

18

**STANDING COMMITTEE
ON FINANCE
(1998-99)**

TWELFTH LOK SABHA

**MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)
DEMANDS FOR GRANTS
(1998-99)**

*[Action taken by the Government on recommendations contained in the
Fourth Report (Twelfth Lok Sabha) of the Standing Committee on
Finance on Demands for Grants (1998-99) of Ministry of Finance
(Department of Revenue)]*

EIGHTEENTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

April, 1999/Chaitra, 1921 (Saka)

EIGHTEENTH REPORT
STANDING COMMITTEE ON FINANCE
(1998-99)

(TWELFTH LOK SABHA)

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

DEMANDS FOR GRANTS
(1998-99)

*[Action taken by the Government on recommendations contained
in the Fourth Report (Twelfth Lok Sabha) of the Standing Committee
on Finance on Demands for Grants (1998-99) of Ministry of
Finance (Department of Revenue)]*

*Presented to Lok Sabha on 23 April, 1999
Laid in Rajya Sabha on 19 April, 1999*



LOK SABHA SECRETARIAT
NEW DELHI

April, 1999/Chaitra, 1921 (Saka)

C.O.F. No. 18

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COMPOSITION OF STANDING COMMITTEE ON FINANCE
(1998-99)

Shri Murli Deora — *Chairman*

MEMBERS

Lok Sabha

2. Shri Dhirendra Agarwal
3. Shri Mohanbhai Sanjibhai Delkar
4. Shri Haribhai Parathibhai Chaudhary
5. Shri Uttam Singh Pawar
6. Shri Girdhari Lal Bhargava
7. Shri Chetan Chauhan
8. Shri Bhagwan Shanker Rawat
9. Shri Rayapati Sambasiva Rao
10. Shri T. Subbarami Reddy
11. Shri Kavuru Sambasiva Rao
12. Shri Sandipan Bhagwan Thorat
13. Shri Praful Manoharbhair Patel
14. Shri Prithviraj D. Chavan
15. Shri R. L. Jalappa
16. Shri Magunta Sreenivasulu Reddy
17. Shri Rupchand Pal
18. Shri Varkala Radhakrishnan
19. Shri Beni Prasad Verma
20. Shri S. Murugesan
- *21. Shri M. Sahabuddin
22. Dr. S. Venugopalachary

*Ceased to be the Member of the Committee w.e.f. 12.4.1999.

23. Shri Tathagata Satpathy
24. Kum. Kim Gangte
25. Dr. Bikram Sarkar
26. Shri S. Jaipal Reddy
27. Shri Joachim Baxla
28. Shri P. Chidambaram
29. Shri Buta Singh
30. Shri Ch. Vidyasagar Rao

Rajya Sabha

31. Dr. Manmohan Singh
32. Shri Krishna Kumar Birla
33. Shri N.K.P. Salve
34. Shri M. Rajsekara Murthy
35. Shri Narendra Mohan
36. Shri O. P. Kohli
37. Shri Raghavji
38. Dr. Biplab Dasgupta
39. Shri C. Ramachandraiah
40. Shri Amar Singh
41. Shri Prem Chand Gupta
42. Shri R. K. Kumar
43. Shri Gurudas Das Gupta
44. Shri Satishchandra Sitaram Pradhan
45. Shri Suresh A. Keswani

SECRETARIAT

- | | | |
|----------------------------|---|-----------------------------|
| 1. Dr. A. K. Pandey | — | <i>Additional Secretary</i> |
| 2. Dr. (Smt.) P. K. Sandhu | — | <i>Director</i> |
| 3. Shri N.S. Hooda | — | <i>Assistant Director</i> |

INTRODUCTION

I, the Chairman of the Standing Committee on Finance (1998-99), having been authorised by the Committee to submit the Report on their behalf present this Eighteenth Report on action taken by Government on the recommendations contained in the Fourth Report of the Committee (Twelfth Lok Sabha) on Demands for Grants (1998-99) of the Ministry of Finance (Department of Revenue).

2. The Report was presented to Lok Sabha/laid in Rajya Sabha on 10 July, 1998. The Government furnished the replies indicating action taken on all the recommendations on 3 March, 1999. The Draft Action Taken Report was considered and adopted by the Standing Committee on Finance at their sitting held on 9 April, 1999.

3. An analysis of action taken by Government on recommendations contained in the Fourth Report (Twelfth Lok Sabha) of the Committee is given in the Appendix-II.

