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## STANDING COMMITTEE ON FINANCE

### FOURTEENTH LOK SABHA

MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE)

DEMANDS FOR GRANTS  
(2004-2005)

*[Action taken by the Government on the recommendations contained in the Second Report of the Standing Committee on Finance on Demands for Grants (2004-2005) of Ministry of Finance (Department of Revenue)]*

SIXTH REPORT



LOK SABHA SECRETRIAT  
NEW DELHI

December, 2004/Pausa, 1926 (Saka)

**SIXTH REPORT**  
**STANDING COMMITTEE ON FINANCE**  
  
  
  
  
**(FOURTEENTH LOK SABHA)**

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(DEPARTMENT OF REVENUE)**

**DEMANDS FOR GRANTS  
(2004-2005)**

**[*Action taken by the Government on the recommendations contained  
in the Second Report of the Standing Committee on Finance on  
Demands for Grants (2004-2005) of Department of Ministry of Finance  
(Department of Revenue)]***

*Presented to Lok Sabha on 22 December, 2004*

*Laid in Rajya Sabha on 22 December, 2004*



**LOK SABHA SECRETRIAT  
NEW DELHI**

December, 2004/Pausa, 1926 (Saka)

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## **COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2004-2005**

Maj. Gen (Retd.) B.C. Khanduri - Chairman

### **MEMBERS**

#### **LOK SABHA**

2. Shri Jaswant Singh Bishnoi
3. Shri Gurudas Dasgupta
4. Shri Bhartruhari Mahtab
5. Shri Shyama Charan Gupt
6. Shri Gurudas Kamat
7. Shri A. Krishnaswamy
8. Shri Bir Singh Mahato
9. Dr. Rajesh Kumar Mishra
10. Shri Madhusudan Mistry
11. Shri Rupchand Pal
12. Shri Danve Raosaheb Patil
13. Shri Shrinivas D. Patil
14. Shri K.S. Rao
15. Shri Jyotiraditya Madhavrao Scindia
16. Shri Lakshman Seth
17. Shri G.M. Siddeshwara
18. Shri Ajit Singh
19. Shri M.A. Kharabela Swain
20. Shri Vijoy Krishna
21. Shri Magunta Sreenivasulu Reddy

#### **RAJYA SABHA**

22. Shri Murli Deora
23. Shri R.P. Goenka
24. Shri Jairam Ramesh
25. Shri M. Venkaiah Naidu
26. Shri Yashwant Sinha
27. Shri Chittabrata Mazumdar
28. Shri S.P.M. Syed Khan
29. Shri Amar Singh
30. Shri C. Ramachandraiah
31. Shri Mangani Lal Mandal

#### **SECRETARIAT**

- |                           |                        |
|---------------------------|------------------------|
| 1. Shri P.D.T. Achary     | - Additional Secretary |
| 2. Dr. (Smt.) P.K. Sandhu | - Joint Secretary      |
| 3. Shri R.K. Jain         | - Deputy Secretary     |
| 4. Shri R.C. Kakkar       | - Under Secretary      |
| 5. Shri M.L.K. Raja       | - Committee Officer    |

## **INTRODUCTION**

I, the Chairman, Standing Committee on Finance, having been authorised by the Committee to submit the Report on their behalf present this Sixth Report on action taken by Government on the recommendations contained in the Second Report of the Committee (Fourteenth Lok Sabha) on Demands for Grants (2004-2005) of the Ministry of Finance (Department of Revenue).

2. The Second Report was presented to Lok Sabha/ laid in Rajya Sabha on 20 August, 2004. The government furnished the replies indicating action taken on all the recommendations on 9 November and 2 December, 2004. The Draft Action Taken Report was considered and adopted by the Standing Committee on Finance at their sitting held on 20 December, 2004.

3. An analysis of action taken by Government on recommendations contained in the Second Report (Fourteenth Lok Sabha) of the Committee is given in the Appendix.

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

NEW DELHI;  
20 December, 2004  
29 Agrahayana 1926 (SAKA)

MAJ. GEN. (RETD.) B.C. KHANDURI  
CHAIRMAN,  
STANDING COMMITTEE ON FINANCE

## CHAPTER I

### REPORT

This report of the Standing Committee on Finance deals with action taken by Government on the recommendations contained in their Second Report (Fourteenth Lok Sabha) on Demands for Grants (2004-2005) of Ministry of Finance (Department of Revenue) which was presented to Lok Sabha and laid in Rajya Sabha on 20 August, 2004.

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

- (i) Recommendations/Observations which have been accepted by the Government:  
Sl. No. 1 (para nos. 14 & 16), 2 (para no. 24 & 25), 3 (para 40), 6 (para 79), 7 (para 84) and 9 (para 93)  
(Chapter II- Total 8 )
- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:  
Sl. No. 1 (para no. 15), 4 (para 62), 5 (para nos. 70, 71, 72 & 73) and 8 (para 89)  
(Chapter III-Total 7)
- (iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:  
Sl. No. 1 (para 13 & 17), 3 (para 41) & 4 (Para 63)  
(Chapter IV-Total 4)
- (iv) Recommendation/Observations in respect of which final replies of the Government are still awaited:  
Para. No. Nil  
(Chapter V-Total Nil)

3. The Committee desire that the replies to the recommendations contained in Chapter I and the final replies in respect of the recommendations contained in Chapter V for which only interim replies have been given by the Government should be furnished to them expeditiously.

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

**Widening of tax Base**  
**Recommendation (Sl. No. 1, Para No. 13)**

5. The Committee observed that the extent of coverage of the population under the tax umbrella denoted the equity in contribution of the total population, involved various kinds of livelihood activities, towards the tax revenue. They further observed that going by any parameters on the penetration of the reach of the tax administration, the extent of the reach in our country was dismal. The Committee noted with the greatest concern that at the time of the tabling of the Report a very meagre number of individuals and corporates, as well as only a few services were touched upon by the fiscal policy and administration. The target fixed to be achieved by the end of 2004-2005, so far as the number of income tax assessees were concerned, was 5 crores. The progress made till then was not upto the mark which was the result of poor planning and implementation. The Committee expected the government to tread the path more efficiently and effectively.

