

**PUBLIC ACCOUNTS COMMITTEE  
(1975-76)**

(FIFTH LOK SABHA)

**HUNDRED AND NINETY-SECOND REPORT**

**CORPORATION TAX**

**NATIONAL & GRINDLAYS BANK LIMITED**

[Action taken by Government on the recommendations  
of the Public Accounts Committee contained in  
their 176th Report (Fifth Lok Sabha)]



**LOK SABHA SECRETARIAT  
NEW DELHI**

*December, 1975/Agrahayana, 1897 (S)*

*Price : Re. 1.00*

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**CORRIGENDA TO HUNDRED AND NINTH-SECOND REPORT  
OF THE PUBLIC ACCOUNTS COMMITTEE (FIFTH LOK  
SABHA) PRESENTED TO LOK SABHA ON 20<sup>TH</sup> JANUARY  
1976.**

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**PUBLIC ACCOUNTS COMMITTEE**

(1975-76)

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19. **Shri Gulabrao Patil**
20. **Shri T. K. Srinivasan**
21. **Dr. K. Mathew Kurian**
22. **Shri Rabi Ray**

**SECRETARIAT**

**Shri H. G. Paranjape—Chief Financial Committee Officer.**  
**Shri N. Sunder Rajan—Senior Financial Committee Officer.**

## INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Hundred and Ninety Second Report on the Action Taken by Government on the recommendations of the Public Accounts Committee contained in their 176th Report (Fifth Lok Sabha) on the Income-tax assessments of National and Grindlays Bank Limited.

2. On the 3rd June, 1975 an Action Taken Sub-Committee was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports. The Sub-Committee was constituted with the following Members:

1. Shri H. N. Mukerjee—*Chairman*

2. Shri V. B. Raju—*Convener*

3. Shri Priya Ranjan Das Munshi

4. Shri Darbara Singh

5. Shri N. K. Sanghi

6. Shri Rabi Ray

7. Shri Raja Kulkarni

8. Dr. K. Mathew Kurian

} *Members*

3. The Action Taken Sub-Committee of the Public Accounts Committee (1975-76) considered and adopted this Report at their sitting held on the 25th November, 1975. The Report was finally adopted by the Public Accounts Committee on the 11th December, 1975.

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

5. The Committee place on record their appreciation of the assistance rendered to them in this matter by the Comptroller and Auditor General of India.

NEW DELHI;  
December 11, 1975  

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Agrahayana 20, 1897 (S)

H. N. MUKERJEE,  
*Chairman,*  
*Public Accounts Committee.*

## CHAPTER I

### REPORT

1.1. This Report of the Committee deals with the action taken by Government on the recommendations contained in their 176th Report (Fifth Lok Sabha) on the Tax assessments relating to National and Grindlays Bank Limited, which was presented to the Lok Sabha on 5th May 1975.

1.2. Action Taken Notes have been received from Government in respect of all the 25 recommendations contained in the Report.

1.3. The Action Taken Notes on the recommendations of the Committee have been categorised as follows:

(i) Recommendations/Observations that have been accepted by Government.

Sl. Nos. 1, 2, 3, 4, 13, 14, 15, 18, 22, 24 and 25.

(ii) Recommendations/Observations which the Committee do not desire to pursue in the light of the replies of Government.

Sl. Nos: 7 and 23.

(iii) Recommendations/Observations replies to which have not been accepted by the Committee and which require reiteration.

Sl. Nos: 6, 11, 12 and 16.

(iv) Recommendations/Observations in respect of which Government have furnished interim replies.

Sl. Nos: 5, 8, 9, 10, 17, 19, 20 and 21.

1.4. The Committee expect that final replies in respect of recommendations to which only interim replies have so far been furnished would be submitted to them expeditiously after getting them vetted by Audit.

1.5. The Committee will now deal with the action taken by Government on some of their recommendations.

***Inadequate Scrutiny of the Income of National and Grindlays Bank Limited (Paragraphs 9.1 and 9.2—Sl. Nos. 1 and 2)***

1.6. Commenting on the inadequacy of the scrutiny hitherto made by the Income-tax Department of the income of National and Grindlays Bank Ltd., the Committee, in paragraphs 9.1 and 9.2 of the Report, had observed:

“9.1. From the evidence that has been placed before the Committee relating to the income-tax assessments of National and Grindlays Bank Ltd., the impression gained by the Committee is that adequate attention is not being paid by the assessing officers even in large income cases and that assessments are often completed in a routine fashion. That this is so would be evident from the fact that it was only after the receipt of nine memoranda from an ex-official of National and Grindlays Bank, alleging evasion of tax by the bank and after the Public Accounts Committee referred a representation on this subject to the Ministry that the Central Board of Direct Taxes was galvanised into action to re-examine the assessments relating to National and Grindlays Bank. The Committee find that as a result of investigations arising out of the memoranda an amount of Rs. 86.81 lakhs has been added to the taxable income of the bank for the assessment year 1971-72. Assessments for the years prior to 1971-72 have also been reopened under Section 147 of the Income-tax Act.”

“9.2. The Committee have been informed that while the income returned by National and Grindlays Bank for the assessment year 1971-72 was Rs. 3.23 crores, the income assessed was Rs. 4.13 crores after several additions to the taxable income. This would indicate the inadequacy of the scrutiny hitherto made of the bank's income. The Committee are distressed that the assessment of a foreign banking company that has built up a large business out of the deposits of Indian customers should be scrutinised so superficially. This is a very serious matter that compels immediate attention. The Committee desire that the assessments of the bank for as many previous years as are considered advisable should be reopened and scrutinised immediately on a top priority basis and income that may have escaped tax duty brought to tax.”



1.7. In their Action Taken Note dated 14th August, 1975, the Department of Revenue and Insurance have stated:

"The assessments of the Bank for the assessment years 1958-59 and 1966-67 and those for the assessment years 1967-68 to 1970-71 stand reopened under Section 147 of the Income-tax Act, 1961. Necessary information is being obtained by the Income-tax Officer to consider the feasibility of reopening the assessments for the assessment years 1959-60 to 1965-66. The Income-tax Officer has been directed to scrutinise the assessments on a top priority basis."

1.8. The Committee note that the assessments of National and Grindlays Bank Ltd., for the assessment years 1958-59 and 1966-67 and those for the assessment years 1967-68 to 1970-71 have been reopened under Section 147 of the Income-tax Act, 1961 and that necessary information is being obtained by the Income Tax Officer to consider the feasibility of reopening the assessments for the assessment years 1959-60 to 1965-66. The Committee, however, are surprised that Government is silent on their pointed observations relating to the inadequacy of the scrutiny hitherto made of the bank's income and the apparent inattention of assessing officers even in large income cases of this description. The Committee would like to know the specific steps taken to rectify such deficiencies and to tone up the assessment work in large income cases in a qualitative manner.

1.9. In view of the large revenue implications of this case, the Committee desire that the scrutiny of these as well as the assessments of other foreign banks operating in India should be entrusted to the Special Investigation Cell, set up to investigate leading cases of tax evasion, so that all unwarranted ruses of tax avoidance are exposed and appropriately dealt with.

*Examination of Allegations of Tax evasion by the Bank (Paragraph 9.3—Sl. No. 3)*

1.10. Dealing with the allegations of tax evasion made by an ex-official of the bank, the Committee, in paragraph 9.3, had recommended:

"It has been alleged that National and Grindlays Bank has evaded tax running into tens of crores the Committee have been informed by the Central Board of Direct Taxes that these allegations pertain sometimes to evasion of income,

sometimes to evasion of income-tax and sometimes the allegations refer to loss of revenue. An analysis of the various allegations is also stated to have been made by the Income-tax authorities. The Committee desire that these allegations should be examined in depth to determine the actual quantum of tax avoided or evaded by the Bank in all these years. From the facts brought out in the assessment for 1971-72, it would appear that the Bank's Returns of Income had not been reflecting a true picture of its finances for the purposes of tax. Since this is a serious matter, the Committee desire that appropriate steps to recover the tax underassessed should be taken and consequential penal and prosecution proceedings should be considered."

1.11. In their Action Taken Note dated 14th August, 1975, the Department of Revenue and Insurance have stated:

"The observations of the Committee have been noted. Action taken/being taken on the various allegations had been indicated in the Ministry's F. No. 240/3/74-A & PAC-I dated 22nd February, 1975. Further action is called for in law will be taken.

Income-tax levied in respect of the additions made in the bank's assessment for the assessment year 1971-72 has been recovered.

Penalty proceedings for concealment of income and/or furnishing of inaccurate particulars of income have already been initiated. The proceedings are still pending. Prosecution potential is being considered in consultation with the Senior Prosecution Counsel. Similar action will be taken for other years wherever possible."

1.12. The Committee note that penalty proceedings for concealment of income and/or furnishing of inaccurate particulars of income have been initiated and that 'prosecution potential' is being considered by the Department 'in consultation with the Senior Prosecution Counsel' in respect of the assessment year 1971-72. The Committee urge that penalty proceedings should be completed expeditiously and similar action taken in respect of other years also, assessments in respect of which have already been reopened. There must be no delay in launching prosecution proceedings, if they are warranted. A close watch over the progress of the various proceedings

should also be maintained by the Central Board of Direct Taxes. The Committee urge that all requisite effort is earnestly made to retrieve the somewhat unsavoury situation arising out of this case. /

*Non-deduction of Tax at Source on Perquisites (Paragraph 9.5—  
Sl. No. 5)*

1.13. With reference to the non-deduction of tax at source in respect of some of the perquisites provided by the bank to its then Chief Executive in India, the Committee, in paragraph 9.5, had observed:

“The Committee also find that no tax had been deducted at source in respect of some of the perquisites provided by the Bank to Mr. Bennett. The Committee have been informed that the bank, when called upon to explain why tax was not deducted at source in respect of these items, had stated that there was no obligation on their part to deduct tax at source in respect of the perquisites in question. The Committee desire to know whether the Board agree with the reply of the bank and the legal provisions in this regard. This should be examined in detail immediately and appropriate action should be taken in the light of the results of the examination.”