4. For reference facility and convenience, the observations/recommendations of the Committee have been printed in thick type in the body of the Report.

NEW DELHI;
9 April, 1999

19 Chaitra, 1921 (Saka)

MURLI DEORA,
Chairman,
Standing Committee on Finance.

CHAPTER I

REPORT

This Report of the Standing Committee on Finance deal with action taken by Government on the recommendations contained in their Fourth Report (Twelfth Lok Sabha) on Demands for Grants (1998-99) of Ministry of Finance (Department of Revenue) which was presented to Lok Sabha on 10 July, 1998.

2. Action Taken Notes have been received from the Government in respect of all the 12 recommendations contained in the Report. These have been categorised as follows:—

- (i) Recommendations/Observations which have been accepted by the Government:

Para Nos. 9, 19, 23, 33 and 36

(Chapter II—Total 5)

- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of Government's replies:

Para Nos. 6, 12, 16, 27, 30, 40, 44.

(Chapter III—Total 7)

- (iii) Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee:

Para No. Nil

(Chapter IV — Total Nil)

- (iv) Recommendations/Observations in respect of which final reply of the Government is still awaited:

Para No. Nil

(Chapter V — Total Nil)

3. The Committee desire that the final reply in respect of the recommendation for which only interim reply has been given by the Government should be furnished to the Committee expeditiously.

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

Computerisation of Income Tax Operations

Recommendation (Para No. 6)

The Committee had observed that though the computerisation of income-tax operations was initiated a decade ago, the Department still reeled under some bottlenecks which needed to be addressed with greater vigour and acceleration. The Department was yet to receive the concurrence of the Unions to implement the computerisation in all the major centres except Delhi and Mumbai. The Committee had recommended that the Department of Revenue should take immediate steps to bring the Unions across the table to arrive at a consensus decision. The Department in their reply had stated that 33 more centres were to be covered so as to allot PAN numbers to the assesseees. The Committee were of the opinion that the obligatory filling of returns under 'ONE BY SIX' Scheme and compulsory quoting of PAN was expected to bring an estimated 80 lakh new assesseees under the net and the Department should gear up their machinery to meet this daunting task. The Committee, therefore, recommended that the Department of Revenue should constitute a task force that could look into the existing bottlenecks, address them on priority basis and make the comprehensive computerisation of income tax operations a reality. The Committee also desired to be apprised of the progress made in this direction.

In their reply, the Government have stated that the CBDT has initiated the process of a dialogue with the Income Tax Employees Federation and the Income Tax Gazetted Officers Federation and has reached a broad understanding for extending computerisation to a number of areas. Further discussions are continuing.

In order to look into bottlenecks and to address the problems relating to computerisation on priority basis and make the comprehensive computerisation of the Income-Tax operations effective a Standing Committee under Member, CBDT, with CCITs/CITs(CO)/CITs/DIT(Systems) as members, is being constituted to monitor the implementation of the Comprehensive Computerisation Scheme all over the country.

The Committee observe that computerisation scheme needs to be expedited in a given time frame and allotment of PAN should be given the top priority so as to streamline the income tax collection operations.

Restriction of MODVAT credit by 5 per cent

Recommendation (Para No. 36)

The Committee had observed that instead of imposing restrictions on MODVAT credit, the Government should take concrete steps for plugging the various loopholes which existed in the scheme and due to which misuse took place. They desired that the process of computerisation of excise operations should be accelerated so that stringent control could be exercised for cross-checking modvatable invoices.

In their reply, the Government have stated that the issue has been re-examined and the Government has decided to continue with the restriction of credit to 95% of the excise duty paid on the inputs for the present.

The Committee are of the strong view that computerisation of excise operations should be expedited so as to reduce the time of settlement of excise related cases.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Para No. 9)

The Committee are constrained to note that the Department has taken the shield of forwarding an assumption that the shortfall under this head might have occurred due to less collection of taxes by carriers than the estimated amount, as one of the main reasons for under-utilisation of budgetary allocations. The Committee deprecate the casual attitude of the Department in knowing the exact reasons for the shortfall in the utilisation of budgetary grants. The ignorance of pointing out the concrete reasons for under-utilisation clearly speaks of lack of concern on the part of Department in identifying the main reasons for under-utilisation and prior projecting of the fund requirements for this head. The Committee, therefore, recommend that the Department should evince greater attention henceforth in projecting realistic estimates so that B.E. and R.E. would be closer to the actuals.