6. The Ministry of Finance (Department of Revenue) in their action taken reply stated as under :

“Projection of increasing the tax base to 5 crore assessees by 31-3-2005 was made in the expectation that by then comprehensive computerisation of the Income Tax Department would be completed and measures like filing of Annual Information Return disclosing high value transactions would become operational. Matching of the information contained in the Annual Information Returns with the data already available with the department was expected to result in sharply increasing the tax base. Computerisation of the department is at an advanced stage. Section 285BA was inserted in the Income Tax Act in 2003 enabling the government to prescribe the filing of information regarding high value transactions. However, section 285BA introduced in 2003 could not be made operational as the rules could not be notified (possibly because there was rethinking regarding the wording of section 285BA). In the Finance Act 2004,

section 285BA has been substituted by a new amended section 285BA. Furnishing of Annual Information Returns in respect of high value transactions entered in FY 2004-05 onwards (made compulsory by the new Section 285BA) would enable the Department to collect, collate and analyze such information in respect of the persons who have entered into these transactions. It would enable the Department to identify potential taxpayers and bring them into the tax net. This is expected to result in substantial increase in the number of assessees.

The Department has also taken various other steps for widening the tax base which are:

#### **I One-by-Six Scheme**

To bring potential taxpayers in the tax system, the One by Six Scheme was introduced. Under this scheme, persons are obliged to file their returns of income if they fulfill any one of the six specified criteria.

#### **II Compulsory Quoting of Permanent Account Number**

There is a statutory obligation u/s 139A of the Income Tax Act and Rule 114B of the Income Tax Rules requiring compulsory quoting of PAN in certain high value transactions.

#### **III Tax Information Network (TIN)**

The Tax Information Network (TIN) has been recently set up in order to act as a Tax related information base which can be utilized by the Department for the purpose of widening and deepening the tax base of the country.

#### **IV Publicity and Awareness Campaign**

In order to educate the taxpayers as to their responsibilities for payment of direct tax, the Department has launched various advertisement campaigns which would enable increased voluntary compliance of tax.

#### **V Central Information Branch (CIB)**

The Central Information Branch of the Department collects information from third party sources regarding certain high value

transactions. This information is collated and analyzed and subsequently disseminated for the purpose of widening the tax base.

## VI Other Measures

- (a) Extending the applicability of Tax Deduction at Source (TDS) and Tax Collection at Source (TCS) provisions to cover various financial activities.
- (b) Compulsory filing of return by companies w.e.f. 1/4/2001."

**7. The Committee take note of the various measures taken by the Government to widen the tax base in the Country. They are of the considered opinion that these measures would not be sufficient to achieve the ambitious target of bringing 5 crores assessees into the tax net unless comprehensive computerisation of the Income-tax Department has been completed. They have been informed that the projection of increasing the tax base to 5 crores assessees by 31<sup>st</sup> March, 2005 was made in the expectation that by then comprehensive computerization of the Income-tax Department would be completed and measures like filing of Annual Information Return (AIR) disclosing high value transactions would become operational. They are, however, distressed to note that little has been done in this regard. Neither the comprehensive computerisation of the Income tax Department seems to have been completed nor filing of Annual Information Return has been made operational within time. The Committee view the lapse seriously as the delay in the implementation of the above would directly affect the Government's ability to tap more revenue and hence loss of potential revenue to the exchequer. They want that Government should make concerted efforts in the area of computerisation of the Department at the earliest, only then real fruits of the various measures taken by the Government could be achieved.**

**Recommendation (Sl. No. 1, Para No. 16)**

8. The Committee noticed that only a few thousand tax payers filed their return with income over Rs. 10 lakhs and Rs. 25 lakhs, though it was a frequent phenomenon that lakhs and sometimes crores of rupees were spent lavishly on social occasions like marriage etc. They further observed that more revenue could be realised if only more attention and steps were initiated to tap such sources.

9. The Ministry of Finance (Dept. of Revenue) in their action taken reply have stated as under :

“Instructions have been issued to all Directors General of Income Tax (Investigation) to carry out enquiries in appropriate cases involving expenditure on social occasions like marriages, etc.”

**10. The Committee are not satisfied with the reply furnished by the Government with regard to their specific observation as to why there were only a few thousand tax payers who filed their return with income over Rs. 10 lakhs and Rs. 25 lakhs though it was frequent phenomenon that lakhs and sometimes crores of rupees were spent lavishly on social occasions like marriage etc. The Government’s reply is silent on the issue as to why there are less number of assesseees, showing their income more than Rs. 10 lakhs and Rs. 25 lakhs, when there is a general tendency of rising ostentatious expenditure. They want the Government to take effective measures to unearth hidden incomes and desire that a copy of the instructions that have been issued to the Directors General of Income tax, as well as the action taken over such instructions and the result thereof, should be furnished to the Committee as early as possible.**

### **Recommendation ( Sl. No. 1, Para No. 17)**

11. The Committee recommended that the efforts taken by the Government to bring in more transactions under the Tax Deducted at Source (TDS) should be extended to cover maximum transactions which involve major cash transactions. The Committee further desired the Government to apprise them periodically about the status of the extent of coverage. The Committee also desired the Government to expedite the process of covering all the services, except a very few basic and essential services, under the tax net.

12. The Ministry of Finance (Department of Revenue) in their action taken reply have stated as under:

“Prior to the amendment made by the Finance (No.2) Act, 2004, tax was required to be deducted at source at the time of payment of the following incomes: -

1. Salary
2. Interest on securities
3. Other interest
4. Winnings from crossword puzzle/games
5. Winnings from horse race
6. Payments made to contractors and sub-contractors
7. Insurance commission
8. Sums paid to Non-resident sports person
9. Payment in respect of deposits under NSS
10. Payments on accounts of repurchase of units by Mutual Funds/UTI
11. Commission on sale of lottery
12. Commission/brokerage
13. Rent
14. Professional/Technical service
15. Sums paid to non-residents
16. Income from units to offshore funds
17. Income from foreign currency bonds or shares of India Company
18. Income of FIIS from securities.

The Finance (No.2) Act, 2004 has amended the Income-tax Act, 1961, to provide for deduction of tax at source at the rate of 10% in case of payment of compensation, in cases where the payment exceeds Rs. 1 lakh on acquisition of certain immovable property (other than agricultural land)."