1.14. In their Action Taken Note dated 14th August, 1975, the Department of Revenue and Insurance have stated:

“The matter is under consideration and a further communication will follow.”

1.15. The Committee disapprove of the delay in taking a final decision on what appears to be a fairly simple issue. Since the decision in this regard is likely to have wide repercussions on the whole issue of perquisites provided by other companies, organisations, etc., to their employees, the Committee would like to be informed forthwith of the legal position in this regard and the reaction of the Central Board of Direct Taxes to the repudiation by the Bank of its obligation to deduct tax at source in respect of the perquisites in question. /

*Assessment of Perquisites to Tax (Paragraph 9.6—Sl. No. 6)*

1.16. Dealing with the allegation relating to perquisites of the Chief Executive escaping assessment to tax, the Committee, in paragraph 9.6, had observed:

“While the memorandum had alleged that payments made in respect of eight items provided as perquisites to Mr. Bennett had escaped assessment to tax, the Income-tax Officer has taken action only in respect of four items and that too only for the assessment year 1972-73. The reasons for the non-inclusion of the other four items as well as the position relating to the earlier assessment years in this regard should be intimated to the Committee.

1.17. In their Action Taken Note dated 14th August, 1975, the Department of Revenue and Insurance have stated:

“The assessments for the years 1967-68 to 1971-72 have been reopened and investigations are in progress.”

1.18. The Committee regret that the reply furnished by the Department of Revenue and Insurance is vague and pointless—What had been asked for was the reason for the non-inclusion of four out of the eight items provided as perquisites by the bank to its then Chief Executive in the assessment relating to 1972-73 and the position in this regard relating to the earlier assessment years. The Committee require an early and specific reply to their observation. Further, if it is found that perquisites that had been excluded were also assessable to tax, expeditious action should be taken to subject them to tax for the assessment year 1972-73 as well as earlier assessment years.

*Head Office Expenses (Paragraphs 9.11 and 9.12—Sl. Nos. 11 and 12)*

1.19. Dealing with the claim of Rs. 105 lakhs made by National and Grindlays Bank Ltd., on account of Head Office Expenses for the assessment year 1971-72, the Committee, in paragraphs 9.11 and 9.12 had recommended:

“9.11. The Committee have also been informed that the Income-tax Department has investigated in depth the claim of Rs. 105 lakhs on account of Head Office Expenses

made by the bank for the assessment year 1971-72 and disallowed Rs. 36.20 lakhs. Though the bank has gone in appeal against the assessment for the year 1971-72 it is seen that the bank has not disputed the disallowance of Head Office Expenses to the tune of Rs. 34.92 lakhs. Admittedly, while scrutinising the claims towards Head Office Expenses the Income-tax Officer had not called for the books of accounts of the bank and no machinery also exists to check the veracity of expenditure stated to have been incurred outside India related to the business of the bank in India. The Committee also find that as regards computation of Head Office Expenses an unfettered discretion has been given at present to Income-tax Officers."

"9.12. That an amount of Rs. 36.20 lakhs should have been disallowed for one year alone on the basis of complaints would, perhaps, indicate that claims of the bank towards Head Office Expenses had been allowed without proper scrutiny by the Income-tax Officers. The Committee desire that the Head Office Expenses claimed during the assessment years prior to 1971-72 for 16 years should also be reviewed immediately with a view to ensuring that no inadmissible expenditure has been allowed to escape tax and repatriated in foreign exchange to the bank's headquarters. The Committee desire that this should be examined forthwith and a further report on the extent to which Head Office Expenses which are inadmissible have been allowed without assessment to tax, furnished to the Committee as early as possible."

1.20. In their Action Taken Note dated 16th August, 1975, the Department of Revenue and Insurance have stated:

"The bank's assessments for the years 1967-68, 1968-69, 1969-70 and 1970-71 have already been reopened. The assessments of the bank for the assessment years 1958-59 and 1966-67 also stand reopened. The Income-tax Officer is gathering further information and will consider the feasibility of reopening of further assessments. The admissibility of Head Office Expenses will be reviewed in the course of the reopened proceedings and such action as is permissible under the Indian Income-tax Act will be taken."

1.21. In paragraph 9.11 of their 176th Report (Fifth Lok Sabha), the Committee had, inter alia, drawn pointed attention to the non-

existence of a machinery in the Income-tax Department to check the genuineness of expenditure, stated to have been incurred outside India, related to the business of National and Grindlays Bank in India. From the reply now furnished by the Department of Revenue and Insurance, it is not clear to the Committee what action Government propose to take to remedy this deficiency. The Income-tax Department perhaps feel itself somewhat handicapped in the matter of obtaining the head office accounts of the foreign companies for scrutiny. In view of the fact that other instances of inadequate scrutiny by Income-tax Officers of Head Office Expenses claimed by foreign companies operating in India have also come to the notice of the Committee, they desire that this should be thoroughly examined and effective steps taken to rectify the situation.

1.22. In regard to their recommendation contained in paragraph 9.12 also, relating to the review of Head Office Expenses claimed by the bank during the 16-year period preceding the assessment year 1971-72, the Committee observe evidence of what appears to be lack of keenness on the part of Government. It is not clear from the rather lukewarm response of Government to the Committee's recommendation whether all the assessments for the 16-year period would be reopened as suggested by the Committee. Nor have the Government come forth with any valid reasons for not accepting the Committee's suggestion. Since this should not be too complicated a task, the Committee would urge Government to complete the review of past assessments expeditiously and a report indicating the extent to which Head Office expenses which are inadmissible have been allowed without assessment to tax furnished early. Simultaneously, appropriate action to subject such amounts to tax and for their repatriation from abroad should also be initiated.

*Assessment of Head Office Expenses (Paragraph 9.14—Sl. No. 14)*

1.23. Commenting on the delay in issuing guidelines for the assessing officers on the treatment of Head Office Expenses claimed by foreign companies operating in India for the purposes of Income-tax, the Committee, in paragraph 9.14, had recommended:

“The Committee find that this issue, which is vital both from the taxation and foreign exchange angles, has been already considerably delayed and it is most likely that as a result of the lack of uniformity considerable amounts would have escaped tax and been repatriated by various

foreign companies abroad. It is regrettable that even though a note on the basis of case studies had been prepared in August, 1973, there has been no finality as yet in the matter of issuing guidelines. The Committee view such delays seriously and desire that responsibility for the delay should be fixed for appropriate action. It would also be necessary to comprehensively review the working of the Foreign Tax Division in the Ministry of Finance."

1.24. In their Action Taken Note dated 16th August, 1975, the Department of Revenue and Insurance stated:

"The matter is under consideration and further communication will follow."

1.25. In their subsequent communication dated 3rd October, 1975 in this regard, the Department informed the Committee as follows:

"A group under the chairmanship of the Finance Secretary has been set up to undertake a comprehensive review of the working of the Foreign Tax Division. The results of the review will be intimated to the Committee in due course. As regards delay in issuing instructions containing the guidelines, the matter is under consideration for fixing responsibility."

1.26. The Committee would await the results of the review of the working of the Foreign Tax Division, entrusted, it is learnt, to a group under the chairmanship of the Finance Secretary. They are anxious to know what remedial measures are going to be taken. The Committee are unhappy over the tardy manner in which their other recommendation relating to fixation of responsibility for the delay in issuing guidelines on the treatment of Head Office Expenses is being pursued. Such delays detract from the value of whatever action comes to be taken and the Committee would urge Government to finalise this matter without any loss of time.

*Technical Services Agreement between National and Grindlays Bank Ltd. and First National City Bank (Paragraph 9.16—Sl. No. 16)*

1.27. On the question of a technical services agreement entered into between the National & Grindlays Bank and the First National City Bank, which controls 40 per cent of the shares of the former bank, the Committee, in paragraph 9.16, had recommended:

"The Committee find that Rs. 21.60 lakhs in 1969, Rs. 38.36 lakhs in 1970, Rs. 59.29 lakhs in 1971, Rs. 27.95 lakhs in

1972 have been paid by the National and Grindlays Bank to the First National City Bank under this agreement. Considering the fact that the services rendered by First National City Bank related only to training programmes, operating practices, credit policy administration, development and expansion of the National and Grindlays Bank's office and business, the Committee are not satisfied whether such services can be treated as technical know-how. Banking practices and banking traditions have been long established in this country. It is also not clear whether the services rendered by First National City Bank were in fact related to the Indian business of National and Grindlays Bank. The Bank has also not been in a position to furnish details to establish that this expenditure was related to its Indian business. The Committee, therefore, desire that the agreement between the two banks should be examined in detail, in all its aspects immediately with a view to ensuring that this has not been resorted to as a means of evading tax. Such an examination is, in the opinion of the Committee, important in view of the substantial financial interest of the First National City Bank in the affairs of the National and Grindlays Bank. In case it is found after the proposed examination that the agreement is only a 'facade' to facilitate tax evasion, appropriate action should be taken against both the banks."