Reply of the Government

In the original observation on this point, the Committee had raised the query regarding the reasons for under-utilisation under this head. The expenditure under Foreign Travel Tax is calculated as percentage of the Budget Estimates of the tax collected by the air lines/air taxi operators and deposited to the Government Account. As such, the allotment of budget provision depends upon the estimated collection of taxes every year. The Department has been advised to be more careful in projecting realistic estimate of expenditure under this head in future.

[Ministry of Finance (Deptt. of Revenue) Communication
F. No. 341/53/98-TRU Dated the 20th January, 1999]

Recommendation (Para No. 19)

The Committee are concerned to note that E-Commerce technology, a fast emerging technology to carry out transactions through cyber space, has the potential of affecting adversely the tax revenue collections as the tax payers can swiftly move away from the countries where tax laws are inflexible, rates are high and procedures complicated. They are of the opinion that even though the direct tax rates of corporate and non-corporate tax payers in India are brought down to a reasonable level in comparison to other countries in the world and the procedures are simplified, certain unscrupulous tax payers who have access to E-Commerce technology will try to exploit the lacunae that exists in both the direct and indirect tax laws.

The Committee also note the fact that the E-Commerce transactions are expected to have an exponential growth in the future and there is every possibility that the Ministry of Finance (Department of Revenue) may be caught unawares by the fast changing developments taking place in the cyber space. The Committee, therefore, recommend the Government to constitute an expert group to suggest necessary changes for evolving a policy of taxation for dealing with E-Commerce without any further delay.

Reply of the Government

The Committee's recommendation to constitute an Expert Group to suggest necessary changes for evolving a policy of taxation for dealing with E-Commerce has been noted and the same will be constituted shortly.

[Ministry of Finance (Deptt. of Revenue) Communication
F. No. 341/53/98-TRU Dated the 20th January, 1999]

Recommendation (Para No. 23)

The Committee are concerned to note that despite tax reforms process having been initiated by the Government since 1992-93, the revenue accruing from direct taxes still accounts for 35.9% of gross tax revenue and indirect taxes hover at about 64% of the total revenue collected. The Committee feel that this sort of existing asymmetry between the direct and indirect taxes is undesirable because higher reliance on indirect taxes casts a heavy burden of taxes on the poor.

In their view this can be possible only when the nation reaps more revenues from the direct taxes. The Committee note that the Government have initiated certain measures recently to correct this anomaly; however, keeping in view, continuous heavy dependence on indirect taxes; the Committee urge the Government to broaden the existing tax net, take punitive action against those potential tax payers who continue to evade taxes, strengthen enforcement machinery and beef up the search and seizure operations. As regards indirect taxes, the long standing need to initiate a comprehensive excise reform policy should also be taken up on priority basis.

Reply of the Government

The Government has been taking necessary legislative and administrative measures to unearth the undisclosed money. The Income Tax Act contains provisions regarding summons, surveys and searches etc. to detect tax evasion. A new procedure for making assessments in cases of search has been introduced with the levy of tax on undisclosed income at the rate of 60%.

For broadening the tax net, a new provision was added to Section 139(1) of Income Tax Act with effect from 1.4.97 which requires a person to file his return of income if any of the four conditions namely occupation of immovable property, ownership of motor vehicle, telephone and foreign travel, are fulfilled. The Finance Act, 1998 has widened the scope of this provision by including two more criteria—credit card holding and membership of a club having entrance fees of more than Rs. 25,000. Now, the return of income is required to be filed if any one out of the six criteria are met. This exercise will definitely bring potential tax payers in the tax net.

The Government has also notified certain high-value transactions where quoting of Permanent Account Number has been made compulsory on all documents relating to these transactions. All these measures are likely to increase the number of tax payers substantially thereby reducing the asymmetry between direct and indirect taxes.

[Ministry of Finance (Deptt. of Revenue) Communication
F. No. 341/53/98-TRU Dated the 20th January, 1999]

Recommendation (Para No. 23)

Asymmetry between the Direct and Indirect taxes

As regards indirect taxes, the long standing need to initiate a comprehensive excise reform policy should also be taken up on priority basis.

Reply of Government

The reform of the excise tax structure is a continuous process and the Government has taken a number of measures to reduce the multiplicity and dispersal of rates of excise duties, review of exemptions which have outlived their utility, rationalising the tax structure to remove anomalies, simplification of excise procedures, etc., during the last few years. Further action in this regard will be taken as part of the next year's budget exercise.