13. The Committee expressed their serious concern when they observed that very few number of individuals, corporates and services were touched upon by the fiscal policy and administration. They expressed their apprehension that the progress which was not upto the mark might be due to poor planning and its implementation. They therefore desired the Government to tread the path efficiently and effectively and expedite the process of covering all the services except a few basic essential under the tax net and also to bring more transactions involving large amount of cash under tax deducted at source. The Committee are not satisfied with the reply of the Government which is silent about the steps/measures taken by the Government in respect of extending the coverage of services under the tax net and bring transactions involving major cash under tax deducted at source. They reiterate their earlier recommendation and would like to be apprised of the specific steps/measures taken by the Government in this regard from time to time.

## **Appeals/Arrears of Revenue**

### **Recommendation (Sl. No. 3, Para No. 41)**

14. The Committee were informed that 78 per cent of the tax revenue locked up as arrears were from just 400 cases, which indicated the concentration of disputes with a few and which, if were to be taken up in a focused manner, would result in fruitful realization of such arrears. The Committee conveyed that it would be appreciative if the Government took particular interest in pursuing those persons who had taken refuge under VDIS Scheme introduced in 1997 to make their black money into white and did not file returns thereafter. The Committee desired to be apprised of the action taken in this regard.

15. The reply of the Government on the above is as under :

“The recommendation of the Standing Committee is being considered by the Central Board of Direct Taxes and the action taken shall be intimated to the Committee shortly.”

16. The Committee while appreciating the fact that the Committee's recommendation is under consideration of the CBDT, are concerned about the delay in finalising the action to be taken in this regard. The Committee expect the CBDT to take up the issue more seriously and finalise the proposed action expeditiously.

## **Efficiency Parameters**

### **Recommendation (Sl. No. 4, Para No. 63)**

17. The Committee observed lapses under the indirect taxes regarding handling of the Court cases and the Customs vigilance cases and also the abnormal delays at all the levels, in representing the government's

cases in the Courts, resulting in losing of many cases, thus causing crores of revenue loss. They took note of the fact that the action taken by the government on these lapses was almost absent, thus making one wonder whether any accountability existed at all. It was further observed that the pendency in the customs vigilance cases had gone up. The Committee therefore desired the government to take note of those observations and comply with these in letter and spirit.

18. The Ministry of Finance (Department of Revenue) in their action taken reply have stated as under :

“The cases of dismissal because of delay was a cause for concern for the Department and had been criticised by the former Attorney General.

Enquiries conducted revealed that in large number of cases delay had occurred on account of time taken by the panel counsels for re-filing matters after curing defects pointed out by the Supreme Court Registry. The normal time permitted for curing such defects is 28 days as per the Supreme Court Procedure. However, the advocates, who have been engaged to undertake such assignments, did not adhere to the limitation. In several instances, the action initiated by this Office with the Law Ministry has resulted in termination of the services of erring advocates from the panel. In a recent case, the Hon’ble Supreme Court took a very serious view and directed the Department to initiate serious action against the panel counsel for misconduct. Accordingly, a complaint was filed before the Bar Council of Punjab & Haryana where the counsel is registered.

As regards delay in processing the case filed by the Department, there has been considerable improvement and efforts are on to achieve maximum efficiency by reducing certain inter-mediate level operations, such as seeking the advice of the counsels or the local branch Secretariat etc. since appeals are required to be filed on the advice of Law Officer at Delhi. Such procedures will provide maximum efficiency on this count. However, delays on account of drafting by the panel advocates and preparation of paper books at the time of filing needs monitoring. Adequate mechanism is being worked out in consultation with the Central Agency Section through the officers of the Directorate of legal Affairs to monitor above process.”

19. The Committee note with satisfaction that the point is well taken by the Government with regard to the concern expressed by the Committee over the dismissals of cases because of delay in representing the cases in time. However, the Government's approach towards handling the issue of laxity on the part of the counsels in representing the cases is not convincing. The Committee take note of the fact that adequate mechanism for monitoring the process of drafting and preparation of paper books is being worked out in consultation with the Central Agency Section through the officers of the Directorate of legal affairs.

20. The Committee therefore desire the Government to finalise the monitoring mechanism expeditiously to monitor the drafting by the panel advocates and preparation of paper books at the time of filing of cases, so that the delay in process could be eliminated. In addition, the Government may think of black listing those panel advocates who are responsible for delays resulting in dismissal of Department's cases, and empanel other competent advocates.

## CHAPTER II

### RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

#### **Recommendations (Sl. No. 1, Para No. 14)**

One of the many steps taken by the Government, to bring in more number of persons and services under the tax coverage, is compulsory filing of Annual Information Return (AIR), which mandates furnishing of information regarding high spending. There have been public concerns about the procedures and the expenses that are to be accounted for, while complying with the return. It is understood that here is a necessity to clarify many of the doubts and fears, one among them being the definition of "person/assessees". The Committee desire that the Government come out as early as possible, with clear-cut clarifications.

#### **Reply of the Government**

With a view to ensure clarity, necessary changes relating to Annual Information Return have been made in the proposed Section 285BA of the Income Tax Act, 1961, while carrying out Government amendments to the Finance (No. 2) Bill, 2004. The Section, as now incorporated, through the Finance (No.2) Act, 2004, provides that such Returns are to be filed only by assessee or certain Government agencies who are responsible for registering or maintaining the books of accounts or other documents containing a record of any specified financial transaction under any law for the time being in force.

The Annual Information Return is required to be furnished in respect of such specified financial transactions as are registered or recorded by an assessee or certain Government agencies on or after 1<sup>st</sup> April 2004. CBDT is in the process of prescribing Rules regarding the specified financial transactions in respect of which Annual Information Return is to be filed. The different monetary values for these transactions in respect of different persons would also be prescribed under the Rules to be framed by CBDT.

(H-11012/6/2004-Parl.)

### **Recommendation (Sl. No. 1, Para No. 16)**

It is noticed by the Committee that only a few thousand tax payers file their return with income over Rs. 10 lakhs and Rs. 25 lakhs, though it is a frequent phenomenon that lakhs and some times crores of rupees are spent lavishly on social occasions like marriage etc. More revenue could be realised if only more attention and steps are initiated to tap such sources.

