, Con. Circus	13-8-1945	Shri Pearey Lal	Do.	He was engaged in the compilation of the Collective Works of the late Mahatma Gandhi and the premises were allotted to Shri Pearey Lal in August, 1953.
5	Chaudhary Building	7-5-1945	Shri C.L. Chandershekhar	F.R. 45-A	The premises were allotted to Shri Chander Shekhar in November, 1960 on account of his being an accredited Press Correspondent.
6	75-G, Sujan Singh Park.	12-1-1946	Mrs. Indra Vati Dutt	F.R. 45-B with Deptt. charges	Smt. Dutt is the widow of the late Shri Krishan Gopal Dutt formerly a Minister in the Panjab Govt. She had to vacate the house occupied by her and it was decided to allot her accommodation on licence basis with effect from 12-10-1961.

1	2	3	4	5	6
7	61 F, Sujan Singh Park.	17-1-1946	Shri C.P. Lal, Counsel of U.P. Govt.	F.R. 45-B with Deptt. charges	The premises were allotted to Shri C.P. Lal with effect from 6-2-1958 (Counsel of U.P. Government), on the recommendation of that Government.
8	5, Sikandra Place	1-9-1947	Lady Irwin College	Do.	The premises were allotted to the Lady Irwin College to provide additional space.
9	2, Racquet Court Road	15-12-1947	Late Baba Kharak Singh Ji	Do.	The house was allotted to the late Baba Kharak Singh Ji. The case has been discussed in detail by the P.A.C.
10	Out houses in Kapurthala House	15-7-1950	Dewan Jermani Das (Outhouses only)	Do.	In 1950 Kapurthala House, New Delhi was requisitioned by the Estate Office under the Delhi Premises (Requisition and Eviction) Act, 1947. Part of the house was under occupation of Dewan Jermani Das, an employee of Maharaja Kapurthala, In order to have vacant possession of the portion occupied by him, it was decided to allot him certain outhouses, garages, etc., (some of which he was already occupying) on lease and licence basis. It was also decided that he would be allowed to retain the accommodation in question so long as the Kapurthala House remained under requisition.

APPENDIX VI

(*Vide* Para 73 of the Report)

Copy of letter No. 12(19)/56-WII, dated 12th June, 1956 from the Govt. of India, Ministry of Works, Housing & Supply, to all the Ministries of Govt. of India including the Prime Minister's Sectt; all offices attached and Subordinate to the Ministry of W.H.&.S., and all sections in the Ministry of W.H.&.S. & P.P.S. to Prime Minister, etc. etc.

SUB.: Provision of Govt. accommodation to non-Govt. Organisations and private individuals, and the basis for the recovery of rent.

This Ministry has been receiving requests from various Ministries for the provision of office as well as residential accommodation for the various autonomous bodies, which have been established by the Govt. of India. Similar requests have also often been received by this Ministry direct from various social, educational and cultural organisations, which are doing useful work in the past. these requests have been dealt with on *ad-hoc* basis. As, however, these requests are now increasing in number, it has become necessary to review the whole position and to lay down a definite policy to be followed in making available Govt. accommodation to such non-Govt. Organisations and private individuals and the basis on which rent should be recovered from them in respect of such accommodation.

2. The General pool of accommodation in New Delhi/Delhi under the administrative control of the Estate office of the Govt. of India is intended to cater essentially to the requirement of those Govt. offices and the officers employed in them whose location in New Delhi/ Delhi has been approved by the Accommodation Advisory Committee. The accommodation available has been very limited and far short of the requirements of Govt. To make up this shortfall to some extent, Govt. has had to hire private accommodation on payment of market rent. It, therefore, means that if Govt. accommodation is made available to non-Government organisations or individuals it can be done only at the cost of Govt. requirements. It will, therefore, be appreciated that ordinarily it would not be possible to make available any Govt. accommodation to Non-Government Organisations or private individual except in very special circumstances.

3. The Non-Govt. Organisations can be broadly divided into two categories. The first category consists of those organisations, like the Air Lines Corporation, the Council of Scientific and Industrial Research, the Sahitya Akademi, etc. which have been sponsored and established by Government and which are, more or less, wholly financed by Govt. Though, technically speaking, these organisations are not Govt. Departments, in actual practice, they are not intended to discharge functions which Govt. could if it is so chose, discharge

directly and they have been established as autonomous organisations mainly to achieve certain administrative advantages. It has, therefore, been agreed that there will be no objection, in principle, to office as well as residential accommodation being made available to such organisations from the general pool. It will, however, be appreciated that as the actual accommodation available in the general pool is very limited and not enough to meet even Govt. requirements, the accommodation which it will be possible to make available to such autonomous organisations, will be very limited. Before, however, any accommodation can actually be made available to any such organisation, it will be necessary for that organisation to obtain the approval of the Accommodation Advisory Committee to the location of its office in New Delhi/Delhi.

The other category consists of various non-official organisations, which; though not sponsored or established by Government, can still be regarded as doing very useful work in social, educational or cultural spheres and which deserve encouragement at the hands of Government. In view, however, of the shortage of accommodation, it will not ordinarily be possible for Govt. to provide any accommodation to such organisations except in very special cases.