[Ministry of Finance (Deptt. of Revenue) Communication
F. No. 341/53/98-TRU Dated the 20th January, 1999]

Recommendation (Para No. 33)

Excise duty on branded edible preparations and other agro-processing items

The Committee are of the opinion that the sweet meat making is a traditional labour intensive business which provides employment to thousands of unorganised labour wherein the manufacturers sustain their business operations on meagre profits that accrue from the stiff domestic competition. An excise duty of 8% on sweet meat industry and on agro-processing items such as spices and 5% duty on rubberised coir mattresses put undue pressure on the sustenance of these indigenous industries in the long run and calls for an immediate review. Moreover, the Committee feel that collection of such duties will be cumbersome and cause undue harassment and hardship to small traders.

The Committee, therefore, recommend that the Government should re-examine the excise duty imposition on branded edible preparations and some of the agro-processing items such as spices and rubberised coir mattresses in order to help these industries to sustain and flourish.

Reply of Government

The excise duty on sweet-meats, spices and rubberised coir mattresses has been withdrawn.

[Ministry of Finance (Deptt. of Revenue) Communication
F. No. 341/53/98-TRU Dated the 20th January, 1999]

Recommendation (Para No. 36)**Restriction of MODVAT credit by 5 per cent**

The Committee are informed that percentage of MODVAT to gross revenue rose from 14.71% in 1987-88 to 43.45% in 1997-98. They are further informed that with the liberal use of MODVAT credit schemes, excise—GDP ratio crumbled from 4.56% of GDP to 3.3% of GDP. To curb this declining trend in excise—GDP ratio, the Government have curtailed the MODVAT credit by 5%.

The Committee would like to point out that the industries which do not produce the products from the beginning to the end and who have their subsidiary/intermediate companies to produce the semifinished product for them will have to pay excess amount of tax than normally paid and also bear the brunt of the restriction of MODVAT credit by 5%.

The Committee are, however, of the view that instead of imposing restrictions on MODVAT credit, the Govt. should take concrete steps for plugging the various loopholes which presently exist in the scheme and due to which misuse takes place. They also desire that the process of computerisation of excise operations should be accelerated so that stringent control can be exercised for cross-checking modvatable invoices.

Reply of the Government

The issue has been re-examined and the Government has decided to continue with the restriction of credit to 95% of the excise duty paid on the inputs for the present.

[Ministry of Finance (Deptt. of Revenue) Communication
F. No. 341/53/98-TRU Dated the 20th January, 1999]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES

Recommendation (Para No. 6)

The Committee observe that though the computerisation of income-tax operations was initiated a decade ago, the Deptt. still reels under some bottlenecks which need to be addressed with greater vigour and acceleration. The Committee note that the Deptt. is yet to receive the concurrence of the Unions to implement the computerisation in all the major centres except Delhi and Mumbai. The Committee recommend that the Deptt. of Revenue should take immediate steps to bring the Unions across the table to arrive at a consensus decision. The Deptt. in their reply have stated that 33 more centres are to be covered so as to allot PAN numbers to the assesseees. The Committee are of the opinion that the obligatory filling of returns under 'ONE BY SIX' Scheme and compulsory quoting of PAN is expected to bring an estimated 80 lakh new assesseees under the net and the Deptt. should gear up their machinery to meet this daunting task. The Committee, therefore, recommend that the Deptt. of Revenue should constitute a task force that can look into the existing bottlenecks, address them on priority basis and make the comprehensive computerisation of income tax operations a reality. The Committee would also like to be apprised of the progress made in this direction.

Reply of the Government

The CBDT has initiated the process of a dialogue with the Income Tax Employees Federation and the Income Tax Gazetted Officers Federation and has reached a broad understanding for extending computerisation to a number of areas. Further discussions are continuing.

In order to look into bottlenecks, to address the problems relating to computerisation on priority basis and make the comprehensive

computerisation of the Income-tax operations effective, a Standing Committee under Member, CBDT, with CCITs/CITs(CO)/CITs/DIT (Systems) as members, is being constituted to monitor the implementation of the Comprehensive Computerisation Scheme all over the country.