### **Reply of the Government**

Instructions have been issued to all Directors General of Income Tax (Investigation) to carry out enquiries in appropriate cases involving expenditure on social occasions like marriages, etc.

(H-11012/6/2004-Parl.)

### **Recommendation (Sl. No. 1, Para Nos. 24 & 25)**

The Committee note with grave concern that Tax-GDP ratio in India continues to be very low when compared not only with developed countries but many developing countries as well. They feel that this distortion, which is largely due to the fact that large number of prospective taxpayers are yet to be tapped and brought under the tax net, could be rightly aligned with more commitment on the part of the government to spread their tax net.

The Committee understand that the ongoing tax reform as well as the country's commitments to various international agreements have resulted in reducing, sometimes complete removal of taxes, thus resulting in loss of revenue to the exchequer. The Government's efforts till now, to augment the tax resources through various measures have not resulted in substantially increasing the revenue, which paints a pessimistic picture on the Tax GDP ratio. The recent report of that task force on implementation of the Fiscal Responsibility and Budget Management Act, 2003, also indicates that a country like Brazil, which is on par with our country in most aspects, actually has double the tax GDP ratio. The Committee reiterate

that the government should make earnest efforts in order to achieve higher Tax-GDP Ratio.

### **Reply of the Government**

#### **Direct Taxes**

While it is true that India has one of the lowest levels of the tax TDP ratio in the world, there has been a significant increase in direct tax revenue. The Direct Tax-GDP ratio has steadily increased from 1.9. in 1990-91 to 3.8 in 2003-2004. This improvement in the ratio over a period of a decade has been possible on account of various tax reforms aimed at widening the tax base, simplification of tax structure, lessening of the tax burden leading to increased compliance and improving the efficiency of tax administration.

In the Budget of 2004, measures have been taken to widen the area of tax deduction at source by providing for tax deduction from compensation paid in acquisition of immovable property (other than agricultural land) and collection of tax at source in respect of parking auctions, toll auctions, mining and quarrying lease. In addition, certain other provisions in the said Budget aim at plugging revenue leakages and rationalization of existing provisions. All these steps, put together, will augment collection of revenue and thereby will bring about further improvement in the Direct Tax-GDP ratio.

#### **Indirect Taxes**

It has been the general policy of the Government to widen the tax base and to improve the Tax-GDP ratio as far as possible. The recommendations of the Committee contained in the above paragraphs are accepted by the Government in principle and the same will be kept in mind during the formulation of the Government's policy in respect of customs, central excise and service tax levies.

(H-11012/6/2004-Parl.)

#### **Recommendation (SI. No. 3, Para No. 40)**

The Committee observe that the amount locked up in tax disputes have increased over the last year. It is highly disturbing to note that there are about 4868 cases where arrear demand in each case is Rs. 1 crore and above, amounting in all to Rs. 68,4777 crores as on 31.12.2003. This in spite of the repeated observations and recommendations by the committee, and promises made by the government to the contrary. The casual approach of the Government in revealing the fact that lakhs of cases are pending as on date and that out of the stated 88,000 cases under the Direct Taxes, arrears amounting to Rs. 17000 crore are undisputed and a target of Rs. 7,000 crores has been fixed, shows the enormity of the situation. The reasons given for such piling up of pendency in cases and hence accumulation of such huge tax arrears, are on account of shortage in number as well as strengths of the Benches of Appellate Tribunals, stay orders, delay in clearance of cases by Committee on Disputes and delayed liquidation process. It is noted that the vacancies in the number of the Appellate Tribunals have almost been filled up. The way in which the Chief Commissioners of income Tax have come out themselves, in fixing the target of Rs. 7,000 crores by the way of realization of tax arrears, indicates the real capacity of the Government machinery to do much better than what they are doing now. The committee feel that there should be no difficulty in realizing the amount of Rs. 17000 crores approximately which in undisputed. The committee expect the government to involve the field officers upto the level of lowest supervisory officers, in arriving at all the targets. The Government should replicate the endeavor towards customer friendliness, in making the employees more motivated to execute their responsibilities. It is once again reiterated that the government should gear up and see that there is no slackness found on the part of the Government in their dealing with the Appellate Authority and Courts, so that the cases are pursued with renewed vigour. The committee hope that the multi-pronged approach that the

Government propose to use, would help in realizing the pending tax arrears as well as in speeding up the pending cases.

### **Reply of the Government**

#### **Direct Taxes**

The Government would like to assure the Committee that all efforts would be made to recover maximum possible amount from the arrears of direct taxes. A Task Force on Arrears Recovery has been constituted by the Government with the mandate to evolve and implement a multi-pronged strategy for recovery of arrears. The Task Force would ensure that the Departmental representation before courts and Tribunals is proper and that there are no delays on account of adjournments.

#### **Indirect Taxes**

A target of Rs.750 crores of arrears of customs revenue has been fixed for recovery during the current financial year. The Board has prescribed a detailed action plan to be followed to achieve this target through a slew of measures such as pursuing early disposal of arrears covered by court cases, recovery of arrears free from restraints, activation of Recovery Cells in the filed formations, finalisation of provisional assessments, spot payments during internal audit, enforcement of bonds etc, to be monitored closely by the Chief Commissioners. In addition, a Task Force under a Chief Commissioner dedicated to effecting recovery of arrears has been constituted. The Task Force is to devise effective strategies and develop innovative approaches to collection of tax arrears.

The Board is constantly reviewing and monitoring the progress in recovery of arrears. Cases in which the Tribunal has passed orders favourable to the Department have been identified so that the filed formations may pursue them for early recovery of outstanding dues. Senior officers of the Department have also been advised to meet assesses to try and resolve tax disputes before they go into litigation. Cases of high value have been identified for early adjudication and Commissioner of Adjudication are being appointed for this purpose. All these measures are expected to significantly reduce arrears of revenue.

(H-11012/6/2004-Parl.)