4. In regard to the rent to be recovered from such organisations in respect of Government owned or requisitioned accommodation, which might be made available to them, it has been decided, in consultation with the Ministry of Finance, that in all such cases, except as provided for in the succeeding paragraphs of this memorandum, rent should be recovered under F.R. 45-B. The reason for such a decision is that Govt. itself has to pay market rent for the private accommodation, which is being hired by it and there, therefore, seems to be no justification to charge any concessional rent in respect of Government accommodation which might be made available to any Non-Government Organisations. If there is any organisation, which deserve some financial assistance at the hands of Government, the appropriate course is for the Ministry, which is administratively concerned with that organisation to render financial assistance to it in the form of a cash grant rather than for Government to provide any Government accommodation at a concessional rate, which would, in effect, be a concealed subsidy. It has, however, been agreed that in the case of residential accommodation, which might be made available to the employees of autonomous bodies, which have been sponsored and established by Govt. and which are more or less wholly financed by Govt. that such organisations be authorised by the Administrative Ministries concerned, in consultation with their associated Finance, to meet from their own budget the difference between the rent calculated under 45-B, which an employee of such an organisation would have to pay to Government in respect of the accommodation made available to him, and the rent calculated under 45-A, which would have been paid had such an employee been a Government servant.

5. In the case of press representatives, it has been agreed that residential accommodation may be made available to them on the

payment of the standard rent under 45-A or pooled rent, whichever is higher, subject to the following conditions:—

(A) The total amount of residential accommodation to be made available to press representatives will be fixed by Govt. from time to time and that this total will not be exceeded by the Estate Officer without the prior approval of Government.

(B) The accommodation to be provided to a press representative will not be in excess of what would be appropriate if he were a government employee.

If any office accommodation is made available to the press, rent will, however, be charged under F.R. 45-B.

In case of the Bharat Sevak Samaj, it has been agreed in consultation with the Ministry of Finance, that office accommodation may be made available to this organisation rent free subject the area of accommodation being in accordance with the austerity scales of Government. In the case of the residential accommodation, which might be provided to any employee of the Bharat Sevak Samaj, rent will, however, be charged under F.R. 45-B, as in the case of other Non-Government Organisations, and it will be open to the Samaj to pay to the employee, the difference between the F.R. 45-A and F.R. 45-B rent.

Requests are also sometimes received from Foreign Missions and Foreign Organisations like Ford Foundation etc. In all such cases, if, any accommodation is made available, rent will be charged under F.R. 45-B.

Accommodation is, sometimes required to be given to State Governments also. So far as residential accommodation allotted under official arrangements to an officer of a Part A or B State Government is concerned, rent will be recovered in accordance with Audit Instruction No. (4) below F.R. 45 in A.G. P&T's compilation of Fundamental Rules and Supplementary Rules (Vd. I). Rent for office accommodation allotted to a Part A or Part B State Govt. will be charged under F.R. 45-B. As regards Part C States, rent in respect of office and residential accommodation placed at their disposal will be charged in accordance with the orders contained in this Ministry letter No. WII-76(i)54, dated the 18th June, 1955 (Copy enclosed).

8. The orders contained in this office Memorandum supersede all previous orders on the subject and the cases of all organisations and individuals to whom Government accommodation has already been made available, would be reviewed by this Ministry in consultation with the administrative Ministry concerned in the light of these orders.

Copy of Govt. of India Ministry of Works, Housing and Supply letter No. WII-75(i)/54, dated the 8th June, 1955 as modified by addendum of even number dt. 27-6-1955. to all Part 'C' State Governments.

Sub: Recovery of rent in respect of Central Government accommodation placed at the disposal of Part 'C' State Govt.

I am directed to state that the question of recovery of rent in respect of buildings belonging to the Central Government and placed at the disposal of Part 'C' State Govts. either for office or residential purposes has been under consideration for some time and the following decisions have been taken:—

(i) In the case of buildings utilised for office accommodation placed by the Central Govt. at the Disposal of a Part 'C' State as being surplus to its own requirements and required for its purposes by a Part 'C' State Govt. in whose territory that accommodation is located, no rent shall be charged for the accommodation so transferred but its maintenance and Addition and Alteration, if necessary, will be responsibility of the Part 'C' State Govt., concerned. The ownership will continue to vest in the Centre.

(ii) All residential accommodation already allotted to the employees of a Part 'C' State Government either directly by the Centre or through the State concerned, shall be treated as having been placed at the disposal of that State for which the State Government will pay to the Centre full standard rent under F.R. 45-A and recover from its own employees who are using them rent on such basis as may be determined by it. The maintenance of these buildings will be the responsibility of the Centre.

2. These decisions take effect from the 1st October 1954. In respect of the period prior to the 1st October 1954 the following action will be taken.

(i) Debits raised against Part 'C' States for the office accommodation placed at their disposal by the Centre shall be withdrawn after consultation with the Centre Ministry of Finance.

(ii) In respect of residential accommodation the rent actually recoverable from the occupants in accordance with the provisions of F.R. 45-A shall be recovered from them by the State Government concerned if no recovery has been made so far, and credited to the appropriate head of accounts of the Centre. No rent will be recoverable in respect of buildings occupied by persons entitled to rent free accommodation or for residential buildings actually used as office accommodation.