1.28. In their Action Taken Note dated 21st August, 1975, the Department of Revenue & Insurance have stated:

"The observation of the Committee have been noted. The payments claimed by the National & Grindlays Bank have all been brought to tax in the hands of the First National City Bank. Both the banks are non-residents and therefore, are subject to Income-tax @ 70 per cent and surcharge @ 5 per cent."

1.29. The Committee are disturbed to note that the reply virtually by-passes the issue raised. What the Committee wanted was that the technical services agreement between National and Grindlays Bank Ltd. and First National City Bank should be examined immediately, in all its aspects, to ensure that it was not a stratagem for evading tax. The reply furnished by the Department of Revenue & Insurance indicates that no specific steps had been taken in this regard. The Committee, therefore, reiterate their earlier recommen-



ations and ask for a precise and concrete clarification of the action taken.

1.30. In this context, the Committee recall an earlier recommendation contained in paragraph 1.15 of their 5th Report (Fourth Lok Sabha), which is reproduced below:

“In respect of a number of recommendations which have been included in Appendix IV, the Committee observe that the Ministries have replied as ‘noted’. It is not clear from such replies as to what specific action Government have taken or intend to take to give effect to the Committee’s recommendations in letter and spirit. The Committee desire that Government’s replies should be explicit and self-contained. In particular, where remedial measures are called for, the details of action taken should be specifically spelt out.”

The Committee urge Government to avoid all dilatoriness and imprecision in their response especially to problems thus gravely indicated. /

*Payment for Technical Services—Non-deduction of Tax at Source*  
(Paragraph 9.17—Sl. No. 17)

1.31. With reference to the non-deduction of tax at source in respect of the payment made in the assessment year 1970-71 for technical services to First National City Bank, the Committee, in paragraph 9.17, had observed:

“In respect of the amount of Rs. 21.60 lakhs paid by National & Grindlays Bank to the First National City Bank relating to the assessment year 1970-71, the Committee have been informed that tax was not deducted at source by the bank and that prosecution against the bank is under contemplation. The Committee cannot view with equanimity such delays in taking action against what is clearly a violation of the fiscal laws of the country. The Committee are inclined to feel that while the Income-tax Department does not hesitate to harass small income assessee, the same enthusiasm is lacking where large income assessee are concerned. The committee desire that this should be examined immediately and action taken against the bank which, in turn, would serve as a

deterrent to other tax evaders. A further report on the action taken in this regard should be furnished to the Committee as early as possible."

1.32. In their Action Taken Note dated 16th August 1975, the Department of Revenue & Insurance have stated:

"The prosecution potential is being examined in consultation with the Senior Prosecution Counsel."

1.33. It is disconcerting that the question of prosecuting National & Grindlays Bank Ltd. for the failure to deduct tax at source in respect of the payment of Rs. 21.60 lakhs made to First National City Bank, in the assessment year 1970-71, under an alleged technical services agreement, has been 'under contemplation' and 'under discussion' for over a year now. This delay helps to confirm the frequent impression of the Committee that adequate ardour is lacking in the Income-tax Department where large income assesseees are concerned. Since there has clearly been a violation of the fiscal laws of the country, the Committee require that on the question of initiating prosecution proceedings the final decision should be intimated to them within a month.

1.34. The Committee would like Government to examine whether tax had been invariably deducted at source by the bank in respect of the payments made during the subsequent assessment years to First National City Bank under this agreement and to take similar action for prosecution expeditiously in case it is found that the bank had failed to deduct tax at source during these years also.

*Treatment of Bad Debts (Paragraph 9.22—Sl. No. 22)*

1.35. Expressing surprise over the decision of the Appellate Assistant Commissioner in allowing, on appeal, a bad debt of Rs. 75 lakhs claimed by the bank as irrecoverable and written-off earlier disallowed by the Income-tax Officer, the Committee had, *inter alia*, observed, in paragraph 9.22, as follows:

"The Committee have also been informed that the Income-tax Department has gone in appeal to the Income-tax Appellate Tribunal against the decision of the Appellate Assistant Commissioner. The Committee would await the outcome of the Tribunal proceedings which should be expedited."

1.36. The Action Taken Note dated 19th August, 1975 received in this regard from the Department of Revenue & Insurance is reproduced below:

“The Income-tax Appellate Tribunal has since disposed of the Departmental appeal for the assessment year 1970-71 and in its order dated 18-6-1975, set-aside the order of the Appellate Assistant Commissioner of Income-tax on this point and restored this matter to the Appellate Assistant Commissioner for a fresh decision.”

**1.37. The Committee note that the Income-tax Appellate Tribunal has, in its order dated 18th June 1975, set aside the order of the Appellate Assistant Commissioner deleting the addition made by the Income tax Officer in respect of the bad debt of Rs. 75 lakhs claimed by the bank and restored this matter to the Appellate Officer for a fresh decision. The Committee urge that this should be finalised without delay and the outcome forthwith reported to them.**

*Write-off of Bad Debt—Liability to Gift Tax (Paragraph 9.24 Sl. No. 24)*

1.38. In regard to the bad debt of Rs. 75 lakhs written off as irrecoverable by the bank, the Committee, in paragraph 9.24, had observed:

“Since by writing off the debt of Rs. 75 lakhs due from M/s. Hoare Miller & Co., National & Grindlays Bank had released the company from its debt obligation, the Committee would like the Income-tax Department to examine whether the provisions of the Gift-tax Act would be applicable in this case and if so appropriate action taken.”

1.39. In their Action Taken Note dated 21st August 1975, the Department of Revenue & Insurance have replied:

“The National & Grindlays Bank Ltd. does not fall within the purview of the provisions of Section 45(c) and 45(d) of the Gift-tax Act, and therefore, the provisions of the Gift-tax Act are applicable to it. The Commissioner concerned is being asked to take appropriate action in the matter.”

**1.40. Now that it has been held that National & Gindlays Bank Ltd. does not come within the purview of the provisions of Section**

**45(c) and 45(d) of the Gift-tax Act and, consequently, the provisions of the Act would be attracted, the Committee desire that early action should be initiated to subject the debt of Rs. 75 lakhs due from Hoare Miller and company and its guarantor abandoned by the Bank to Gift-tax and to enforce the recovery. The Committee would await a report on the action taken in this regard.**

## CHAPTER II

### RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

#### Recommendation

From the evidence that has been placed before the Committee relating to the income-tax assessments of National & Grindlays Bank Ltd., the impression gained by the Committee is that adequate attention is not being paid by the assessing officers even in large income cases and that assessments are often completed in a routine fashion. That this is so would be evident from the fact that it was only after the receipt of nine memoranda from an *ex-official* of National & Grindlays Bank, alleging evasion of tax by the bank and after the Public Accounts Committee referred a representation on this subject to the Ministry that the Central Board of Direct Taxes was galvanised into action to re-examine the assessments relating to National & Grindlays Bank. The Committee find that as a result of investigations arising out of the memoranda an amount of Rs. 86.81 lakhs has been added to the taxable income of the bank for the assessment year 1971-72. Assessments for the year prior to 1971-72 have also been reopened under Section 147 of the Income-tax Act.

The Committee have been informed that while the income returned by National & Grindlays Bank for the assessment year 1971-72 was Rs. 3.23 crores, the income assessed was Rs. 4.13 crores after several additions to the taxable income. This would indicate the inadequacy of the scrutiny hitherto made of the bank's income. The Committee are distressed that the assessment of a foreign banking company that has built up a large business out of the deposits of Indian customers should be scrutinised so superficially. This is a very serious matter that compels immediate attention. The Committee desire that the assessments of the bank for as many previous years as are considered advisable should be reopened and scrutinised immediately on a top priority basis and income that may have escaped tax duty brought to tax.

[S. Nos. 1 and 2 (Paras 9.1 and 9.2) of Appendix V to 176th Report of the Public Accounts Committee (1974-75) (5th Lok Sabha).]

### **Action taken**

The assessments of the Bank for the assessment years 1958-59 and 1966-67 and those for the assessment years 1967-68 to 1970-71 stand reopened under Section 147 of the Income-tax Act, 1961. Necessary information is being obtained by the Income-tax Officer to consider the feasibility of reopening the assessments for the assessment years 1959-60 to 1965-66. The Income-tax Officer has been directed to scrutinise the assessments on a top priority basis.

[Ministry of Finance (Revenue & Insurance) O.M. No. F.241/2/75-A & PAC-I and No. F.411/17/75-IT (Inv.) dated the 14th August, 1975.]

### **Recommendation**

It has been alleged that National & Grindlays Bank has evaded tax running into tens of crores. The Committee have been informed by the Central Board of Direct Taxes that these allegations pertain sometimes to evasion of income, sometimes to evasion of income-tax and sometimes the allegations refer to loss of revenue. An analysis of the various allegations is also stated to have been made by the Income-tax authorities. The Committee desire that these allegations should be examined in depth to determine the actual quantum of tax avoided or evaded by the Bank in all these years. From the facts brought out in the assessment for 1971-72, it would appear that the Bank's Returns of Income had not been reflecting a true picture of its finances for the purposes of tax. Since this is a serious matter the Committee desire that appropriate steps to recover the tax underassessed should be taken and consequential penal and prosecution proceedings should be considered.

[Sl. No. 3 (Para 9.3) of Appendix V, to 176th Report (5th Lok Sabha).]

### **Action taken**

The observations of the Committee have been noted. Action taken/being taken on the various allegations has been indicated in the Ministry's F. No. 240/3/74-A&PAC-I dt. 22-2-1975. Further action as called for in law will be taken.