### **Recommendation (Sl. No. 6, Para No. 79)**

The Committee observe that the reply with reference to the major expenses under this particular head are not complete in as much as the Government have not mentioned anything on the major expenses, namely, petrol, paper and telephones as stated in their earlier reply and expect a precise reply in this regard. The Committee desire that the Government explore the possibility of sending the notices digitally, instead of sending it on the paper at least to the publication agencies so that the cost can be reduced. The Committee observe with satisfaction that almost all the vacancies of Members have been filled up and expect that the rate of disposal of cases henceforth would increase.

### **Reply of the Government**

The details of expenditure incurred on petrol, paper and telephones during the last 3 years by the office of CESTAT may kindly be seen in Annexure.

As regards the Committee's recommendations to explore the possibility of sending notices digitally instead of sending it on the paper at least to the publication agencies so that the cost can be reduced. It is stated that the Higher Courts such as Supreme Court make it mandatory for the appellant to furnish certified copies of judgments pronounced by CESTAT and it is, therefore, necessary for CESTAT to supply certified copies of the judgments so that these can be appealed against before the Supreme Court. The computerisation programme of CESTAT is presently being evaluated by NIC and after implementation of computerisation programme, it will be possible for CESTAT to make available their judgments on CESTAT website for the use of publication agencies. However, till such time the CESTAT would continue to supply such certified copies to all concerned, as these are mandatory for filing of appeals in the Higher Courts.

### **ANNEXURE**

Details of Expenditure for the Last Three Years

S.No	Items	Period	Delhi	Kolkata	Mumbai	Chennai	Bangalore	Total
1	Petrol-Rs. Ltrs.	2001-02	559948 17789	86441 1040	109833 3400	31972 1265	56391 1788	844585 25282
	Rs. Ltrs.	2002-03	508974 15949	36812 560	202828 5814	22533 690	66218 1905	837365 24918
	Rs. Ltrs	2003-04	512819 14328	36872 235	312328 8400	32045 879	111007 2855	1005071 26697
2	Photocopy paper	2001-02	310950	21480	145725	46980	56203	581338
		2002-03	299031	22165	191000	40536	74507	627239
		2003-04	321965	25380	114700	40910	86557	589512
3	Postage & Franking	2001-02	588896	56000	695016	225375	126000	1691287
		2002-03	499952	100375	900379	213417	150000	1864123
		2003-04	637720	152224	1085646	24000	200000	2099590
4	Telephone	2001-02	653865	78840	245614	118482	62239	1159040
		2002-03	469346	40235	244232	98724	45657	898194
		2003-04	517329	39089	328197	120435	71949	1076999

### **Recommendation (Sl. No. 7, Para No. 84)**

The Committee note that the actual expenditures have been much less than the Budgetary Estimates for the year 2002-2003 and 2003-2004, but the provision for the current year is still on the higher side. The Committee desire that the provisions should be based on the actual expenditure so that the budgetary exercise becomes more meaningful.

### **Reply of the Government**

The Budget Estimates for the ensuing financial year is finalised by January/February of the year whereas the actual expenditure are made available after closure of the financial year. The Budget Estimates for the year 2003-04 were finalised in January, 2003 whereas the actual expenditure for the year 2002-03 was made available after the end of financial year. Similarly, the actual expenditure for 2003-04 was not available when the Budget Estimates 2004-05 was finalised.

However, the Heads of the Budgetary Units are being advised that the provisions in the above heads should be based on the actual expenditure for the earlier year so that the budgetary exercise becomes

more meaningful. They are also being advised to follow the austerity measures to contain the expenditure in the above head.

(H-11012/6/2004-Parl.)

### **Recommendation (Sl. No. 7, Para No. 93)**

The Committee note with serious concern the wide fluctuations in BE, RE and Actuals in 2003-04. They are equally concerned to note that against a lower actuals in 2003-04, the Government has enhanced its projections at BE stage in 2004-05 quite substantially. They are not convinced by the reasons adduced by the Government in this regard. They expect that Government will take all necessary approvals before making any provision in the Budget Estimates. They want the Government to project realistic estimates in future.

### **Reply of the Government**

It has already been explained to the Committee that the Budget Provisions were made in BE 2003-04, based on the expectation that the proposals under consideration in the Ministry and also by the Committee of Secretaries towards procurement of Marine Fleet and Container Scanners for Anti-Smuggling purposes will be finalized during the year and the procurement could be made. The provisions were reduced in the RE 2003-04 when it became clear that procurement of only two Scanners and no Vessels during 2003-04 were sanctioned. As the proposals for Vessels and more Scanners are expected to be finalized during 2004-05, necessary provision has been made in BE 2004-05. This will be very closely scrutinized at RE stage.

The Controlling Authorities have been advised to ensure that any budgetary projection should be made with the approval of the competent authority and such estimates shall be, as far as possible, realistic.

(H-11012/6/2004-Parl.)

## CHAPTER III

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

#### **Recommendation (Sl. No. 1, Para No. 15)**

It is seen that the government is, as far as their tactics regarding bettering of tax compliance are concerned, are caught in a dilemma over the approach in their tax administration efforts. On the one hand they feel that they should shed their authoritative, interfering attitude and on the other, they feel that reliance on voluntary tax compliance has not yielded the much desired results. Perhaps, with the focus on non-intrusive but penetrating methods of collecting data on the incomes, through the instruments like Annual Information Returns (AIR) and Tax Information Network, the government would be able to widen the tax base and better compliance. The Committee advise that while all out efforts are to be taken by the government to be assessee – friendly, the tax evasion and perpetrators of tax evasion should be dealt with strictly. While the Committee desire that every effort should be made towards mobilizing additional revenues but at the same time it should be ensured that a genuine taxpayer is not harassed in any manner by the income tax authorities. The recent proposals made with regard to the falsification of books of account or documents and obligation to furnish annual information return need to be suitably amended/revisited in this context as the Committee feel that this can cause undue harassment/anguish to the honest and good intentioned persons.