3. The orders contained in this Ministry letter No. 8218-WII/52 dated the 27th October, 1952 copy enclosed for a ready reference, addressed to the Chief Engineer, Central Public Works Department, are hereby cancelled.

APPENDIX VII

Summary of main conclusions Recommendations

S. No.	Para No. of Report.	Ministry Deptt. concerned	Conclusions Recommendations
1	2	3	4
1	2	Finance (Deptt. of Revenue and Company Law).	The Committee are glad that during 1962-63 there were increased collections under Corporation Tax and Income Tax due, *inter alia*,, to (*i*) larger advance collections, (*ii*) completion of a large number of provisional assessments and (*iii*) special drive undertaken by the Department for collection of arrears. The Committee, find, however, that the difference between the Revised Estimates and the Actuals was Rs. 32·56 crores under Corporation Tax and Rs. 14·9 crores under Income Tax, whereas the variation between the Budget Estimates and the Revised Estimates was Rs. 9·05 crores and Rs. 9·15 crores respectively. The larger variation between the Revised Estimates and Actuals points to the need for more accurate and careful budgeting. The overall variation between the Budget Estimates and the Actuals is 23% under Corporation Tax and 34% under Income Tax. Taking the gross collections under both the heads together, the variation comes to 19·1% during 1962-63. These variations are very much on the high side, and the Committee hope that efforts would be made to improve the budgeting technique and arrive at more accurate estimates of the receipts under both these taxes.

1	2	3	4
	3	Finance (Deptt. of Revenue and Company Law).	The Committee are surprised to find that the test-audit of 82,495 cases (6 per cent of the total number of 13·81 lakhs assessees) has revealed under assessments to the extent of Rs. 2·29 crores (in 5,195 cases) and over-assessments amounting to Rs. 3·93 lakhs (in 258 cases), besides several lapses in procedure. The large number of cases involving under-assessment to the tune of Rs. 2·29 crores clearly establish the necessity of streamlining administrative machinery and the Committee suggest that effective steps should be taken in this direction, keeping in view the complexity of income tax law. It appears to the Committee that one reason for the magnitude of the mistakes committed by the Income Tax Officers is the heavy work-load. Considering that there are 13·81 lakhs of assessees to be assessed by about 1300 officers the work-load on each Income Tax Officer on an average comes to about 1000 cases a year which has been considered high by the Santhanam Committee in its report on prevention of corruption (item (*ix*)—page 272). Any streamlining of the Administrative machinery must take into account the need to reduce this work load with a view to obtaining the optimum efficiency. They note that the functions of the Internal Audit have been enlarged so as to include the checking of mistakes of law or rates, besides verifying the arithmetical calculation of the tax. The Committee trust that with the enlargement in the nature of the duties performed by Internal Audit, there will be significant improvement in prompt detection of cases of over-assessments and under-assessments. They also suggest that in future individual cases involving an under-assessment beyond a certain amount (say Rs. 10,000) should be investigated in detail and action taken against officers concerned, if under-assessment is found to be due to their negligence or non-observance o rules or *malafides*.

			In respect of under-assessments of tax and loss of revenue of Rs. 10,000 and more in individual cases, pointed out by Audit, the Committee would like to be informed as to in how many cases :— (*i*) the same I.T.O. was responsible for mistakes in more than one case commented upon in the present Audit Report; and (*ii*) the same I.T.O. who has committed the mistake this year also committed mistakes in the previous year which have been detected either in the Internal Audit or Statutory Audit.
3	4	Finance (Deptt. of Revenue and Company Law).	The Committee regret to find, from the latest figures placed before them, that the number of cases in which rectification of under-assessments was not possible due to operation of time-bar had increased from 91 to 129 and the amount involved from Rs. 6·96 lakhs to Rs. 8·5 lakhs. The Committee trust that the Income-tax Officers would act with speed so that the number of time-barred cases would be reduced to the minimum.
4	5	Do	The Committee are given to understand that under-assessments on account of mistakes in working out the total income or tax have been frequently noticed in audit, and these mistakes could have been avoided if the officers were a little more careful. The Committee hope that the Central Bord of Direct Taxes would take effective steps to eliminate such mistakes.
5	6	Finance (Deptt. of Revenue and Company Law).	The case referred to in para 45 (*b*) of the Audit Report discloses a certain amount of negligence on the part of the Income-tax Officer for which he has been issued a warning. The Committee would like the Board of Direct Taxes to examine whether the issue of warning was an adequate punishment in this case. The Committee were informed that this case had not been checked by Internal Audit. Even under the old instruction the Internal Audit party had to conduct a cent per cent check of cases in which the assessed tax exceeded Rs. 10,000. The Committee would like to know why this case where the assessed demand exceeded Rs. 1 lakh was not aduited by the Internal Audit.