Income-tax levied in respect of the additions made in the bank's assessment for the assessment year 1971-72 has been recovered.

Penalty proceedings for concealment of income and/or furnishing of inaccurate particulars of income have already been initiated. The proceedings are still pending. Prosecution potential is being

considered in consultation with the Senior Prosecution Counsel. Similar action will be taken of other years wherever possible.

[Ministry of Finance (Revenue & Insurance) O.M. No. F. 241/2/75-A&PAC-I and No. F.411/17/75-IT (Inv.) dated the 14th August, 1975.]

### **Recommendation**

The Committee find that one of the allegations related to the status of Mr. Bennett—then Chief Executive of the Bank in India for income-tax purposes. The Committee have been informed that as a result of the information furnished in the Memorandum, the status of Mr. Bennett has been determined as 'resident and ordinarily resident' instead of as 'resident and not ordinarily resident'. Accordingly, his income-tax assessments for the years 1967-68 to 1971-72 have been reopened to bring to tax Mr. Bennett's income abroad. The reopened assessments are stated to be pending. The Committee would like to be informed of the progress of completion of the reopened assessments of Mr. Bennett, which should be done expeditiously.

[Sl. No. 4 (Para 9.4) of Appendix V to 176th Report of the Public Accounts Committee (1974-75) (5th Lok Sabha).]

### **Action taken**

The reopened assessments of Mr. W.M. Bannett, Ex-General Manager of National & Grindlays Bank Limited have already been taken up. As Mr. Bannett has already left India, the bank has asked for the required particulars from Mr. Bannett, which have not yet been furnished. As soon as the same, as well as certain other information called for from the Bank, are received, the reopened assessments will be completed.

[Ministry of Finance (Revenue & Insurance) O.M. No. F. 241/2/75-A&PAC-I and No. 411/17/75-IT (Inv.) dated the 14th August, 1975.]

### **Recommendation**

What causes greater concern to the Committee is the absence of any uniform guidelines for the assessing officers on the treatment of Head Office Expenses of foreign companies for purposes of income-tax. The Committee have been informed that no definite guidelines have been laid down by the Board so far. Some case studies have however, been conducted and guidelines have now been evolved which are under finalisation in consultation with a few Commissioners of Income-tax. Since this is a very important aspect which has been ignored so far, the Committee desire that the guidelines

should be finalised without further loss of time and necessary instructions to the assessing officers issued which would assist them in their assessments.

The Committee find that this issue, which is vital both from the taxation and foreign exchange angles, has been already considerably delayed and it is most likely that as a result of the lack of uniformity considerable amounts would have escaped tax and been repatriated by various foreign companies abroad. It is regrettable that even though a note on the basis of case studies had been prepared in August 1973, there has been no finality as yet in the matter of issuing guidelines. The Committee view such delays seriously and desire that responsibility for the delay should be fixed for appropriate action. It would also be necessary to comprehensively review the working of the Foreign Tax Division in the Ministry of Finance.

[Sl. Nos. 13 & 14 (Paras 9.13 & 9.14) of Appendix V to 176th Report of the Public Accounts Committee (1974-75) (5th Lok Sabha).]

#### **Action taken**

The matter is under consideration and a further communication will follow.

[Ministry of Finance (Revenue & Insurance) OM No. F. No. 241/2/75-A&PAC-I dated the 16th August, 1975.]

#### **Further Information**

Necessary instruction (No. 846. F. 491/8 74-FTD dated 16-6-1975) have since been issued for the guidance of the assessing officers. A copy of the Instruction is attached.

A group under the chairmanship of the Finance Secretary has been set up to undertake a comprehensive review of the working of the Foreign Tax Division. The results of the review will be intimated to the Committee in due course. As regards delay in issuing instructions containing the guidelines, the matter is under consideration for fixing responsibility.

[Ministry of Finance (Revenue & Insurance) O.M. No. F.241/2/75-A&PAC-I and No. F.R. 441/6/75-FTD dated the 3rd/9th October, 1975.]



Copy of Instruction No. 846, F-491/8/74-FTD dated the 16th June, 1975 from the Secretary, Central Board of Direct Taxes to all Commissioners of Income-tax.

Sub:—Claims towards head-office expenses by foreign concerns-- security of—

1.1. In the computation of income of foreign concerns carrying on business in India through branches, expenditure incurred by the head office on general administration and management (hereinafter referred to as 'head-office expenses') allocable to the Indian branch is admissible as a deduction u/s 37 of the Income-tax Act, 1961. The Reserve Bank of India permits the remittance of such head-office expenses to the extent these have been allowed as a deduction in the relevant income-tax assessments of the foreign concerns. Thus, any excessive claim on account of such expenses not only results in loss of tax revenues but also constitutes a drain on our foreign exchange resources.

1.2. As the rates of tax in some of the foreign countries may be lower than those in India, there is a likelihood of such expenses allocable to the Indian branch being inflated so as to artificially reduce the income taxable in India. A few cases of this type, which have come to the notice of the Board, show that the scrutiny of the *composition of such expenses* done by the Income-tax Officers has been superficial and at times perfunctory. Generally, no enquiries are made at the time of assessment or a certificate from an auditor in the home country is accepted in support of the claim without making adequate scrutiny. Where disallowances are made in a few cases, they are not upheld in appeal because these disallowances are not well based. Similarly, adequate attention is not paid at times to the selection of the appropriate *method for the allocation* of the head office expenses to the Indian branch. The Board would, therefore, like to impress upon the ITOs the need for a proper and careful scrutiny of such claims made by foreign concerns. Some of the points which the ITOs should keep in mind in this regard are set out in the following paragraphs.

2. *It should be clearly understood that the assessee in such cases is the foreign concern and not the Indian branch.* The head office alongwith its branches constitute one single entity which cannot make a profit (or loss) out of itself. Hence, any payment made by the Indian branch to the head-office or any of its other offices by way of royalty in return for the use of patents, trade-marks or other rights, or by way of fees for services performed would not be admissible as a deduction in the computation of income of the Indian branch. Only the actual expenses, if any, incurred by the head-

office in procuring such technical know-how, or services, from third parties for supplying the same to the Indian branch may be allowed in the same way and to the same extent as if those expenses had been incurred by the Indian branch. Similarly, any interest paid by the branch to the head-office is not to be allowed as a deduction on the ground that a person cannot pay interest to himself but the cost (including interest paid), if any, to the head-office of obtaining the funds to be lent to the branch in India may be allowed in the same way and to the same extent as if that cost had been incurred by the Indian branch direct.

3. Closely linked with the question of head-office expenses is the question of "transfer pricing" of goods/services, if any, supplied by the head-office to the Indian branch (*i.e.*, the price at which such goods/services are charged to the Indian branch). Such transfer prices comprise (i) direct costs, manufacturing/production costs; (ii) indirect costs, *e.g.*, the cost of general administration and management; and (iii) profit mark-up. In transactions between a head office and its branches there is obviously no question of including any element relating to profit mark-up. Where the transfer price includes an element of indirect costs, there will be no justification for a separate charge to the Indian branch on account of head-office expenses. It is, therefore, necessary to ensure before allowing any claim for head-office expenses that the debit to the branch accounts for the goods/services supplied by the head-office is restricted to the bare manufacturing/production, transport and allied costs incurred by the head-office. Breakdown details of the various elements of costs, etc., included in the amount debited to the Indian branch for supply of goods/services should be obtained and scrutinised for this purpose. It will also be relevant in this connection to compare the basis of billing such costs to the Indian branch as compared to the basis adopted for billing similar goods/services supplied to the other branches of the foreign concerns.

4. The head-office expenses claimed as a deduction in such cases fall into three broad categories

- (i) Expenses incurred by the head-office which are directly identifiable with the activities of the Indian branch, *e.g.*, travelling expenses of employees in the Indian branch going on official work to the head-office where such expenses are met by the head-office.
- (ii) Expenses incurred by the head-office *not specifically for the Indian branch alone* but conjointly for the Indian branch and some other foreign branches.

- (iii) Expenses incurred by the head office which are not directly identifiable with any or more branch which are incurred for the over-all management and administration of the head-office.

Expenses falling the first category will be deductible in full provided the usual conditions under the Income Tax Act are satisfied. In respect of the expenses falling in the second and third categories, only a suitable proportion of the otherwise admissible expenses will be allowable as a deduction in the computation of income taxable in India.

5. It is true that the verification of these expenses presents some difficulties in actual practice but this only underlines the importance of devoting adequate attention to this matter. There is no reason, however, why the claims should not be put to strict proof and the assessee asked to furnish all the necessary information. If any assessee does not produce the relevant information, the ITO will be justified in drawing suitable adverse inferences.

#### *Composition of Expenses*

6.1. First, it is necessary to examine the nature of the various items comprised in the head-office expenses to ascertain their admissibility under the provisions of the Income-tax Act, 1961. For this purpose, full details of the expenses should be obtained and items of expenditure not admissible under the provisions of the Income-tax law should be excluded.

6.2. Further, such part of the head-office expenses as can reasonably be held as *not* related to the activities of the Indian branch should also be excluded. *e.g.*, any bad debts, legal expenses or other expenditure incurred exclusively for the business carried on in the home country or in the countries where other branches are situated.