[Ministry of Finance (Deptt. of Revenue) Communication
F. No. 341/53/98-TRU Dated the 20th January, 1999]

Recommendation (Para No. 12)

The Committee note that during 1995-96 an amount to the tune of Rs. 58 lakhs was spent in excess of the amount which was allocated while making revised estimates. In support of the reasons advanced for excess of expenditure, the Ministry has stated in their written reply that the amount had to be incurred on account of revision of rent of the premises occupied by Bombay Zonal Unit of the Enforcement Directorate with effect from 1992. The Committee are constrained to find that no reasons have been advanced by the Ministry as to what had actually necessitated them to revise the rent retrospectively. The Committee are, therefore, unable to appreciate the justifications for having incurred the heavy amount in excess of budgetary provisions during the said year. They, therefore, desire that the full details in this regard should be furnished to them without further delay. They also recommend that in future at least efforts should be made to make realistic estimates after having taken into account all the relevant factors/variables.

Reply of the Government

The background of this case is that the Bombay Zonal Unit of the Enforcement Directorate is occupying the 2nd floor of the building 'Mittal Chambers' at Nariman Point for its office since 1976. As per guidelines of the Ministry of Urban Development, the rent of the private buildings occupied by the Government offices can be revised after a period of five years or from the date the owner of the building makes a written request for the revision of the rent, whichever is later.

The owner of the building *vide* his letter dated 31.5.1998, addressed to the Deputy Director of Enforcement, Bombay, had requested for revision of rent of the said accommodation w.e.f. 1982 onwards for five years and again from 1987 for another five years in terms of the

instructions of the Government. In pursuance of the request of the landlord, the Directorate had got the rent re-assessed from the hiring authority of CPWD *vide* their report dated 27.7.1988 which recommended the revised rent w.e.f. October, 1987. On receipt of the proposal from the Directorate in November, 1988, the rent was got revised w.e.f. 2.6.1988 at an enhanced rent of Rs. 21.80 per sq. ft. *vide* Ministry's sanction dated 20.3.90. However, the owner of the building asked the Department to revise the rent w.e.f. 21st September, 1982 and 16th September, 1987. After confirming the receipt of the representation by the Bombay Zonal Office, the rent was got re-assessed from the C.P.W.D. on 2.3.1994 which was effective from September, 1982. However, the Ministry took a decision to revise the rent w.e.f. September, 1987 *vide* their order dated 31.10.1996 which was effective for a period of 5 years. The rent was also revised for another period of 5 years from 1992 by the same order. Since the Revised Estimates for the year 1995-96 had already been finalised by this time, the amount could be provided only at the final requirement stage. As such, the actual expenditure increased by Rs. 58 lakhs during 1995-96.

[Ministry of Finance (Deptt. of Revenue) Communication
F. No. 341/53/98-TRU Dated the 20th January, 1999]

Recommendation (Para No. 16)

The Committee find that the Kar Vivad Samadhan Scheme is proposed to come into force w.e.f. 01.9.1989 to 31.12.1998 for collection of arrears as on 31.3.1998 as well as for reduction of disputes. It aims at declogging of the system which today has lakhs of appeals pending before various authorities both under direct and indirect taxes.

The Committee, however, find a basic flaw in clause 91 under which a declarant can make declaration under this Scheme only if tax is in arrears. This creates an unnecessary hardship to those assesseees who are contending certain items in appeal which involve dispute of tax levied on such items. However, if the assessee has either in order to cooperate with the Department or due to coercive steps of recovery, he cannot make a SAMADHAN declaration as in his case there would be no tax arrears. Thus, those who have disputed the tax in appeal but not paid the disputed tax have an advantage over those who have disputed the tax in appeals still pending but have paid the tax pending decision.

The Revenue Secretary during his deposition before the Committee also agreed to the suggestion that the definition of eligibility of availing of the Samadhan Scheme needs to be broadened for which the Ministry of law should be consulted.

The Committee, therefore, desire that the entire matter should be re-examined in consultation with the Ministry of Law without further delay.

Reply of the Government

The acceptance of the above recommendation has grave ramifications. If we extend the Scheme to cases where only disputes are pending but there are no tax arrears, all the pending appeals filed by the tax payers in the last 10 years or so pending before various stages of the appeal including High Courts and the Supreme Court would come under the purview of the Scheme. In these cases, the tax payers have preferred the appeals as the decisions of the lower courts have gone against them. In these cases, taxes would have been paid on the basis of the appellate orders. Allowing them to come under the purview of the Scheme would mean giving refunds as taxes would have been realised at a higher rate and substantial interest would have been levied. Therefore, a sizeable portion of the demands recovered by the Department with great difficulty in all these past years shall have to be refunded because of reduced payment of taxes and waiver of interest and penalty allowed under the Scheme. Such a measure i.e., refunding a part of the taxes collected in earlier years, would go against the basic objective of this one time Scheme which is to reduce the arrears as well as pending disputes.