1	2	3	4
6	7	Finance (Deptt. of Revenue and Company Law).	In a note furnished subsequently to the Committee it was stated that the mistake occurred due to rush at the end of the financial year and that the officer concerned has been warned. The explanation about rush of work etc. is not quite convicing. The Committee take a serious view of such mistakes and hope that necessary steps will be taken to avoid their recurrence.
7	8	Do.	The case referred to in sub-para (*c*) of the Audit para is yet another case of carelessness resulting in under-assessment. The Committee would like to be informed of the progress of recovery of the demand in this case.
8	9	Do.	The Committee would like to be informed of the outcome of this case. They trust that as a result of the instructions said to have been issued, such mistakes would not recur.
9	10	Do.	In view of the magnitude of the tax effect (Rs. 40 lakhs), the Committee would suggest that special steps may be taken to make the assessing officers fully conversant with the provisions in the Finance Acts, year after year, by means of refresher course or such other suitable method.
10	11	Do.	In view of the fact that lapses in computing Super-Tax payable by companies are on the increase, the Committee would suggest that a general review may be undertaken and suitable instructions issued to the assessing officers.
11	12	Do.	The Committee would like to be informed of the final position regarding recovery in the cases mentioned in this para. The observations of the Committee regarding sub-para (*a*) of the Audit para apply to the cases mentioned in this para of the Report also.

12	13	Finance (Deptt. of Revenue and Company Law).	The Committee hope that mistakes of the nature disclosed in this case would, in future, be avoided altogether.
13	14	Do.	The Committee would like to be informed of the outcome of the investigation.
14	15	Do.	The Committee would like to be informed of the complete position regarding the 694 cases and the progress of recovery. They would also like to be informed of the results of the review about non-levy of special surcharge on unearned income said to have been ordered in the Income-Tax Commissioners' charges in Bombay and Clacutta. The Committee learn from a note furnished at their instance that instructions have been given by the Ministry that the Income Tax Officers should check up the assessments of previous years when they take the next pending assessments and take necessary corrective steps to rectify the mistakes. As the procedure laid down by the Ministry may result in assessments becoming time-barred, special steps should be taken to prevent loss of revenue on this account. They trust that instructions for the prior review of cases likely to be time-barred would have been issued by now.
15	16	Do.	The dimension of under-assessment due to mistakes in calculation of development rebate and depreciation has been showing an increase during the past two or three years. The Committee learn from a note furnished at their instance that instructions have been given to the Income Tax Officers that while completing the pending assessments, the past assessments should be checked up and corrective action taken wherever necessary. The Committee are glad that a review had been ordered, to begin with, in Bombay and Calcutta of such cases. The Committee trust that the general review would prove to be highly fruitful. They would like to be informed of the results thereof. The feasibility of extending review to other important charges may also be examined in the light of the experience gained in Bombay and Calcutta.
16	17	Do.	The Committee would like to be apprised of the result of the appeal and the action taken thereon.

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			The Committee are given to understand that wrong calculation of value of perquisite is frequently noticed in audit. The Committee therefore suggest that instructions may be issued that calculations of perquisite should be specially checked by the Inspecting Officers.
17	18	Finance (Deptt. of Revenue and Company Law)	The Committee would like to be informed of the opinion of the Law Ministry and the instructions issued in the light thereof.
18	21	Do.	The Committee appreciate the complicated nature of the law on development rebate and depreciation allowance and hope that as a result of the steps taken, there will be a marked improvement in the position regarding the cases involving calculation of development rebate. The Committee may be apprised of the progress of recovery of tax in this case.
19	22	Do	The Committee would like to be informed of the action taken after the Supreme Courts' judgment re: (*i*) the present case and (*ii*) such cases generally in future. The Committee would also sugget that suitable instructions should be issued to all Income Tax Officers in the light of the judgment of the Supreme Court.
20	23	Do	The Committee would like to be informed of the final position regarding the case which was under correspondence with Audit.
21	24	Do	(*i*) The position regarding recovery of the amount in the two outstanding cases may be intimated to the Committee. (*ii*) The Committee are alarmed at the large number of cases of under-assessment of income-tax due to incorrect determination of Development rebate. The rebate as incorrectly allowed in 165 cases and that resulted in an under-assessment of Rs. 15·54 lakhs. The Committee suggest that comprehensive and clear instructions may be issued to all Income Tax Officers

			regarding determination of development rebate for calculation of income tax so that large scale under-assessments are avoided. Suitable action should also be taken in cases of under assessments resulting from negligence or obvious wrong applications of the provisions of the Income Tax Act.
22	26	Do.	The Committee note that the matter is before the court in this particular case They would await the outcome of the court proceedings.
23	27	Do.	The Committee have been informed that enquiry has been made from the Commissioner as to what action has been taken on the I.T.O's explanation and his reply is awaited. The Committee may be informed of the action taken against the official concerned.
24	28	Do.	The Committee would like to be informed of the progress made regarding recovery of the additional demand raised in the two cases referred to in the Audit para and the action taken against the officers responsible for incorrect assessments.
25	29	Do	(i) The progress of recovery of the outstanding amounts in respect of all the cases may be communicated to the Committee. (ii) In view of the fact that as many as 513 cases of under-assessment due to incorrect allowance of depreciation were detected involving a sum of Rs. 18·29 lakhs, the Committee suggest that adequate training should be gvien to the staff especially in company circles. The large number of wrong assessments as a result of incorrect calculation of depreciation allowance makes it imperative that speedy action is taken to train the staff properly in this respect.
26	30	Do.	The Committee would like the Board of Direct Taxes to take suitable steps to ensure that Income Tax Officers keep themselves abreast of the changes in the provisions of the Income Tax Act, as amended by the Finance Acts, from time to time.