6.3. The nature of business/activities carried on or the sources of income in India should be compared with the nature of business activities carried on or the sources of income in the home country and in the other foreign branches. It may be that the business in India is carried on only alongwith restricted lines as compared to the business in the home country or in other foreign branches, or certain sources of income do not exist at all in India (*e.g.*, where a foreign concern derives investment income from dividends or interest outside India whereas the activity in India is limited to carrying on business). In such cases, a suitable part of the overall ex-

penses incurred by the head-office allocable to such additional business/activities/sources of income should be excluded from the total head-office expenses as not being relevant to the business/activities/sources of income of the Indian branch. The rationale is that the overheads must be pro-rated over *all* the gross income of the foreign concern.\*

*Basis of apportionment*

7.1. After the composition of the head-office expenses has been scrutinised as above, the ITO has to select a suitable basis of apportionment for determining the part thereof which is appropriately debitable as a charge against the profits of the Indian branch. Various criteria are possible for this purpose, e.g., gross income/receipts/turn-over/working capital/expenses/assets.

7.2. The criterion to be adopted in a particular case will depend upon the nature of the business/activities/sources of income in India. This should be done carefully after taking into account all the relevant facts and the ITO should seek guidance from his Inspecting Assistant Commissioner in this behalf. However, once a particular criterion of apportionment is selected, it should be followed from year to year provided there is no change in the relevant factors or circumstances. If at any time, a change in criterion adopted for apportionment is considered necessary owing to a change in the relevant factors or circumstances or because such a change is claimed by the assessee, the ITO should seek guidance from the Inspecting Assistant Commissioner. Further, a uniform criterion should be adopted, as far as possible in cases having the same or similar nature of business/activities/sources of income in India.

7.3. Wide variation in the claims for head-office expenses in the cases of assesseees in the same line of business have already come to notice and this aspect needs to be carefully looked into by the Inspecting Assistant Commissioners.

7.4. After the criterion has been selected, the amount actually admissible as a deduction from the profits of the Indian branch will be computed by applying the fraction constituted by the Indian figure of the selected criterion as the numerator and the corresponding global figure as the denominator, to the total admissible head-office expenses. Care should be taken to see that the numerator of

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\* This consideration is also very pertinent in cases where a deduction is claimed on account of "research and development" expenses incurred by the head-office. Further, it should be clearly understood that the admissibility of research and development expenses has to be determined separately as such expenses are not covered by "head-office expenses".

the fraction is not artificially increased nor is the denominator reduced because otherwise it would result in inflating the amount allocable to the Indian branch.

8.1. In order to satisfy himself about the admissible composition of the head-office expenses and apportionment thereof to the Indian branch, the Income-tax Officer should ask the assessee concerned to, *inter alia*. (i) furnish copies of the global Profit & loss Account and Balance-Sheet and (ii) indicate the basis of apportionment adopted in respect of the other branches in countries outside India.

8.2. Further, the assessee may also be asked to explain as to how this matter has been dealt with for the purpose of the income-tax assessment in the home country. The quantum of income arising in a foreign country (such as India) is material in the assessment in the home country for the purpose of determining the income on which double taxation relief may be admissible in the home country or for determining the amount of foreign income which is not taxable in the home country if, under the law of that country, the income arises abroad is not subjected to tax. In all these cases, it will thus be relevant to find out (i) how the head-office expenses have been apportioned between the head-office and the various branches in the foreign countries, for the purpose of the income-tax assessment in the home country, and (ii) how the reimbursement of such expenses by the Indian branch has been accounted for in the books of the head-office.

8.3. The assessee may be requested to furnish relevant information on these points as also a copy each of the account of the branch in the books of the head-office and the account of the head-office in the books of the branch. If any variations are noticed in the claim made in India and the basis adopted in this behalf for the apportionment of head-office expenses to other branches or for the purpose of the assessment in the home country, or any discrepancy noticed in the branch/head-office accounts, the matter may be examined further in depth.

9 The general administration and management expenses may be styled variously as home office expenses, area office expenses, regional office expenses or service charges, etc. Whatever the nomenclature, the approach to be adopted will be the same as indicated above as regards the admissible composition of the expenses as well as the basis of apportionment.

10. In some cases, the Profit & Loss Account of the Indian branch may include some expenditure which is connected not merely with

the Indian branch but the benefit of which goes also to the business carried on by the head-office or the other foreign branches. In such cases, it will be necessary to disallow that part of the expenditure which is attributable to the services rendered or benefits accruing to either the head-office or the other branches.

11. Where the percentage of head-office expenses to (a) the expenditure incurred in India by the branch, or (b) the Indian profits, or (c) the Indian receipts, is unduly high, or where there are large variations in the amount of head-office expenses claimed from year to year, there will all the more reasons for greater care being exercised by the ITOs in the scrutiny of these claims.

12. The Board desire that the ITOs should seek the advice of their IACs in cases where the claim towards head-office expenses in any year exceeds Rs. 1 lakh.

13. Whether it is desired to obtain some information or material (e.g., regarding activities of the foreign concern in India or the need for any supervisory role by the head-office in any particular case) from the Reserve Bank of India or Ministries/Departments of the Government of India, which could assist the ITOs in properly determining the amount of expenditure appropriately debitabale to the Indian branch, such information, etc., it may be called for by the ITOs direct from the authorities concerned. It may be mentioned that the Reserve Bank of India has some useful data available with them, particularly in the case of foreign banks. However, should there be any difficulty or delay in obtaining the necessary information in any particular case from the Reserve Bank of India or any Ministry/Department of the Government of India which could assist the ITOs in properly determining the amount of expenditure appropriately debitabale to the Indian branch, such information, etc., it may be called for by the ITOs direct from the authorities concerned. It may be mentioned that the Reserve Bank of India has some useful data available with them, particularly in the case of foreign banks. However, should there be any difficulty or delay in obtaining the necessary information in any particular case from the Reserve Bank of India or any Ministry Department of the Government of India some significant information is required which can be obtained at higher levels, the matter may be referred to the Board.

14. A distinction has to be made in the case of head-office expenses paid by an Indian subsidiary to a foreign company. According to our law a foreign parent and a domestic subsidiary are two distinct and separate legal entities. All their *inter se* transections

are subject to the test of arm's length standard. In view of this position, there is no justification for allowing head-office expenses in the case of an Indian subsidiary and as such the question of proportionate allocation of general and administrative expenses to the Indian subsidiary does not arise. Any expenditure incurred by concerned company towards supervision of its investments in a subsidiary is not admissible as a deduction in the computation of income of the subsidiary.

15. These instructions may kindly be brought to the notice of the ITOs in your charge for careful compliance. The detailed scrutiny of head-office expenses may be taken up in pending assessments. If on scrutiny, it is found in any case that excessive claims have been made, suitable action in respect of the past assessments may also be taken, after making such enquiries as may be necessary.

#### **Recommendation**

The Committee also find that in accordance with a technical services agreement entered into between National & Grindlays Bank and the First National City Bank, which controls 40 per cent of the shares of the former bank, the assessee bank was to reimburse to First National City Bank monthly in US dollars or such other currency as might be agreed upon, the cost incurred by the First National City Bank in providing its own personnel to the National & Grindlays Bank as well as the cost of training to National and Grindlays Bank personnel in its own offices. In pursuance of another clause of the agreement the principal office of the National & Grindlays Bank in India was to pay a monthly fee in Indian rupees to First National City Bank's principal office in India equivalent to £13,333 converted at the rate of exchange ruling on the date of payment as technical know-how fee. In addition, the National & Grindlays Bank was to pay First National City Bank in respect of each of its accounting years 1969, 1970, 1971, 1972 and 1973 an amount in Indian rupees equivalent to 10 per cent of the amount by which the actual earnings of the Indian business of the former exceeded the projected earning of its Indian business for the respective years.

[S. No. 15 (para 9.15) of Appendix V to 176th Report of the Public Accounts Committee (1974-75) (5th Lok Sabha).]

#### **Action taken**

The observations of the Committee have been noted. The payments claimed by the National & Grindlays Bank have all been brought to tax in the hands of the First National City Bank. Both:

the banks are non-resident and therefore, are subject to Income Tax at the rate of 70 per cent and surcharge at the rate of 5 per cent.

[Ministry of Finance (Revenue and Insurance) O.M. No. F. 241/2-75-A&PAC-I dated the 21st August, 1975.]

### Recommendation

In respect of the assessment year 1970-71, while a sum of Rs. 4 lakhs had been allowed by the Income-tax Officer as relating to expenditure wholly and necessarily incurred for the purpose of the business of the bank in India in consequence of the technical services agreement with First National City Bank, the Appellate Assistant Commissioner had, however, allowed the entire amount of Rs. 21.60 lakhs. The Committee have been informed that the Department has gone on appeal to the Tribunal against the orders of the Appellate Assistant Commissioner. The Committee desire that the Income-tax Appellate Tribunal should complete the hearing of this case early and pass orders expeditiously. The Committee are inclined to make this recommendation in view of the fact that instances have come to their notice wherein considerable time has been taken by the Tribunal to dispose of cases.

[S. No. 18 (Paras 9.18) of Appendix V to 176th. Report of the Public Accounts Committee (1974-75) (Fifth Lok Sabha)]

### Action taken

The Income-tax Appellate Tribunal has already decided the Departmental appeal for the assessment year 1970-71 in the case of the Bank and in their order dated 18-6-1975 set aside the order of the Appellate Assistant Commissioner on this point and restored the matter to the Appellate Assistant Commissioner for reconsideration.

[Ministry of Finance (Revenue and Insurance) O. M. No. F. 241/2/75-A&PACI and F. 411/17/75-IT (Inv) dated the 16th August, 1975.]

