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**STANDING COMMITTEE ON FINANCE  
(2010-11)**

**FIFTEENTH LOK SABHA**

**MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE)**

*(Action taken by the Government on the recommendations contained in the Twelfth Report of the Standing Committee on Finance on Demands for Grants (2010-11) of the Ministry of Finance (Department of Revenue))*

**TWENTY-SEVENTH REPORT**



**LOK SABHA SECRETARIAT  
NEW DELHI**

**December, 2010/ Agrahayana, 1932 (Saka)**

**TWENTY-SEVENTH REPORT**  
**STANDING COMMITTEE ON FINANCE**  
**(2010-2011)**

**(FIFTEENTH LOK SABHA)**

**MINISTRY OF FINANCE**  
**(DEPARTMENT OF REVENUE)**

***(Action taken by the Government on the recommendations contained in the Twelfth Report of the Standing Committee on Finance on Demands for Grants (2010-11) of the Ministry of Finance (Department of Revenue)***

*Presented to Lok Sabha on 10 December, 2010*  
*Laid in Rajya Sabha on 10 December, 2010*



**LOK SABHA SECRETARIAT**  
**NEW DELHI**

**December, 2010/ Agrahayana, 1932 (Saka)**

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## **COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2010-2011**

**Shri Yashwant Sinha - Chairman**

### **MEMBERS**

#### **LOK SABHA**

2. Dr. Baliram (Lalganj)
3. Shri Sudip Bandyopadhyay
4. Shri C.M. Chang
5. Shri Harishchandra Chavan
6. Shri Bhakta Charan Das
7. Shri Khagen Das
8. Shri Gurudas Dasgupta
9. Shri Nishikant Dubey
10. Shri Bhartruhari Mahtab
11. Shri Mangani Lal Mandal
12. Smt. Jaya Prada Nahata
13. Shri Rayapati Sambasiva Rao
14. Shri Magunta Sreenivasulu Reddy
15. Vacant\*
16. Shri Sarvey Sathyanarayana
17. Shri G.M. Siddeshwara
18. Shri N. Dharam Singh
19. Shri Manicka Tagore
20. Dr. M. Thambidurai
21. Shri Anjankumar M. Yadav

#### **RAJYA SABHA**

22. Shri S.S. Ahluwalia
23. Shri Raashid Alvi
24. Shri Vijay Jawaharlal Darda
25. Shri Piyush Goyal
26. Shri Moinul Hassan
27. Shri Satish Chandra Misra
28. Shri Mahendra Mohan
29. Dr. Mahendra Prasad
30. Dr. K.V.P. Ramachandra Rao
31. Shri Y.P. Trivedi

### **SECRETARIAT**

- |    |                              |   |                     |
|----|------------------------------|---|---------------------|
| 1. | Shri A.K. Singh              | - | Joint Secretary     |
| 2. | Shri T.G. Chandrasekhar      | - | Additional Director |
| 3. | Shri Ramkumar Suryanarayanan | - | Deputy Secretary    |

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\* Shri Y.S. Jagan Mohan Reddy, MP has resigned on 29 November, 2010

## **INTRODUCTION**

I, the Chairman of the Standing Committee on Finance, having been authorised by the Committee, present this Twenty-Seventh Report on action taken by Government on the recommendations contained in the Twelfth Report of the Committee (Fifteenth Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Finance (Department of Revenue).

2. The Twelfth Report (15<sup>th</sup> Lok Sabha) was presented to Lok Sabha/laid in Rajya Sabha on 19 April, 2010. Replies indicating action taken on all the recommendations contained in the Report were furnished by the Government on 2 June and 13 July, 2010.

3. The Committee considered and adopted this report at their sitting held on 8 December, 2010.

4. An analysis of action taken by Government on the recommendations contained in the Twenty-Seventh Report of the Committee is given in the Appendix.

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

**New Delhi;  
08 December, 2010  
17 Agrahayana, 1932 (Saka)**

**YASHWANT SINHA,  
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/observations contained in their 12<sup>th</sup> Report (Fifteenth Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Finance (Department of Revenue) which was presented to Lok Sabha / Laid in Rajya Sabha on 19<sup>th</sup> April, 2010.