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27	31	Finance (Deptt. of Revenue and Company Law.)	The Committee were given to understand that in another case, where a similar question arose, a reference was made to the Board and the Board had given a ruling that that amount should not be allowed as a deduction. The Committee suggest that when such references are received and the Board gives a ruling, all other Commissioners may also be informed simultaneously that such mistakes may not occur and uniform application of law is ensured.
28	32	Do.	A final report regarding the recovery of the demand may be submitted to the Committee. Action taken against the officer responsible for this omission may also be intimated.
29	34	Do.	The Committee would like to point out that the cases mentioned above do not involve any complicated principle of income determination and the mistakes could have been avoided if the officers had exercised due care. They trust that mistakes due to "oversight" will not recur.
30	35	Do.	The Committee would like to be informed of the progress of recovery of the additional demand of Rs. 1,06,226 raised in this case. They find that the mistakes have been committed over a number of years from 1957-58 to 1962-63. They would like to be apprised of the action taken against the officials responsible for this lapse.
31	36	Do.	The Committee appreciate that the point involved in the present case in computing the capital gain was not free from doubt. They would like to know the final outcome of the case.
32	37	Do.	The Committee find it diffcult to understand how in this case the Commissioner had not considered any action against the I.T.O. to be necessary. The Committee consider it unfortunate that an I.T.O. should allow himself to

			be misled by a wrong assertion made by an assessee's auditor and give relief wrongly. They would like the Board to re-examine the case and take suitable action if necessary. They would also like to be informed of the action taken against the Officer responsible in the other case.
33	39	Do.	The Committees are not unaware of the complicated nature of income-tax law and company assessments in particular. They are glad to learn that a comprehensive refresher course is being s instituted, and 36 more company circles were being created. They trust that this would result in making the assessing officers fully conversant with the provisions of the Income-tax Act and the other intricacies of assessment in regard to companies, so that such mistakes are not committed.
34	40	Do.	The Committee are glad to learn that, with a view to avoiding this type of mistake in the future, instructions have been issued by the Board on the basis of a correct interpretation of the relevant provisions in this regard. The Committee note that officers have been also asked to review all cases of this type and rectify the assessments wherever " Indian rate of tax" has not been computed in accordance with the correct interpretation. The Committee would like to be apprised of the results of the said review.
35	41	Do.	Non-levy of additional super-tax under Section 23-A of the Income-tax, Act, 1922 had been adversely commented upon by the Public Accounts Committee last year (*vide* para 53 of their 21st Report, 3rd Lok Sabha). Failure to apply the provisions of Section 23-A appears to be chronic as during test-audit conducted in 1963, the number of cases has increased to 101 and the amount of under-assessment involved has risen to Rs. 30·67 lakhs. The Committee regret to note the deterioration in the position. Apparently, the internal checks which are stated to be present are inadequate. The Committee would reiterate that the procedure should be tightened up and the Board should keep a close watch on the position. A report about the rectification carried out in the 101 cases in question may be submitted to the Committee.

1	2	3	4
36	42	Finance (Deptt. of Revenue and Company Law.)	The Committee would like to be informed of the circumstances in which the lapse occurred and the action taken to avoid recurrence.
37	43	Do.	The Committee would like to be informed of the progress of recovery of the interest in the cases referred to in sub-para of Audit para.
38	44	Do.	In view of the fact that the number of cases in which omission to levy pena interest appears to be on the increase, the Committee desire that a general all-India review may be undertaken and necessary instructions issued to the assessing officers for the prompt levy of interest wherever it is due. The Committee regret to find that this type of lapse has occurred in 632 cases (involving an amount of Rs. 6·64 lakhs). A report may be submitted to the Committee regarding rectification of the assessments in these cases and the progress of recovery of the interest due.
39	45	Do	(*i*) The Committee had desired to be furnished with a note indicating how many out of 287 cases mentioned in the Audit para had become time-barred, and the amount involved. This information is still awaited. (*ii*) The Committee note that the Board have taken a serious view of the continuing lapses on the part of officers in this regard and have issued necessary instructions in the matter. The Committee had expressed their concern last year (*vide* para 65, Twenty-first Report, Third Lok Sabha) at the delay in the revision of provisional assessments of the partners' share incomes after the completion of the firms' assessments and had also taken a serious view of the failure to keep a proper watch over such cases through the register prescribed for the purpose. The Committee desire that the procedure should be tightened up and the instructions should be strictly enforced. The position regarding rectification of the non-time-barred cases and the quantum of tax recovered may be intimated to the Committee.

(iii) Having regard to the extensive nature of the under-assessment due to lapse of this type, the Committee feel that it may be worth while for Government to order a general review of such cases in all Commissioners' charges.

According to a note furnished at the instance of the Committee, the explanation of the I.T.O. concerned was still awaited. The Committee regret this delay. They would like to be informed of the action taken against the defaulting official.

The Committee find it difficult to accept heavy pressure of the work as a valid reason for committing obvious mistakes. The Committee would like the Central Board of Direct Taxes to take suitable steps to ensure that such mistakes are avoided in future.

This case indicates negligence on the part of the assessing officer in scrutinising the assessee's accounts and in computing the taxable income. The Committee regret that the mistake should have been committed for three consecutive years. They hope that in assessments involving such large amounts I.T.Os. would exercise proper care and caution, so that there is no under-assessment.