### Recommendation

The Committee have also been informed that the Income tax Department has gone in appeal to the Income-tax Appellate Tribunal against the decision of the Appellate Assistant Commis-



sioner. The Committee would await the outcome of the Tribunal proceedings which should be expedited.

[S. No. 22 (Para 9.22) of Appendix V of 176th Report of the Public Accounts Committee (1974-75) (5th Lok Sabha).]

#### **Action taken**

The Income-tax Appellate Tribunal has since disposed of the Departmental appeal for the assessment year 1970-71 and in its order dated 18-6-1975, set-aside the order of the Appellate Assistant Commissioner of Income-tax on this point and restored this matter to the Appellate Assistant Commissioner for a fresh decision.

[Ministry of Finance (Revenue and Insurance) O.M. Nos. F. 241/2/75-A&PAC-1&F. 411/17/75-I.T.(Inv) dated the 19th August, 1975.]

#### **Recommendation**

Since by writing off the debt of Rs. 75 lakhs due from M/s. Hoare Miller and Company, National and Grindlays Bank had released the company from its debt obligation, the Committee would like the Income-tax Department to examine whether the provisions of the Gift Tax Act would be applicable in this case and if so appropriate action taken.

[S. No. 24 (Para 9.24) of Appendix V to 176th Report of the Public Accounts Committee (1974-75) (Fifth Lok Sabha).]

#### **Action taken**

The National and Grindlays Bank Limited does not fall within the purview of the provisions of Section 45(c) and 45(d) of the Gift-tax Act, and therefore, the provisions of the G.T. Act are applicable to it. The Commissioner concerned is being asked to take appropriate action in the matter.

[Ministry of Finance (Revenue & Insurance) O.M. No. F.241/2/75-A &PAC-I&F. No. 340/6/75-GT dated the 21st August, 1975.]

#### **Recommendation**

An interesting question that arises out of the manner in which the bad debt claimed by the bank has been treated is whether the Appellate Assistant Commissioner of Income-tax should have unlimited powers to hear any appeal irrespective of the quantum of the total income of the assessee. For instance, in this case, the Committee find that the A. A. C. had allowed a claim as large as

Rs. 75 lakhs. The Committee desire that the feasibility of prescribing suitable monetary limits upto which Appellate Assistant Commissioners can hear appeals should be examined by Government. If necessary, appeals in cases where the income exceeds the prescribed monetary limit can be heard by a Board of Appeal consisting of more than one Appellate Assistant Commissioner.

[S. No. 25 (Para 9.25) of Appendix V to the 176th Report of the Public Accounts Committee (1974-75) (Fifth Lok Sabha).]

#### Action taken

The question of prescribing monetary limits with reference to the quantum of disputed assessments in appeal was considered in the light of the Administrative Reforms Commission's recommendations and the needs of the Department that have arisen during the recent past wherein assessment powers in important cases have been elevated to the Inspecting Assistant Commissioners and appeals from their orders would lie to the Commissioners functioning as Appellate Commissioners. It was felt that with progressive elevation of assessment powers in important cases to the Inspecting Assistant Commissioners, appeal powers would automatically be raised to the Appellate Commissioners. It was also felt that following the decision to segregate summary and scrutiny assessments and to categorise income-tax assessment Circles into Central Company, Special and Ordinary Circles depending upon importance and revenue involved, the appellate jurisdictions would be regrouped into Central and Special Ranges to the important circles and ordinary ranges for the rest. The Ministry are of the view that these steps would improve the quality of appellate work in important cases. However, the entire appellate machinery is under further review in the context of elevation of appellate powers to the Commissioners and the observations of the Public Accounts Committee would be kept in view while taking a decision in the matter.

[Ministry of Finance (Revenue and Insurance) O.M. No. F. 241/2/75-A&PAC-I and No. F. 277/12/75-ITJ dated the 11th August, 1975.]

### **CHAPTER III**

#### **RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES OF GOVERNMENT**

##### **Recommendation**

The Committee have been informed that the third memorandum dated 20th July, 1972 from Shri Gupta had been received by the Commissioner of Income-tax, West Bengal-III on 29th August, 1972 through the Director of Inspection (Investigation), New Delhi. Strangely enough, while intimating the action taken on this memorandum, the Central Board of Direct Taxes had stated that the Income-tax Officer was directed on 25th July, 1972 to investigate the allegations contained in this memorandum. The Committee desire that this discrepancy should be reconciled immediately.

[S. No. 7 (Para 9.7) of Appendix V to 176th Report of the Public Accounts Committee (1974-75) (5th Lok Sabha)]

##### **Action taken**

The third Memorandum dated 20-7-1972 from the informant was received by the Commissioner of Income-tax, West Bengal-III on 29-8-1972 through the Director of Inspection (Investigation), New Delhi. It was in respect of the first and second memoranda that the Income-tax Officer had been directed on 25-7-1972 to investigate the allegations contained therein. The repetition of the date 25-7-1972 in respect of the third memorandum also is a mistake and is regretted.

[Ministry of Finance (Revenue & Insurance) O.M. No. F. 241/2/75-A&PAC-I and No. F. 411/17/75-IT (Inv.) dated the 14th August, 1975.]

##### **Recommendation**

It is not clear to the Committee how far the debt of Rs. 75 lakhs due from M/s. Hoare Miller & Co. could be treated as irrecoverable in view of the fact that the debt had been guaranteed by Shri Rampuria. Apparently the bank had chosen not to enforce the

recovery of the debt from the guarantor. The Committee find that as on 30th June, 1971, Shri Rampuria, who was the guarantor for the debt also held 7050 equity shares of M/s. Hoare Miller & Co. It is surprising that while Shri Rampuria had stood guarantee for the large sum of Rs. 75 lakhs, his own wealth had been returned as only Rs. 2.81 lakhs. Besides, Shri Rampuria and his associates are also assessed to wealth-tax and income-tax. Under the circumstances, the Committee are unable to understand the reluctance on the part of the National and Grindlays Bank to take positive steps for the recovery of the debt due from M/s. Hoare Miller & Co. from the guarantor.

[S. No. 23 (Para 9.23) of Appendix V to 176th Report of the Public Accounts Committee (1974-75) (Fifth Lok Sabha)]

#### Action taken

The enquiries made by the Department reveal that Shri R. L. Rampuria was assessed on a net wealth of Rs. 2,85,999/- for the assessment year 1969-70. The wealth includes, according to Shri Rampuria, the credit balance of Rs. 2,80,726/- in the books of accounts of a firm named M/s. Hiralal Sobhagmal. The credit balance of Shri Rampuria in the firm's books stood at Rs. 3,06,815/- on 31-3-1974. The balance-sheet of M/s. Hiralal Sobhagmal as on 22-3-1972 shows the total value of its assets at Rs. 24,79,071 which includes the value of stock-in-trade, representing shares in companies, to the extent of Rs. 20,32,837/-. The market value of these shares is reported to be only Rs. 1,80,630/-. On the liability side of the balance-sheet of the firm there is an item of overdraft with the Bank of India to the extent of Rs. 7,59,082/-. This indicates that the firm had hardly any assets out of which its liabilities could be discharged after meeting the overdraft. In other words, the credit balance of Shri Rampuria in the books of accounts of the firm does not appear to have any significant value. The firm has two partners representing two HUFs namely (i) M/s. R. L. Rampuria and (ii) M/s. Jaichandlal Rampuria. The income-tax records of Shri R. L. Rampuria show the following position:—

Assesment year	Returned income	Assessed income
1970-71	Rs. 3,899	Rs. 3,899
1971-72	Rs. 3,837	Rs. 42 00
1972-73	Rs. 13,850	Rs. 13,850
1973-74	Rs. 1,150	Not yet assessed.

For the assessment year 1974-75, no return has been filed by Shri R. L. Rampuria. It has been reported that he had income of Rs. 492/- only as director's fees during the year 1973-74, that he is the director of M/s. Insulation Materials Manufacturing Co. (P) Ltd., M/s. Hairlock and M/s. Spring Manufacturing Co. (P) Ltd., and that at present he holds no share in M/s. Hoare Miller & Co. Ltd. M/s. National and Grindlays Bank Limited had written off Rs. 75 lakhs out of the count of Rs. 88.91 lakhs standing to the debit of M/s. Hoare Miller & Co. Ltd. In the circumstances, the Bank perhaps might not have considered it prudent to proceed against Shri Rampuria, as guarantor of the debt due from Hoare Miller & Co. Ltd.

[Ministry of Finance (Revenue & Insurance) O.M. No. F.241/2/75-A & PAC-I and F. 340/6/75-GT dated the 21st August, 1975.]

## **CHAPTER IV**

### **RECOMMENDATIONS/OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION**

#### **Recommendation**

While the memorandum had alleged that payments made in respect of eight items provided as perquisites to Mr. Bennett had escaped assessment to tax, the Income-tax Officer has taken action only in respect of four items and that too only for the assessment year 1972-73. The reasons for the non-inclusion of the other four items as well as the position relating to the earlier assessment years in this regard should be intimated to the Committee.

[S. No. 6 (Para 9.6) of Appendix V to 176th Report of the Public Accounts Committee (1974-75) (Fifth Lok Sabha)]

#### **Action taken**

The assessments for the years 1967-68 to 1971-72 have been re-opened and investigations are in progress.

[Ministry of Finance (Revenue & Insurance) OM. No. F. 241/2/75 A&PAC-I and F. 411/17/75—IT (Inv.) dated the 14th August, 1975.]