#### **Reply of the Government**

The field formations have been instructed to ensure that tax evasion and perpetrators of tax evasion are dealt with strictly while at the same time ensuring that genuine taxpayers are not harassed by income tax authorities. As regards the concern of the Committee regarding the amendments made by the Finance (No. 2) Act, 2004 with respect to falsification of books of account or document and obligation to file Annual Information Return, the comments are as under:

## Prosecution for falsification of books of account or document (Sec.277A)

Provisions of the new section 277A proposed to be inserted in the Income Tax Act by the Finance (No. 2) Bill, 2004 have been amended. The provisions as now introduced by the Finance (No.2) Act, 2004 makes it clear that the intent to enable any other person to evade tax has to be proved in a charge under the section. The provision aim to prosecute a person who willfully and with intent to enable any other person to evade any tax or interest or penalty chargeable or impossible under the Income-tax Act, 1961, makes or causes to be made any entry or statement which is false in any books of accounts or other documents. Thus, there will be a heavy onus on the Income-tax Department to establish in a court that false entries in books of accounts or other document were made by a person willfully, knowingly and with intent to enable another person to evade tax, interest or penalty chargeable or impossible under the Income-tax Act, 1961.

## Obligation to furnish Annual Information Return

Section 285BA of the Income Tax Act casts an obligation on assessees and certain Government agencies to furnish annual information return about third party high value transactions. By way of Government amendments, the provisions of the section were suitably amended so as to provide that the transactions which are to be reported in such return and the value thereof are to be prescribed by the Board. The return is to be furnished by only such persons who are responsible for registering, or maintaining a record in the books of account, of the prescribed transactions.

(H-11012/6/2004-Parl.)

## **Recommendation (Sl. No. 4, Para No. 62)**

The committee are constrained to note that the performance of the revenue collection agencies are not up to the mark and leave much to be desired upon. The committee considered a few parameters while gauging

the performance of the department vis-à-vis the targets and the minimum obligatory expectations. Under the Direct Taxes it is noted that mandatory inspections that are to be carried upon have not been fulfilled by the field formations. While 15 of the CCIT charges have not conducted even a single assessment inspection during the year 2003-2004, it is inescapable to note that 3 of them did not conduct any of the prescribed inspections. The performance on the assessment work also denotes that earnest efforts are needed to perform better. The committee also take serious note of the fact that scrutiny assessments have gone down by 25%. Steps for increasing scrutiny assessments need to be taken in the right earnest. As far as the work of Internal audit is concerned it is noticed that while the number of pendency cases have increased manifold during the year 2003-2004, the number of cases settled during the same period have gone down substantially.

### **Reply of the Government**

The position of inspection reports has since been reviewed and the position as on 15.9.2004 is that assessment inspection reports from 25 more CCIT Charges have been received. Follow-up action is being taken to obtain reports from the remaining CCIT Charges. As far as the work of Internal Audit is concerned it is noticed that while the number of pendency cases have increased manifold during the year 2003-2004, the number of cases settled during the same period have gone down substantially.

The position of the assessments is as under: -

Year	Officers Deployed	Scrutiny Assessment	Summary	Total	Number of cases selected for scrutiny
2001-2002	4383	168010	19958558	20126568	83129
2002-2003	4436	172410	33792795	33965205	844885
Percentage Increase/ Decrease	+1.2	+2.62	+69.31	+68.76	

With regard to observation of the Committee that scrutiny assessments have gone down by 25% (in financial year 2001-2002), it may please be seen from the date that scrutiny assessments have

increased by 2.62% in the year 2002-2003. In the year 2001-2002, a very small number of cases, i.e., 83129 were selected for scrutiny (due to restructuring of the Income Tax Department) where as in the year 2002-2003, a large number of 844885 cases were selected for scrutiny, thereby increasing the scrutiny basket manifold. Although, there was only a small increase of 1.2% in the number of officers deployed on assessment duty, yet during the year 2002-03 the number of summary assessment increased by 69.3% and the disposal of scrutiny cases also showed a growth of 2.62%. This was possible only due to serious and sincere efforts on the part of work force deployed in this area. The disposal of cases selected for scrutiny during 2002-03 will be duly reflected in the subsequent years.

To reduce the pendency and to expedite the settlement of pending objections following Steps/Action have been taken:

An Action Plan for the F.Y. 2004-05 for Chain Audit work (Internal Audit) has been formulated and circulated to all the Chief Commissioners/Directors General vide letter No. DIT (Audit)/Action Plan/04-05 dated 16.9.2004.

As per the above Action Plan entire pendency of Auditable Cases as on 1.4.2004 has to be liquidated by 31.10.2004. Similarly all the Audit objections pending as on 1.4.2004 have to be settled by 31.10.2004.

As regards the audit work for current year, the auditable cases have to be audited within the quarter following the quarter in which they become auditable. Similarly the audit objections raised during the Current year have to be settled within a period of 90 days of receipt of the Audit objections

Chief Commissioners/Director Generals have been asked to personally ensure effective monitoring of the Audit Work in their respective jurisdiction and report the progress to their Zonal Member with copy to DGIT (Admn.). The progress of Internal Audit work is also being monitored by the Directorate of Income-Tax (Audit).

With the above steps, it is expected that there will be considerable improvement in disposal of Auditable cases as well as in their settlement.

### **Recommendation (Sl. No. 5 Para Nos. 70,71, 72 & 73)**

The Committee note that the Government plan to introduce an uniform VAT rate throughout the country. They are however given to understand that some states have expressed reservations. The Committee desire that these concerns section should be addressed to at the earliest.

The State of Haryana can be taken as an example to show that the implementation of VAT can very well lead to increase in revenue.

The Committee expect that the VAT implementation would be done in right earnest and in time, to reap the intended benefits.

The Committee would appreciate if the Government takes all possible efforts to convince and cooperate with the States in implementing VAT by 1<sup>st</sup> April 2005, as fixed by the Empowered Committee, and apprise this Committee from time to time, about the extent of VAT implementation.

### **Reply of the Government**

Government of India is playing a coordinating and facilitating role. In a meeting of the Empowered Committee of State Finance Ministers held on 18<sup>th</sup> June, 2004, there was broad consensus to implement VAT w.e.f. 1.4.2005. In view of lack of preparedness, Uttar Pradesh expressed reservations about implementation of VAT from that date. The Empowered Committee is addressing the issue suitably.

The observations of the Hon'ble Standing Committee on Finance have been communicated to Secretary, Empowered Committee of State Finance Ministers.

The Empowered Committee has already arrived at a consensus to implement VAT w.e.f. 1.04.05 and all necessary administrative steps are being taken to ensure that VAT is introduced in right earnest and in time.