2. The above recommendation of the Standing Committee has been carefully considered by the Government. Finance Minister while moving for the passage of Finance (No. 2) Bill, 1998 along with the Government amendments has also made a reference in this regard: "I have carefully considered the suggestions emanating from various quarters including the Standing Committee on Finance to extend the scope of this scheme so as to include tax disputes irrespective of the fact whether the tax arrears are existing or not. As you have seen from the scheme, it has two connected limbs-"Kar" and "Vivad". Collection of tax arrears is as important as settlement of disputes. The scheme is not intended to settle disputes when there is no corresponding gain to the other party. The basic objective of the scheme cannot be altered."

[Ministry of Finance (Deptt. of Revenue) Communication
F. No. 341/53/98-TRU Dated the 20th January, 1999]

Recommendation (Para No. 27)

The Committee are of the considered view that instead of lowering the eligibility criteria in the case of Judicial and Accountant Member, the eligibility criteria in the case of Chartered Accountants can suitably be changed by providing 20 years of service instead of 10 years which has presently been provided in order to ensure that only those persons opt for such jobs who have acquired sufficiently long experience in their respective fields and the prestige of the office is also maintained. Similarly, the Committee have apprehensions that section 48 of Income-tax Act could be misused particularly due to the different standards/parameters adopted by the State Governments while calculating the valuation of the capital assets. Likewise, the withdrawal of income-tax exemptions in the case of hospitals, philanthropic and educational institutions which are not engaged in any profit making activities does not seem to be justified. The Committee, therefore, desire that the Ministry of Finance should consider reviewing all these proposed amendments as already conceded by the Secretary, Revenue and Chairman, CBDT.

Reply of the Government:

The lowering of eligibility criteria for the officers of Income-tax Department and Indian Legal Service for appointment as Accountant Member or Legal Member has not in any way diluted the requirement of adequate experience for such appointments. At present, it takes about 19 to 20 years to become an Additional Commissioner of Income Tax. Therefore, the officers becoming eligible for selection would have put in more than 20 years which cannot be considered as insufficient or inadequate. What is more important is that the changes made are only in regard to eligibility conditions. It does not necessarily follow that henceforth only Additional Commissioners shall become the Members of Appellate Tribunal. A Senior Commissioner will always score over an Additional Commissioner at the time of selection unless the latter has special qualifications and experience suitable for the post. There is difference between minimum qualification for being considered for selection and the actual process of selection which would continue to be as rigorous as has been in the past.

2. In view of the above, there is no particular need to increase the eligibility criteria for Chartered Accountants from the existing 10 years to 20 years as an alternative proposal. The rigorous procedure of

selection would take care of selection of Chartered Accountants with suitable qualification and experience in keeping with the prestige of the office. Furthermore, any upward revision of eligibility criteria for Chartered Accountant would also lead to corresponding enhancement to 20 years of experience for Advocates for becoming the members of Appellate Tribunal. Since, an Advocate with 10 years experience is eligible to become a judge in High Court, prescribing a higher eligibility criteria for a lower office may not be appropriate.

3. The proposed amendment to substitute the fair market value of land with value adopted by State Government authorities for the purpose of stamp duty for calculating Capital Gains has been withdrawn.

4. The income-tax exemption to educational and medical institutions has not been withdrawn. In order to prevent the widespread misuse of the exemptions available to the educational and medical institutions and to rationalise the scheme of granting exemptions to these institutions several legislative changes have been brought out in the Finance (No. 2) Act, 1998. As a result, the existing Sections 10(22) and 10(22A) of the Income-tax Act, 1961, dealing with the exemptions of these institutions have been omitted with effect from 1-4-1999. Clauses (iiiab), (iiiac), (iiiad), (iiiae), (vi) and (via) have now been inserted in Section 10(23C) of the Income-tax Act, 1961, with effect from 1-4-1999, to regulate the grant of exemptions to these institutions.