#### **Recommendation**

The Committee have also been informed that the Income-tax Department has investigated in depth the claim of Rs. 105 lakhs on account of Head Office Expenses made by the bank for the assessment year 1971-72 and disallowed Rs. 36.20 lakhs. Though the bank has gone in appeal against the assessment for the year 1971-72 it is seen that the bank has not disputed the disallowance of Head Office Expenses to the tune of Rs. 34.92 lakhs. Admittedly, while scrutinising the claims towards Head Office Expenses the Income-tax Officer had not called for the books of accounts of the bank and no machinery also exists to check the veracity of expenditure stated to have been incurred outside India related to the business of the bank in India. The Committee also find that as regards computation of Head

**Office Expenses** an unfettered discretion has been given at present to Income-tax Officers.

That an amount of Rs. 36.20 lakhs should have been disallowed for one year alone on the basis of complaints would, perhaps, indicate that claims of the bank towards Head Office Expenses had been allowed without proper scrutiny by the Income-tax Officers. The Committee desire that the Head Office Expenses claimed during the assessment years prior to 1971-72 for 16 years should also be reviewed immediately with a view to ensuring that no inadmissible expenditure has been allowed to escape tax and repatriated in foreign exchange to the bank's headquarters. The Committee desire that this should be examined forthwith and a further report on the extent to which Head Office Expenses which are inadmissible have been allowed without assessment to tax, furnished to the Committee as early as possible.

[Sl. Nos. 11 & 12 (Paras 9.11 & 9.12) of Appendix V to 176th Report of the Public Accounts Committee (1974-75) (5th Lok Sabha).]

#### **Action taken**

The bank's assessments for the years 1967-68, 1968-69, 1969-70 and 1970-71 have already been reopened. The assessments of the bank for the assessment years 1958-59 and 1966-67 also stand reopened. The Income-tax Officer is gathering further information and will consider the feasibility of re-opening of further assessments. The admissibility of Head Office expenses will be reviewed in the course of the reopened proceedings and such action as is permissible under the Indian Income-tax Act will be taken.

[Ministry of Finance (Revenue & Insurance) O.M. No. F. 241/2/75-A & PAC-I and No. F. 411/17/75-IT (Ins.) dated the 16th August, 1975].]

#### **Recommendation**

The Committee find that Rs. 21.60 lakhs in 1969, Rs. 38.35 lakhs in 1970, Rs. 59.29 lakhs in 1971, Rs. 27.95 lakhs in 1972 have been paid by the National and Grindlays Bank to the First National City Bank under this agreement. Considering the fact that the services rendered by First National City Bank related only to training programmes, operating practices, credit policy administration, development and expansion of the National & Grindlays Bank's office and business, the Committee are not satisfied whether such services can be treated as technical know-how. Banking practices and banking traditions

have been long established in this country. It is also not clear whether the services rendered by First National City Bank were in fact related to the Indian business of National & Grindlays Bank. The Bank has also not been in a position to furnish details to establish that this expenditure was related to its Indian business. The Committee, therefore, desire that the agreement between the two banks should be examined in detail, in all its aspects immediately with a view to ensuring that this has not been resorted to as a means of evading tax. Such an examination is, in the opinion of the Committee, important in view of the substantial financial interest of the First National City Bank in the affairs of the National & Grindlays Bank. In case it is found after the proposed examination that the agreement is only a 'facade' to facilitate tax evasion, appropriate action should be taken against both the banks.

[S. No. 16 (Para 9.16) of Appendix V to 176th Report of the Public Accounts Committee (1974-75)]

#### **Action taken**

The observations of the Committee have been noted. The payments claimed by the National & Grindlays Bank have all been brought to tax in the hands of the First National City Bank. Both the banks are non-residents and therefore, are subject to Income-tax @ 70 per cent and surcharge @ 5 per cent.

[Ministry of Finance (Revenue & Insurance) O.M. No. F. 241/2/75—A&PAC-I dated the 21st August, 1975]



## **CHAPTER V**

### **RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES**

#### **Recommendation**

The Committee also find that no tax had been deducted at source in respect of some of the perquisites provided by the Bank to Mr. Bennett. The Committee have been informed that the bank, when called upon to explain why tax was not deducted at source in respect of these items, had stated that there was no obligation on their part to deduct tax at source in respect of the perquisites in question. The Committee desire to know whether the Board agree with the reply of the bank and the legal provisions in this regard. This should be examined in details immediately and appropriate action should be taken in the light of the results of the examination.

[S. No. 5 (Para 9.5) of Appendix V to 176th Report of the Public Accounts Committee (1974-75) (5th Lok Sabha)]

#### **Action taken**

The matter is under consideration and a further communication will follow.

[Ministry of Finance (Revenue & Insurance) O.M. No. F. 241/2/75  
A&PAC—I and No. F. 411/17/75—IT (Inv.) dated the 14th  
August, 1975.]

#### **Recommendation**

One of the memoranda had also alleged that similar perquisites allowed to other covenanted officers of the bank were neither taxed in the hands of the officers nor was any tax deducted at source. The Committee have been informed that this is under investigation. The Committee desire that this investigation should be completed expeditiously and amounts which have escaped assessment to tax should be brought to tax forthwith.

[S. No. 8 (Para 9.8) of Appendix V to 176th Report of the Public Accounts Committee (1974-75) (5th Lok Sabha)]

**Action taken**

The matter is being pursued.

[Ministry of Finance (Revenue & Insurance) OM. No. F. 241/2/75—A&PAC—I and No. F. 411/17/75—IT (Inv.) dated the 14th August, 1975]

**Recommendation**

It had also been alleged that payments from the unrecognised Provident Fund maintained in London in respect of British officers, to the extent of bank's contributions and interest, was not subjected to deduction of tax at source.

The Committee find from the reply of the Ministry that the bank and trustees of the fund have denied any obligation to deduct tax at source from sterling payment effected in the U.K. The Committee would like to be informed whether the legal position in this regard had been examined by the Board and the liability of the bank determined in case these payments are chargeable to the Indian accounts of the bank.

[S. Nos. 9-10 (Paras 9.9 & 9.10) of Appendix V to 176th Report of the Public Accounts Committee (1974-75)]

**Action taken**

The matter is under consideration and a further communication will follow.

[Ministry of Finance (Revenue & Insurance) O.M. No. 241/2/75—A&PAC—I dated the 16th August, 1975]

**Recommendation**

In respect of the amount of Rs. 21.60 lakhs paid by National & Grindlays Bank to the First National City Bank relating to the assessment year 1970-71, the Committee have been informed that tax was not deducted at source by the bank and that prosecution against the bank is under contemplation. The Committee cannot view with equanimity such delays in taking action against what is clearly a violation of the fiscal laws of the country. The Committee are inclined to feel that while the Income-tax Department does not hesitate to harass small income assesseees, the same enthusiasm is lacking where large income assesseees are concerned. The Committee desire that this should be examined immediately and action taken against the bank which, in turn, would serve as a deterrent to

other tax evaders. A further report on the action taken in this regard should be furnished to the Committee as early as possible.

[So. No. 17 (Para 9.17) of Appendix V to 176th Report of the Public Accounts Committee (1974-75) (Fifth Lok Sabha)]

#### **Action taken**

The prosecution potential is being examined in consultation with the Senior Prosecution Counsel.

[Ministry of Finance (Revenue & Insurance) OM. No. F. 241/2/75—A&PAC—I and F. 411/17/75—IT (Inv.) dated the 16th August, 1975]

#### **Recommendation**

The Committee find that in addition to the payment made to First National City Bank, a sum of £ 19,837 has been paid by the National & Grindlays Bank during the accounting year 1971, relevant to the assessment year 1972-73, to M/s Mackinsey and Co. and a further sum of £ 5,489 has been paid to M/s Urwick and Orr by debiting head office expenses. The Committee have been informed that these payments are being looked into by the Income-tax Department. The Committee trust that this will be finalised expeditiously. The Committee would await a further report in this regard.

[S. No. 19 (Para 9.19) of Appendix V to 176th Report of the Public Accounts Committee (1974-75) (Fifth Lok Sabha)]

#### **Action taken**

Both the payments referred to form part of Head Office expenses. In the course of the assessment for the year 1972-73 the bank was asked to produce Head Office books of accounts and evidences relating to Head Office expenses claimed by the bank in the assessment of the bank. The assessee-bank thereupon filed an application before the Calcutta High Court challenging the Income-tax Officer's action in this regard and obtained an interim injunction restraining the Department from proceeding with the completion of the assessment till further order of the High Court. Hence, the relevant assessment is still pending.

[Ministry of Finance (Revenue & Insurance) OM Nos. F. 241/2/75—A&PAC—I & F. 411/17/75—IT (Inv.) dated the 16th August 1975]

#### **Recommendation**

The Committee are also surprised to find that a large sum of Rs. 75 lakhs due to the bank from M/s. Hoare Miller & Co. Ltd., had

been treated as irrecoverable by the bank and claimed as a bad debt. This has been disallowed by the Income-tax Officer on the ground that the debtor company was in existence and carrying on business. This addition of the Income-tax Officer had, however, been deleted on appeal by the Appellate Assistant Commissioner on the ground that the write-off was justifiable. What is more surprising is the fact that while allowing the bad debt claimed by the bank, the Appellate Assistant Commissioner had stated in his order that "such write-off in-turn was approved and permitted by the Reserve Bank of India." This conclusion has been arrived at on the basis of an extract of a Report of Inspection of National & Grindlays Bank conducted by the Reserve Bank of India, which had been furnished to the Appellate Assistant Commissioner by Shri Kasbekar, head of the Tax Department in National & Grindlays Bank. Shri Kasbekar, before joining the National & Grindlays Bank, had worked as an Income-tax Officer and had also assessed the National & Grindlays Bank. The Reserve Bank of India have, however, disputed that the write-off of the bad debt had been approved and permitted by them and had stated that such write off of bad debts does not require the permission of the Reserve Bank of India. Under the circumstances, it is not clear to the Committee how the appellate Assistant Commissioner could have laid such reliance on a document which had been furnished by the assessee himself and had not been authenticated or confirmed by the Reserve Bank. No doubt the Appellate Assistant Commissioner has attempted to justify the claim of the bank on various grounds.