The Central Government is extending all possible support to States in this regard.

Central Government is acting as a facilitator in implementation of VAT by States/UTs and is also extending all possible support to States in this regard.

(H-11012/6/2004-Parl.)

### **Recommendation (Sl. No. 8 Para No. 89)**

The Committee observes that the whole process of budget estimates on this head are done in a lackluster manner. It is surprising to note that in an era where precision scientific evaluation and estimation techniques are available, the Government has stated that the clear picture emerges only at the stage of Revised Estimates. The Committee expect the government to be more serious in making budgetary provisions so that the amount does not result into savings.

### **Reply of the Government**

The concern expressed by the Standing Committee is noted and all efforts will be made to ensure full utilization of funds under the head, "Acquisition of Ready Built Office Accommodation".

With a view to ensure full utilization of funds, Central Board of Direct Taxes has recently set up a Directorate of Infrastructure which is entrusted with the task of centrally examining, scrutinizing, finalization of all proposals for acquisition/construction of office accommodation and implementation and monitoring of all such projects. This step is expected to result in proper utilization of funds.

(H-11012/6/2004-Parl.)

## CHAPTER IV

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

#### **Recommendation (Sl. No. 1 Para No. 13)**

The extent of coverage of the population under the tax umbrella denotes the equity in contribution of the total population, involved various kinds of livelihood activities, towards the tax revenue. Going by any parameters on the penetration of the reach of the tax administration, the extent of the reach in our country is dismal. The Committee note with the greatest concern that at present a very meagre number of individuals and corporates, as well as only a few services are touched upon by the fiscal policy and administration. The target fixed to be achieved by the end of 2004-2005, so far as the number of income tax assessees are concerned, is 5 crores. The progress made thus far is not upto the mark which is the result of poor planning and implementation. The Committee expect the government to tread the path more efficiently and effectively.

#### **Reply of the Government**

Projection of increasing the tax base to 5 crore assessees by 31-3-2005 was made in the expectation that by then comprehensive computerisation of the Income Tax Department would be completed and measures like filing of Annual Information Return disclosing high value transactions would become operational. Matching of the information contained in the Annual Information Returns with the data already available with the department was expected to result in sharply increasing the tax base. Computerisation of the department is at an advanced stage. Section 285BA was inserted in the Income Tax Act in 2003 enabling the government to prescribe the filing of information regarding high value transactions. However, section 285BA introduced in 2003 could not be made operational as the rules could not be notified (possibly because there was rethinking regarding the wording of section

285BA). In the Finance Act 2004, section 285BA has been substituted by a new amended section 285BA. Furnishing of Annual Information Returns in respect of high value transactions entered in FY 2004-05 onwards (made compulsory by the new Section 285BA) would enable the Department to collect, collate and analyze such information in respect of the persons who have entered into these transactions. It would enable the Department to identify potential taxpayers and bring them into the tax net. This is expected to result in substantial increase in the number of assessees.

The Department has also taken various other steps for widening the tax base which are:

I        One-by-Six Scheme

To bring potential taxpayers in the tax system, the One by Six Scheme was introduced. Under this scheme, persons are obliged to file their returns of income if they fulfill any one of the six specified criteria.

II       Compulsory Quoting of Permanent Account Number

There is a statutory obligation u/s 139A of the Income Tax Act and Rule 114B of the Income Tax Rules requiring compulsory quoting of PAN in certain high value transactions.

III      Tax Information Network (TIN)

The Tax Information Network (TIN) has been recently set up in order to act as a Tax related information base which can be utilized by the Department for the purpose of widening and deepening the tax base of the country.

IV      Publicity and Awareness Campaign

In order to educate the taxpayers as to their responsibilities for payment of direct tax, the Department has launched various advertisement campaigns which would enable increased voluntary compliance of tax.

## V Central Information Branch (CIB)

The Central Information Branch of the Department collects information from third party sources regarding certain high value transactions. This information is collated and analyzed and subsequently disseminated for the purpose of widening the tax base.

## VI Other Measures

- (a) Extending the applicability of Tax Deduction at Source (TDS) and Tax Collection at Source (TCS) provisions to cover various financial activities.
- (b) Compulsory filing of return by companies w.e.f. 1/4/2001.

(H-11012/6/2004-Parl.)

### **Recommendation (Sl. No. 1 Para No. 17)**

The present efforts of the Government to bring in more transactions under the Tax Deducted at Source (TDS) should be extended to cover maximum transactions which involve major cash transactions. The Committee would appreciate if the Government apprises them periodically about the status of the extent of coverage. The Committee desire that the Government should expedite the process of covering all the services, except a very few basic and essential services, under the tax net.

### **Reply of the Government**

Prior to the amendment made by the Finance (No.2) Act, 2004, tax was required to be deducted at source at the time of payment of the following incomes: -

1. Salary
2. Interest on securities
3. Other interest
4. Winnings from crossword puzzle/games
5. Winnings from horse race
6. Payments made to contractors and sub-contractors

7. Insurance commission
8. Sums paid to Non-resident sportsperson
9. Payment in respect of deposits under NSS
10. Payments on accounts of repurchase of units by Mutual Funds/UTI
11. Commission on sale of lottery
12. Commission/brokerage
13. Rent
14. Professional/Technical service
15. Sums paid to non-residents
16. Income from units to offshore funds
17. Income from foreign currency bonds or shares of India Company
18. Income of FIIS from securities.

The Finance (No.2) Act, 2004 has amended the Income-tax Act, 1961, to provide for deduction of tax at source at the rate of 10% in case of payment of compensation, in cases where the payment exceeds Rs. 1 lakh on acquisition of certain immovable property (other than agricultural land).

(H-11012/6/2004-Parl.)

### **Recommendation (Sl. No. 3 Para No. 41)**

The Committee were informed that 78 per cent of the tax revenue locked up as arrears are from just 400 cases, which indicates the concentration of disputes with a few and which, if taken up in a focused manner, would result in fruitful realization of such arrears. The Committee would appreciate if the Government takes particular interest in pursuing those persons who had taken refuge under VDIS Scheme introduced in 1997 to make their black money into white and did not file them. The Committee would like to be apprised of the action taken in this regard.