2. The Action Taken Notes have been received from the Government in respect of all the 15 recommendations contained in the Report. These have been analyzed and categorized as follows:

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

Recommendation Nos. 1,2,3,5,8,9,11,12,13,15  
(Chapter II) (Total 10)

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

Recommendation No. 4  
(Chapter III) (Total 1)

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

Recommendation Nos. 6, 7, 10, 14  
(Chapter IV) (Total 4)

- (iv) Recommendations/Observations in respect of which final replies by the Government are still awaited:

Recommendation No. NIL  
(Chapter V) (Total - NIL)

3. The Committee desire that the replies to the recommendations contained in Chapter I may be furnished to them expeditiously.

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

## **Setting up of TINXSYS – Grants-in-Aid**

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

5. While observing that there had been persistent under-utilisation of budgetary provision under the head “Setting up of TINXSYS-Grants-in-Aid” meant for state value Added Tax (VAT) and other tax reform related support activities undertaken through the Empowered Committee (EC) of State Finance Ministers, the Committee had recommended that every effort should be made to ensure that project activities are implemented as per the schedule by utilizing the budgeted allocations.

6. The Ministry in their action taken reply have stated as follows :

“Responsibility for implementing TINXSYS is with the empowered Committee of State Finance Ministers, which legally is an autonomous society. The investment decisions are taken by them, they own the system and the benefit accrues entirely to the states. The centre’s role is that of a facilitator, providing 50% of the expenditure by way of grant-in-aid.

Notwithstanding the above, concerted efforts are being made by the Department of Revenue to ensure that States start using TINXSYS to its full potential. The Empowered Committee of State Finance Ministers (EC), while granting extension to the existing contract for TINXSYS, has asked the vendor to create features which will ensure higher usage and meaningful sharing of information among States. Central Government has agreed to continue bearing 50% of the cost for this period of extension. Now that extension has been granted, it is hoped that the budget provisions will be spent.”

**7. The Committee are not convinced with the explanation put forth by the Ministry that the responsibility for implementing TINXSYS is with the Empowered Committee of State Finance Ministers and the Centre’s role is only that of a facilitator, providing 50% of the expenditure by way of Grant-in-aid. The Committee are of the opinion that the timely operationalisation of TINXSYS required determined efforts of the Central**

**Government, State Governments and all the implementing agencies. As the implementation of TINXSYS in all the States is necessary for the operationalisation of the GST programme, the Ministry of Finance (Department of Revenue) cannot remain a mute spectator or a mere facilitator. They should in their capacity as the nodal agency, act pro-actively and coordinate all matters relating to the timely implementation of TINXSYS effectively with the State Governments and the implementing agencies, so that the funds earmarked for this purpose are utilized gainfully and the project is implemented without further loss of time. Towards this end, the Committee would expect the Ministry to address the concerns expressed by the Empowered Committee of State Finance Ministers for timely implementation of TINXYS and resolve the same at the earliest.**

8. While furnishing their ATNs on the recommendations contained in 17<sup>th</sup> Report (15<sup>th</sup> Lok Sabha) on action taken on the recommendations contained in 2<sup>nd</sup> Report (15<sup>th</sup> Lok Sabha) on Demands for Grants (2009-10), the Ministry on this issue have stated as under :

“While extending the contract of TINXSYS for another year recently, Empowered Committee has asked the vendor to prepare functional requirements for electronic issue of ‘C forms’ through TINXSYS. TINXSYS system has accordingly been upgraded. User Acceptance Training (UAT) of the System is being held in June, 2010. EC is also examining the possibility of using TINXSYS in implementation of Goods & Services tax (GST) for Inter State transactions of Goods & Services.”

**9. The Committee urge the Government to review comprehensively all the activities under this project so that the project is completed within the extended period of time.**



**(Recommendation Para No. 2)**

10. Further, having observed Department's persistent inability to spend the allocated money on the project of computerisation/networking of VAT administrations, which clearly indicated their failure to implement such an important programme, the Committee had desired that the Ministry must ensure that this project is strictly implemented as per schedule.