The Committee have been informed that the explanation of the concerned Appellate Assistant Commissioner has been obtained by the Central Board of Direct Taxes. The Committee would like to be informed of the action taken by the Board on the explanation furnished.

[S. Nos. 20 & 21 (Paras 9.20 & 9.21) of Appendix V of the 176th Report of the Public Accounts Committee 1974-75) (Fifth Lok Sabha).]

#### **Action taken**

A reference is invited to this Ministry's reply to para 9.21 of the Committee's Report sent with Office Memorandum of even number dated the 11th August, 1975. The Income-tax Appellate Tribunal has since set-aside the order of the Appellate Assistant Commissioner and restored the matter to the A.A.C. for a fresh decision.

[Ministry of Finance (Revenue & Insurance) OM. No. F. 241/2/75—A&PAC-I, dated the 25th August, 1975.]

### Further Information

The Department has not accepted the order of the Appellate Assistant Commissioner and an appeal has been preferred to the Income-tax Tribunal. The issue whether the Appellate Assistant Commissioner discharging quasi-judicial functions can be called to account on a judicial order and what action should be taken on his explanation will depend on the outcome of the departmental appeal. If the Tribunal also agrees with the Appellate Assistant Commissioner's views, the question of the AAC's explanation will not arise.

[Ministry of Finance (Revenue & Insurance) OM. No. F. 241/2/75—A&PAC-I&F. 277/12/75/ITJ dated the 11th August, 1975.]

NEW DELHI:  
December 11th, 1975.  
Agrahayana 20, 1897 (Saka)

H. N. MUKERJEE,  
Chairman,  
Public Accounts Committee.

## APPENDIX

### SUMMARY OF MAIN CONCLUSIONS/RECOMMENDATIONS

S.No	Para No. of Report	Ministry/Department Concerned	Conclusions/Recommendations
1	2	3	4
1	1.4	Finance (Rev. & Ins.)	The Committee expect that final replies in respect of recommendations to which only interim replies have so far been furnished would be submitted to them expeditiously after getting them vetted by Audit.
2	1.8	—do—	The Committee note that the assessments of National & Grindlays Bank Ltd. for the assessment years 1958-59 and 1966-67 and those for the assessment years 1967-68 to 1970-71 have been reopened under Section 147 of the Income-tax Act 1961 and that necessary information is being obtained by the Income Tax Officer to consider the feasibility of reopening the assessments for the assessment years 1959-60 to 1965-66. The Committee, however, are surprised that Government is silent on their pointed observations relating to the inadequacy of the scrutiny hitherto made of the bank's income and the apparent inattention of assessing officers even in large income cases of this description. The Committee would like to know the specific steps taken to rectify such deficiencies and to tone up the assessment work in large income cases in a qualitative manner.

- 3            1.9            Finance  
(Rev. & Ins.)            In view of the large revenue implications of this case, the Committee desire that the scrutiny of these as well as the assessments of other foreign banks operating in India should be entrusted to the Special Investigation Cell, set up to investigate leading cases of tax evasion, so that all unwarranted ruses of tax-avoidance are exposed and appropriately dealt with.
- 4            1.12            —do—            The Committee note that penalty proceeding for concealment of income and/or furnishing of inaccurate particulars of income have been initiated and that 'prosecution potential' is being considered by the Department 'in consultation with the Senior Prosecution Counsel' in respect of the assessment year 1971-72. The Committee urge that penalty proceedings should be completed expeditiously and similar action taken in respect of other years also, assessments in respect of which have already been reopened. There must be no delay in launching prosecution proceedings if they are warranted. A close watch over the progress of the various proceedings should also be maintained by the Central Board of Direct Taxes. The Committee urge that all requisite effort is earnestly made to retrieve the somewhat unsavoury situation arising out of this case.
- 5            1.15            —do—            The Committee disapprove of the delay in taking a final decision on what appears to be a fairly simple issue. Since the decision in this regard is likely to have wide repercussions on the whole issue of perquisites provided by other companies, organisations, etc. to their employees, the Committee would like to be in-
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formed forthwith of the legal position in this regard and the reaction of the Central Board of Direct Taxes to the repudiation by the Bank of its obligation to deduct tax at source in respect of the perquisites in question.

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I.18

Finance  
(Rev. & Ins.)

The Committee regret that the reply furnished by the Department of Revenue & Insurance is vague and pointless. What had been asked for was the reason for the non-inclusion of four out of the eight items provided as perquisites by the bank to its then Chief Executive in the assessment relating to 1972-73 and the position in this regard relating to the earlier assessment years. The Committee require an early and specific reply to their observation. Further, if it is found that perquisites that had been excluded were also assessable to tax, expeditious action should be taken to subject them to tax for the assessment year 1972-73 as well as earlier assessment years.

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7

I.21

—do—

In paragraph 9.11 of their 176th Report (Fifth Lok Sabha), the Committee had, *inter alia*, drawn pointed attention to the non-existence of a machinery in the Income-tax Department to check the genuineness of expenditure, stated to have been incurred outside India, related to the business of National & Grindlays Bank in India. From the reply now furnished by the Department of Revenue &



Insurance, it is not clear to the Committee what action Government propose to take to remedy this deficiency. The Income-tax Department perhaps feel itself somewhat handicapped in the matter of obtaining the head office accounts of the foreign companies for scrutiny. In view of the fact that other instances of inadequate scrutiny by Income-tax Officers of Head Office Expenses claimed by foreign companies operating in India have also come to the notice of the Committee, they desire that this should be thoroughly examined and effective steps taken to rectify the situation.

8

I. 22

—do—

In regard to their recommendation contained in paragraph 9.12 also, relating to the review of Head Office Expenses claimed by the bank during the 16-year period preceding the assessment year 1971-72, the Committee observe evidence of what appears to be lack of keenness on the part of Government. It is not clear from the rather lukewarm response of Government to the Committee's recommendation whether all the assessments for the 16-year period would be reopened as suggested by the Committee. Nor have the Government come forth with any valid reasons for not accepting the Committee's suggestion. Since this should not be too complicated a task, the Committee would urge Government to complete the review of past assessments expeditiously and a report indicating the extent to which Head Office expenses which are inadmissible have been allowed without assessment to tax furnished early. Simultaneously, appropriate action to subject such amounts to tax and for their repatriation from abroad should also be initiated.

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1	2	3	4
9	I.26	Finance (Rev. & Ins.)	<p>The Committee would await the results of the review of the working of the Foreign Tax Division, entrusted. it is learnt, to a group under the chairmanship of the Finance Secretary. They are anxious to know what remedial measures are going to be taken. The Committee are unhappy over the tardy manner in which their other recommendation relating to fixation of responsibility for the delay in issuing guidelines on the treatment of Head Office Expenses is being pursued. Such delays detract from the value of whatever action comes to be taken and the Committee would urge Government to finalise this matter without any loss of time.</p>
10	I.29	—do—	<p>The Committee are disturbed to note that the reply virtually by-passes the issue raised. What the Committee wanted was that the technical services agreement between National &amp; Grindlays Bank Ltd. and First National City Bank should be examined immediately, in all its aspects, to ensure that it was not a stratagem for evading tax. The reply furnished by the Department of Revenue &amp; Insurance indicates that no specific steps had been taken in this regard. The Committee, therefore, reiterate their earlier recommendation and ask for a precise and concrete clarification of the action taken.</p>

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1.30

—do—

In this context, the Committee recall an earlier recommendation contained in paragraph 1.15 of their 5th Report (Fourth Lok Sabha), which is reproduced below:

“In respect of a number of recommendations which have been included in appendix IV, the Committee observe that the Ministries have replied as ‘noted’. It is not clear from such replies as to what specific action Government have taken or intend to take to give effect to the Committee’s recommendations in letter and spirit. The Committee desire that Government’s replies should be explicit and self-contained. In particular, where remedial measures are called for, the details of action taken should be specifically spelt out.”

The Committee urge Government to avoid all dilatoriness and imprecision in their response especially to problems thus gravely indicated.

12

1.37

—do—

The Committee note that the Income-tax Appellate Tribunal has, in its order dated 18th June 1975, set aside the order of the Appellate Assistant Commissioner deleting the addition made by the Income Tax Officer in respect of the bad debt of Rs. 75 lakhs claimed by the bank and restored this matter to the Appellate Officer for a fresh decision. The Committee urge that this should be finalised without delay and the outcome forthwith reported to them.

1	2	3	4
13	1.40	Finance (Rev. & Ins.)	Now that it has been held that National & Grindlays Bank Ltd. does not come within the purview of the provisions of Section 45(c) and 45(d) of the Gift-tax Act and, consequently, the provisions of the Act would be attracted, the Committee desire that early action should be initiated to subject the debt of Rs. 75 lakhs due from Hoare Miller and Company and its guarantor abandoned by the Bank to Gift-tax and to enforce the recovery. The Committee would await a report on the action taken in this regard.