[Ministry of Finance (Deptt. of Revenue) Communication
F. No. 341/53/98-TRU Dated the 20th January, 1999]

Recommendation (Para No. 30)

The Committee observe that despite the reduction in Revised Estimates during 1995-96 and 1996-97, the actual expenditure incurred under this head fell far below the budgetary allocations. The Committee are of the opinion that the Ministry have not been making realistic estimates and desire that the estimates henceforth be made with greater scrutiny so that the Budgetary Estimates are fixed at realistic levels closer to the actuals.

Reply of the Government

There are large number of budgetary authorities whose budget provisions are incorporated in the Demand of Direct Taxes. Looking to the budgetary authorities/units involved, it is difficult to fix the Budget

Estimates accurately. Even through, every care is taken to do it on realistic basis, provisions under some object-heads are under-utilised due to factors not anticipated at the time of framing the Estimates.

Budgetary Authorities under Direct Tax Organisation are advised, from time to time, to frame their budget proposals in most realistic and accurate manner. In view of the observation of Standing Committee on Finance, instruction regarding need for framing Budget Estimates on realistic basis have again been issued on 24.09.98 (copy enclosed).

F. NO. 7/6/98-IFU (B&A)
GOVERNMENT OF INDIA
MINISTRY OF FINANCE
DEPARTMENT OF REVENUE
IFU (B&A)

New Delhi
Dated 24th Sept., 1998

To

All Budgetary Authorities
Central Board of Direct Taxes.

*Sub:—Framing of Budgetary Estimates—Observation
of Standing Committee on Finance.*

Sir,

I am directed to say that the Standing Committee on Finance, while examining the Demands for Grants of Ministry of Finance for 1998-99, has expressed concern over the gross under-utilisation of budgetary provisions made under the object-head 'Foreign Travel Expenses' during the years 1995-96 and 1996-97. This shows that the estimates are not being made on realistic manner. The Committee has desired that the estimates henceforth be made with greater scrutiny so that the Budgetary Estimates are fixed at realistic levels closer to the actuals.

As the final budgetary estimates are fixed keeping in view, *inter-alia*, the estimates proposed by the budgetary units, the under-utilisation of budgetary provisions is the result of over-estimated requirements projected by the charges in their budget proposals. This led to unnecessary savings which, at times, attract adverse comments of the Audit. It is, therefore, essential not only to work out the requirement on a national basis but also to keep in view the time factor involved in meeting these requirements within the same financial year.

All budgetary authorities are, therefore, requested that henceforth budgetary requirement may be examined with greater scrutiny and

the estimates may be projected as realistic as possible closer to the likely actual expenditure.

Yours faithfully,

m.p

Sd/-

(P.K. GUPTAN)

DEPUTY FINANCIAL ADVISER

- Copy to: 1. The Principal Chief Controller of Accounts (Central Board of Direct Taxes), New Delhi.
2. Director (OT)/Director (AdVIII), CBDT. It is requested that budget provision under 'Capital Section' may be framed keeping in view the above mentioned observation of the Standing Committee on Finance.

Sd/-

(P.K. GUPTAN)

DEPUTY FINANCIAL ADVISER

[Ministry of Finance (Deptt. of Revenue) Communication
F. No. 341/53/98-TRU Dated the 20th January, 1999]

Recommendation (Para No. 40)

Service Tax

The Committee are unable to understand the rationale behind the Government's initiative to impose Service Tax on some professional services provided by Chartered Accountants, Cost Accountants and Company Secretaries and at the same time sparing the potential revenue yielding professions like Medicine & Law, from any tax obligation. The Committee are of the view that though the Government has introduced the service tax in 1994 not much of a commendable progress has been made in bringing additional services within the ambit of taxation to infuse buoyancy in the service tax revenues. In this connection, the Committee wonder whether medical practitioners and lawyers could also be included for the purpose of service tax.

Reply of the Government

The service tax is not a tax on the profession, but on the 'service provided'. Any service tax on medical practitioners and lawyers would only increase the cost of medical care and legal service in the country. However, the Government has noted the suggestion made by the Committee in this regard.

[Ministry of Finance (Deptt. of Revenue) Communication
F. No. 341/53/98-TRU Dated the 20th January, 1999]

Recommendation (Para No. 44)

Text of Recommendation

Post Budget Anomalies in Indirect Taxation

The Committee observe that the special additional customs duty which was imposed in this budget has hit some of the manufacturing industries which are engaged in producing Petro-Chemicals, Plastics, Textiles, Pharmaceuticals CD—ROMs etc. and import feed stock like Naphtha, Polycarbonate etc. for producing the finished product. They are of the view that special duty imposition favours the importers who trade in finished products rather than indigenous manufacturers. The Committee fear that some of the domestic units will be threatened of their existence due to the Additional Duty of Customs (ADC) which will render them grossly uncompetitive. They also feel that the above

duty will have significant cascading effects all round and will witness significant cost push on various products that some of the manufacturing units can ill afford at this stage when the growth of industry is stunted both at home and abroad.