### **Reply of the Government**

The recommendation of the Standing Committee is being considered by the Central Board of Direct Taxes and the action taken shall be intimated to the Committee shortly.

(H-11012/6/2004-Parl.)

## **Recommendation (Sl. No. 4, Para No. 63)**

The lapses found under the indirect taxes are concerning the handling of the Court cases and the Customs vigilance cases. There have been abnormal delays at all the levels, in representing the government's cases in the Courts, resulting in losing of many cases, thus causing crores of revenue loss. The action taken by the government on these lapses is almost absent, thus making one wonder whether any accountability exists at all. It is observed that pendency in the customs vigilance cases have gone up. The Committee want the government to take note of these observations and comply with these in letter and spirit.

### **Reply of the Government**

The cases of dismissal because of delay was a cause for concern for the Department and had been criticized by the former Attorney General.

Enquiries conducted revealed that in large number of cases delay had occurred on account of time taken by the panel counsels for re-filing matters after curing defects pointed out by the Supreme Court Registry. The normal time permitted for curing such defects is 28 days as per the Supreme Court Procedure. However, the advocates, who have been engaged to undertake such assignments, did not adhere to the limitation. In several instances, the action initiated by this Office with the Law Ministry has resulted in termination of the services of erring advocates from the panel. In a recent case, the Hon'ble Supreme Court took a very serious view and directed the Department to initiate serious action against the panel counsel for misconduct. Accordingly, a complaint was filed before the Bar Council of Punjab & Haryana where the counsel is registered.

As regards delay in processing the case filed by the Department, there has been considerable improvement and efforts are on to achieve maximum efficiency by reducing certain inter-mediate level operations, such as seeking the advice of the counsels or the local branch Secretariat etc. since appeals are required to be filed on the advice of Law Officer at Delhi. Such procedures will provide maximum efficiency on this count. However, delays on account of drafting by the panel advocates and

preparation of paper books at the time of filing needs monitoring. Adequate mechanism is being worked out in consultation with the Central Agency Section through the officers of the Directorate of legal Affairs to monitor above process.

(H-11012/6/2004-Parl.)

## CHAPTER V

### RECOMMENDATION/OBSERVATION IN RESPECT OF WHICH FINAL REPLY OF THE GOVERNMENT IS STILL AWAITED

Nil

NEW DELHI;  
20 December, 2004  
29 Agrahayana 1926 (SAKA)

MAJ. GEN (RETD.) B. C. KHANDURI  
CHAIRMAN,  
STANDING COMMITTEE ON FINANCE

## Minutes of the Tenth sitting of Standing Committee on Finance

The Committee sat on Monday, 20 December, 2004 from 1530 to 1600 hrs.

### PRESENT

Maj. Gen (Retd.) B.C. Khanduri - Chairman

### MEMBERS

#### LOK SABHA

2. Shri Gurudas Das Gupta
3. Shri Shyama Charam Gupt
4. Shri Madhusudan Mistry
5. Shri Shriniwas D. Patil
6. Shri K. S. Rao
7. Shri Jyotiraditya Madhavrao Scindia
8. Shri G.M. Siddeshwara
9. Shri M.A. Kharabela Swain

#### RAJYA SABHA

10. Shri Jairam Ramesh
11. Shri M. Venkaiah Naidu

#### SECRETARIAT

1. Shri. P.D.T. Achary - Additional Secretary
2. Shri R.K. Jain - Deputy Secretary
3. Shri R.C. Kakkar - Under Secretary

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee.  
3. The Committee first took up for consideration the draft action taken report on the Demands for Grants (2004-2005) of Ministry of Finance (Department of Revenue). The Committee then adopted the same with changes suggested by some of the Members as shown in Annexure I.

- |    |    |    |    |     |
|----|----|----|----|-----|
| 4. | XX | XX | XX | XX. |
| 5. | XX | XX | XX | XX. |
| 6. | XX | XX | XX | XX. |
| 7. | XX | XX | XX | XX. |

8. The Committee then authorised the Chairman to finalise the Reports in the light of amendments suggested as also to make verbal and other consequential changes and present the same to both the Houses of Parliament.

The Committee then adjourned.

**Amendments/modifications in the draft Action taken Report on Sixth Report**

Page	Para	Line	Amendment/modification
7	10	4	<p><i>For</i> “The Committee have taken note of the Government’s response to their recommendation to follow up lavish expenditures on social occasions like marriage etc., to tap such resources for realising more revenue. The Committee”</p> <p><i>Substitute</i> “The Committee are not satisfied with the reply furnished by the Government with regard to their specific observation as to why there were only a few thousand tax payers who filed their return with income over Rs. 10 lakhs and Rs. 25 lakhs though it was frequent phenomenon that lakhs and some times crores of rupees were spent lavishly on social occasions like marriage etc. The Government’s reply is silent on the issue as to why there are less number of assessee, showing their income more than Rs. 10 lakhs and Rs. 25 lakhs, when there is a general tendency of rising ostentatious expenditure. They want the Government to take effective measures to unearth hidden incomes and desire”</p>

## APPENDIX

(*Vide* Para 3 of the Introduction)

### ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE SECOND REPORT OF THE STANDING COMMITTEE ON FINANCE (FOURTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2004-2005) OF THE MINISTRY OF FINANCE (DEPARTMENT OF REVENUE)

		Total	% of Total
(i)	Total number of recommendations	19	
(ii)	Recommendations/observations which have been accepted by the Government [ <i>Vide</i> Recommendations at Sl. Nos. 1, (para no. 14 & 16), 2 (para no. 24 & 25), 7 (para no. 84) and 9 (para no. 93)]	8	42%
(iii)	Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies [ <i>Vide</i> Recommendations at Sl. Nos. 1 (para no. 15), 4 (para no. 62), 5 (para nos. 70,71,72 & 73) and 8 (para no. 89)]	7	37%
(iv)	Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee [ <i>Vide</i> Recommendations at Sl. Nos. 1 (para nos. 13 & 17), 3 (para no. 41) and 4 (para no. 63)]	4	21%
(v)	Recommendation/observation in respect of which final reply of the Government is still awaited [Nil]	Nil	