This is the second* instance noticed by the Committee this year where certain old orders of the Board which had no application to present-day conditions continued to be applied by field officers until Audit brought the matter to notice and the Board withdrew them. The Committee trust that a suitable machinery would be evolved in the board to scrutinise and review all old orders and suggest revisions or amendments in the light of the changed conditions or amendments in the light of the changed conditions of today. The Committee would like to be informed of the results of this review.

Committee are happy to learn that, in order to assist assessing officers in ing and assessing cases properly where the assessee has deliberately s income but information regarding suppressed income is available records, a book incorporating a large number of years of ex- s type of work has been brought out by the Board. The

*raph 56 of their Twenty-seventh Report (Third Lok Sabha).

. trust that this guide book would be in the hands of every assessing
.l that it would help to eliminate cases where income escapes assess-

nmittee would like to know whether any explanation was obtained from
.ncome-tax Officer who omitted to bring to tax the suppressed income
ne original assessment for 1958-59 made in October, 1960 when the records
emselves showed that there had been deliberate concealment. The
.ommittee desire that proper investigation should be made to ascertain whether malafides were involved. They would also like to be informed about the recovery of the additional tax and the final outcome of the penalty proceedings.

The Committee would like to be apprised of the final position regarding the cases reported in this Audit para including the progress of recovery. They trust that assessing officers would scrutinise the facts available in the assessment records with proper care in future.

The Committee are given to understand that audit had raised the query in 1961 itself in regard to another case in the same Income-tax Circle and the audit's view had also been accepted by the Commissioner of Income-tax and the Board. In view of this, the Committee regret that the mistake in these cases was not immediately rectified; instead, legal opinion was sought, which resulted in delay and a loss of revenue of Rs. 4·12 lakhs due to rectification becoming time-barred. It appears that a loss of at least Rs. 3·64 lakhs could have been saved if action had been taken by the Department on the basis of the audit's interpretation. The Committee desire that in future, to save the revenue from getting time-barred, at least protective or provisional assessment should be made in time. The Committee note that instructions have since been

			issued to the officers of the Department to review all cases of this type and rectify the assessments wherever " Indian rate of tax" has not been computed in accordance with this interpretation. The Committee would like to be apprised of the results of the review.
48	56	Do.	The Committee would like to be apprised of the action taken against the officials responsible for the lapse disclosed in this case.
49	58	Do.	The Committee would like to be informed (i) whether any instructions have since been issued to the assessing officers to avoid such illegal assessments; and (ii) whether the assessment in the second case has since been rectified and if so what was the additional tax recovered.
50	59	Do.	As regards the first case, the Committee would like to be informed whether the assessments for the years 1956-57 and 1957-58 have since been rectified and the additional demand recovered. Regarding the second case, the Committee note that the I.T.O. had passed the orders before the Supreme Court's judgment was received by him but they are constrained to observe that after the judgement was received, he should have brought the case to the notice of the Commissioner of Income-tax for rectification under Section 33-B. By this failure to do this, a loss of revenue of Rs. 1·40 lakhs has been occasioned. The Committee desire this aspect to be examined and suitable action taken. The Committee note that the Department proposes to issue general instructions that on receipt of a decision of the Supreme Court in such cases involving important points of law, the earlier assessments should be reviewed with a view to taking action under Section 33-B. A copy of the instructions issued may be furnished for the information of the Committee. They would like to be informed of the arrangements made by the Board, in the light of the suggestion made by the Comptroller and Auditor General, for the prompt supply of Supreme Court's judgements to Income-tax Officers.
51	60	Do.	The Committee desire to be apprised of the progress of recovery of the outstanding amount. They also hope that suitable instructions will be issued to the Income-tax Officers so that such mistakes do not recur, wherever old assessments relating to the years prior to 1959-60 are completed or reopened hereafter.

1	2	3	4
52	61	Finance (Department of Revenue and Company Law).	The Committee would like to be informed about the recovery of the excess refund of Rs. 1,12,330 granted in this case. They also suggest that suitable instructions clarifying provision of Section 44-F of the Income-tax Act, 1922 should be issued to all Income-tax Officers so that such lapses do not recur.
53	62	Do.	The Committee trust that mistakes of the nature disclosed in Audit para will not hereafter escape detection by Internal Audit.
54	63	Do.	The Committee trust that such mistakes (of applying an old law) would not be repeated.
55	64	Do.	The Committee find from the statement furnished by Ministry of Finance that a tax demand of Rs. 80·72 lakhs involving write off of demand of Rs. one lakh or more and relating to assessments made after the assessees became insolvent, assessees having left India, assessees having become untraceable and in the case of companies after their going into liquidation have been written off. This shows that in all these cases there was considerable delay in completing the assessments, leading to demands becoming irrecoverable. The Committee dirsire that enquiries should be made to find out why the assessments were delayed and responsibility fixed in cases where the delay was due to the negligence of the officers.
56	65	Do.	The Committee are surprised to learn that the delay in completion of assessments is not attributable to the I.T.Os. It has been admitted on the other hand that the assessment could not be made in time as there had been no proper liaison with the State Government. The Committee would like to know on whom lies the responsibility for failure to have proper liaison with the State Government and the delay of four years, which resulted in loss of revenue amounting to Rs. 27·59 lakhs. The Committee feel that there has been lack of Vigilance on the part of the officers, and this is a fit case for a further probe to determine responsibility and take suitable action against the defaulting officers.