The Committee, therefore, recommend the Government to reexamine the imposition of additional customs duty on principal feedstocks keeping in view particularly the domestic production and bring relief measures to the hard hit industries.

Reply of the Government

The special additional customs duty (SAD) of 4% has been imposed only with a view to providing a level playing field to the domestic industry and the 4% SAD approximately equals the burden of local taxes borne by the domestic producers. The issue has been re-examined and the Government has decided to continue with the levy.

[Ministry of Finance (Deptt. of Revenue) Communication
F. No. 341/53/98-TRU Dated the 20th January, 1999]

CHAPTER IV

**RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH
REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED
BY THE COMMITTEE**

— NIL —

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH
FINAL REPLIES OF THE GOVERNMENT ARE STILL AWAITED

—NIL —

NEW DELHI;
9 April, 1999
19 Chaitra, 1921 (Saka)

MURLI DEORA,
Chairman,
Standing Committee on Finance.

APPENDIX I

MINUTES OF THE THIRTY SIXTH SITTING OF THE STANDING COMMITTEE ON FINANCE

The Committee sat on Friday, 9 April, 1999 from 1530 hours to 1600 hours.

PRESENT

Shri Murli Deora — *Chairman*

MEMBERS

Lok Sabha

2. Shri Dhirendra Agarwal
3. Shri Chetan Chauhan
4. Shri Bhagwan Shankar Rawat
5. Shri Kavuru Sambasiva Rao
6. Shri Sandipan Bhagwan Thorat
7. Shri R.L. Jalappa
8. Shri Magunta Sreenivasulu Reddy
9. Shri Varkala Radhakrishnan
10. Shri M. Sahabuddin

Rajya Sabha

11. Dr. Manmohan Singh
12. Shri N.K.P. Salve
13. Shri M. Rajsekara Murthy
14. Dr. Biplab Dasgupta
15. Shri C. Ramachandraiah
16. Shri Prem Chand Gupta
17. Shri R.K. Kumar
18. Shri Gurudas Das Gupta
19. Shri Suresh A. Keswani

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu — *Director*
2. Shri S.B. Arora — *Under Secretary*
3. Shri N.S. Hooda — *Assistant Director*

2. The Committee resumed the meeting at 1530 hours.

3. The Committee took up for consideration the following draft reports:

- | | | | | |
|-------|---|----|----|----|
| (i) | ** | ** | ** | ** |
| | ** | ** | ** | ** |
| (ii) | ** | ** | ** | ** |
| | ** | ** | ** | ** |
| (iii) | Action Taken Report on the recommendations contained in the Fourth Report on the Demands for Grants (1998-99) of the Ministry of Finance (Department of Revenue). | | | |
| (iv) | ** | ** | ** | ** |
| | ** | ** | ** | ** |
| (v) | ** | ** | ** | ** |
| | ** | ** | ** | ** |
| (vi) | ** | ** | ** | ** |
| | ** | ** | ** | ** |

4. The Committee after deliberations considered and adopted the above mentioned report without any modification/amendment. The Committee thereafter authorised the Chairman to present the Report to both the Houses of Parliament.

The Committee then adjourned.

APPENDIX II

(Vide Para 3 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON
RECOMMENDATIONS CONTAINED IN THE FOURTH REPORT
OF THE STANDING COMMITTEE ON FINANCE ON DEMANDS
FOR GRANTS (1998-99) OF MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

	Total	% of Total
(i) Total number of recommendations	12	
(ii) Recommendations/observations which have been accepted by the Government (Vide Recommendations at Para Nos. 9, 19, 23, 33 and 36)	5	41.70
(iii) Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies. (Vide Recommendations at Para Nos. 6, 12, 16, 27, 30, 40 and 44)	7	58.30
(iv) Recommendations/observations in respect of which the Government's replies have not been accepted by the Committee. (Vide Recommendations at Para No. Nil)	Nil	0
(v) Recommendations/observations in respect of which final reply of the Government is still awaited. (Vide Recommendations at Para No. Nil)	Nil	0