			The Committee note that instructions have since been issued that company assessments should, as far as possible, be completed in the assessment year itself and that more officers have been put on this work. They also note that in the case of foreign companies or foreign nationals likely to leave India, the Reserve Bank has been requested not to permit remittances abroad until a tax clearance certificate is obtained from the Income-tax Department. The Committee also note that steps have been taken to have proper liaison with State Governments and other Ministries where a business concern is being acquired. They trust that these measures would save the State from such huge write-offs as had to be done in this case.
57	66	Do.	(i) This is a clear case where the tax demand had to be written off because of lack of vigilance on the part of the Income-tax Officer. The Committee learn that one of the usual methods of tax avoidance is to send Income-Tax returns just before companies go into liquidation since, under the Companies Act, tax demands, unless made payable within twelve months prior to the date of liquidation do not get priority. The Committee would like Government to examine this aspect carefully and see what remedial steps can be taken to overcome this difficulty.
			(ii) Foreign Companies can easily escape payment by transferring all assets to their home country, and under international law, the tax demands of one country cannot be enforced in the other unless specifically provided for in bilateral agreements. In this particular case, the claims made by the Department before the liquidator of the Company in the foreign country were rejected The Committee would therefore like Government to consider the feasibility of proposing a provision in the double taxation agreements with foreign countries for enforcement of Indian Tax demands in the foreign countries.
58	67	Do.	(i) The Committee find that out of the gross arrears of Rs. 270·43 crores as on 31-3-63, a sum of Rs. 31·66 crores pertains to the period 1952-53 and earlier

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			years and one-third of this amount relates to one Commissioner's charge alone. In the same Commissioner's charge, 13 appeals upto and including 1954-55 are also pending. The Committee desire that special steps should be taken to clear the old arrears and expedite the disposal of the pending appeals in this Commissioner's charge.
			(*ii*) From the note submitted by Government stating the action taken on the Committee's recommendations in their Sixth and Twenty-first Reports regarding the clearing of arrears, the Committee find that (*i*) Government have impressed on all Commissioners of Income-tax the necessity of making an all-out effort for collecting arrears ; (*ii*) in order to avoid accumulation of arrears a new section (Section 140-A) has been introduced in the Finance Act, 1964, under which an assessee whose net income-tax liability exceeds Rs. 500 has to pay the tax voluntarily within 30 days of the furnishing of the return, failing which he will be liable to penalty up to 50% of the tax. While the remedial measures taken by Government may help in preventing future accumulation of arrears, the Committee are concerned with the past arrears, which are of the order of Rs. 270·43 crores as on 31-3-63. They are glad to note that as regards old arrears, the percentage of collection in 1962-63 (Rs. 75·26 crores out of the arrears Rs. 288·84 crores as on 1-4-62) was higher, *viz.* 26% as compared 13·2% during the previous year. However, further arrears have accumulated during 1962-63, and out of the total demand of Rs. 596·93 crores upto 1962-63, the arrears amount to Rs. 270·43 crores (about 45 per cent). The Committee would reiterate that in the context of the present national emergency and economic environment, it is imperative that the past arrears should be realised by intensifying the collection effort, and current collections should not be allowed to accumulate.

			(*iii*) The Committee find that as on 31-3-63 the number of appeals pending was 74120 and the number of revision petitions pending was 5,451. They note that some more Appellate Assistant Commissioners have been appointed to case the position. They have been told that the arrears with each Appellate Assistant Commissioner at present is 7 month's workload. The Committee desire that further necessary action may be taken to bring down the arrears, so that the workload with each Appellate Assistant Commissioner does not exceed 4 month's workload. The Committee find that the oldest pending appeal relates to the year 1948-49. Vigorous steps should be taken to dispose of appeals pending for such a long number of years.
59	68	Finance (Department of Revenue and Company Law)	While there is some improvement in the total number of cases per annum, in which the assessments were completed, the percentage has been falling. The Committee view with concern the progressive decline in the percentage of assessments completed from 1958-59 (71·2% in 1958-59; 69·6% in 1959-60; 66·1% in 1960-61; 64·8% in 1961-62 and 59·4% in 1962-63). The number of cases pending disposal in respect of 1962-63 comes to 40% of the total cases for disposal. There are 9·09 lakhs of cases pending with Income-tax Officers and the net demand locked up is estimated to be of the order of Rs. 8·77 crores. This is not a very satisfactory position. The Committee hope that as a result of the steps taken by Government regarding small income cases. (6·21 lakhs out of the total of 9·09 lakh cases), and a vigorous drive which the Committee desire should be launched to clear arrears of assessment (lest recovery should become time-barred), the declining trend would be reversed and the percentage of assessments completed would record a significant improvement during the coming year.
60	69	do.	The Committee are glad to learn that, availing of the more stringent provisions of the present law, the Department propose to launch more prosecutions in cases of deliberate concealment of income, and that some officers are being sent to America for being trained in improved techniques of prosecution.

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			The Committee find that the amount of concealed income unearthed in 1962-63 was only Rs. 5·96 crores as compared to Rs. 7·12 crores in 1961-62. The Committee feel that large sums have still not been detected and brought under the tax net, and there is considerable scope for improvement in the Department's operations in this respect.
61	70	Works & Housing	The Committee note that outstandings of rent of buildings allotted to private persons and organisations awaiting recovery as on 31-3-64 have come down to Rs. 18·24 lakhs from Rs. 26·46 lakhs as on 31-3-63. There is, however, not much improvement in the recovery of outstandings from markets which has come down to only Rs. 8·30 lakhs as on 31-3-64 from Rs. 9·02 lakhs as on 31-3-63. In the recovery of damages from unauthorised occupants there has been no progress at all (Rs. 2·76 lakhs as on 31-3-63 and Rs. 2·77 lakhs as on 31-3-64). The Committee desire that energetic steps should be taken to realise these outstandings at an early date.
62	71	Do	The Committee are of the opinion that in cases where premises are requisitioned for public purposes Government should as soon as those purposes are over take prompt steps to de-requisition the premises instead of allotting them to private parties. It is the moral responsibility of the Government to restore such premises to their rightful owners, as soon as they are not required for the public purpose.
	72	Do.	The Committee regret to observe that there has been inordinate delay on the part of Government in handling this case, as a result of which the construction of a multi-storeyed building in and around this plot as planned by Government has been indefinitely held up. The Committee note that the individual concerned

			is expected to move to the alternate plot allotted to him in another locality by October and that Government are determined to take action against him. The Committee await a final report in this behalf as well as in regard to the recovery of the dues.
64	73	Works and Housing Finance (Department of Economic Affairs)	Last year the Committee had recommended in a similar case (*vide* para 310f 24th Report, Third Lok Sabha) that, instead of giving a hidden subsidy in this manner Government should charge full rent and reimburse the amount, if necessary, by way of cash grants. The Committee's recommendation thus reinforced Government's general policy set out in Ministry of Works, Housing and Supply circular letter No. 12(19 56-WII, dated 12th June, 1956 (Appendix VI). The Committee, are therefore, surprised at Government's decision in this case which constitutes a departure from both. They would reiterate their earlier recommendation and suggest that all these cases may be reviewed in the light thereof.
65	74	Works & Housing	The Committee do not find any appreciable improvement in the clearance of arrears of rent outstanding from markets. They are surprised that there are as many as, 1,226 lease/licence deeds still to be executed in respect of some markets. The Committee suggest that adequate measures should be taken to expedite execution of the pending lease/licence deeds. The Committee would like to know the special steps which are proposed to be taken for the speedy liquidation of the arrears of rent and for ensuring that the current dues are not allowed to fall into arrears.
66	75	Works & Housing All Ministries	The Committee observe that every year there is a gap between assessments for the year and the actual realisations. This gap has been on the increase (Rs. 2 lakhs in 1959-60, Rs 4 lakhs in 1960-61; and Rs. 18 lakhs in 1961-62 and 1962-63). This would indicate that apart from the old arrears even the current dues are getting into arrears. The Committee desire that (*i*) a vigorous drive should be lunched to clear the arrears and (*ii*) steps should be taken to realise the current demands promptly by enlisting the co-operation of all the Ministries.

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67	76	Home Affairs	(*i*) The Committee are glad to learn (*i*) that a Bill to amend the Delhi Sales Tax Act is proposed to be introduced shortly in Parliament to plug the loopholes regarding evasion of sales tax and, (*ii*) that the question of shifting the burden of sales tax from the last to the first point in respect of more commodities in order to prevent evasion of tax is expected to be finalised soon. They await a further report in regard to both the above matters. (*ii*) The Committee do not find any appreciable improvement in the clearance of arrears of sales Tax (Rs. 90·64 lakhs on 1-4-64 as compared to Rs. 95·14 lakhs as on 1-4-63). They suggest that vigorous steps should be taken to liquidate old arrears and to avoid accumulation of current demands.
68	77	Do	Now that larger powers of write-off have been delegated to the Delhi Administration, the Committee hope that early action would be taken to write off the arrears which are found to be irrecoverable.
69	78	Finance (Department of Revenue and Company Law).	The Committee would await a further report in regard to replies of interim nature received from the Ministry of Finance in respect of 12 items of 21st Report of P.A.C. (3rd Lok Sabha).
70	79	Do.	The submission of the final vetted replies in respect of the paragraphs 27, 29, 30, 34, 37 & 68 of 21st Report of P.A.C. (3rd Lok Sabha) may be expedited.
71	80	Do.	The position as disclosed by the figures relating to outstanding Note ppss cases is disappointing. The Committee desire that a vigorous drive should be launched to finalise the outstanding Note pass cases as early as possible.
72	81	Do.	The Committee (1962-63) had desired that a report might be submitted to them regarding completion of 18 cases. This report is still awaited. The Committee hope that these cases have been disposed of by now. They would like to be apprised of the latest position.

73	82	Finance Ministry of Transport	The Committee have been informed that an agreed formula has since been worked out by mutual discussion. They would like to be informed about (*i*) the details of the agreed formula, (*ii*) the position regarding its acceptance by the Ministry of Transport (to whom, it is stated, it has been sent for acceptance), and (*iii*) the early implementation of the agreed arrangements.

GMGIPND—LS-I—1354 (Ali) LS—17-11-6 —1100.