11. In their action taken reply, the Ministry have stated as under :

“A Mission Mode Project for computerization of VAT administrations has recently been sanctioned and launched by the Central Government at a total cost of Rs.1133 crore, out of which, around Rs.850 crore will be provided by the Central Government to the States. Project proposals of 11 States/UTs, having an overall cost of Rs.586.04 crore have already been approved under this scheme. An amount of Rs.145 crore has already been released to 11 States as first installment of the Central Share. Remaining States have been requested to submit proposals as per the guidelines. It is expected that project proposals for all the remaining States will be ready and approved by September, 2010. This Project will provide a definite boost to computerization of State VAT administrations. Department will ensure regular monitoring of project activities so that all the services planned are launched within the time frame prescribed.”

12. While furnishing the latest position of approval of project proposals of States/UTs, the Ministry in their action taken note have stated as under:

“Project proposals of 30 States/UTs, having overall cost of Rs. 936.35 crore have already been approved under this scheme. An amount of Rs. 247.63 crore has been released to 30 States/UTs as first and second installment of the Central share till October, 2010.”

**13. The Committee note that the Ministry have taken up their recommendation in the right earnest by launching a Mission Mode Project for computerisation of VAT administrations. According to the Ministry, project proposals of 30 States / UTs, having overall cost of Rs. 936.35 crore have already been approved under this scheme and an amount of**

**Rs. 247.63 crore has been released to 30 States/UTs as first and second installment of the Central share till October, 2010. It is astonishing that out of project proposals of Rs. 936.35 crore approved for 30 States/UTs, only Rs. 247.63 crore have been released to them so far. The Committee, therefore, recommend that urgent steps be taken to release the remaining funds to those States/UTs at the earliest so that the computerisation/networking of VAT administration in the States does not suffer for want of funds. Since the implementation of the project for computerisation of VAT administrations is expected to bring greater efficiency in the functioning of the tax machinery, as a whole, the Committee would urge the Ministry to iron out glitches, if any, in the project so that it is made operational within the prescribed time limit.**

### **Information Technology**

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

14. Year after year unrealistic Budget Estimates have been projected under the Head 'Information Technology' because the process of selecting Suitable Consultant and System Integrator for the project for development of software and linkages with financial institutions and other concerned agencies title "FINnet" of Financial Intelligence Unit – India (FIU-IND) could not be finalized in these years.

15. While deprecating such a casual approach towards implementation of this important project, the Committee had desired that the Government should strive to avoid delays in the implementation of the project and utilize the allocated funds in time under this Head. They had also desired that the Department of Revenue may set up a specially empowered Group or a coordination mechanism to ensure effective monitoring of the project.

16. The Ministry in their Action taken reply stated as under :

“A budget provision of Rs.19 crore has been made for 2010-11 for implementation of this project and payments would be released to the vendor as per the approved milestones for the project. **Now that the project has started, it is expected that the budget provisions will be spent as per expected schedule.**

For effective implementation of the project, **the Department of Revenue has set** up three Committees, namely – Project Steering Committee (PSC), Project Monitoring Committee (PMC) and Project Technical Committee (PTC). The Committees have commenced functioning.”

17. **The Committee observe that three Departmental committees have been constituted by the Department of Revenue for effective implementation of the Project for development of software and linkages with financial institutions and other concerned agencies titled ‘FINnet of Financial Intelligence Unit – India (FIU-IND).’ The Committee emphasize that these Departmental committees should meet frequently and the Department of Revenue should remain pro-active in coordinating with all the committees so as to ensure timely completion of all the activities under this project.**

#### **Revenue Foregone/Losses**

#### **(Recommendation Para No. 6)**

18. Upon noticing that no study has been done by CBEC in the recent past to evaluate revenue losses on account of tax concessions to SEZ units, the Committee had recommended that the Ministry of Finance (Department of Revenue) should set up a Study Group to undertake a comprehensive review on the desirability of tax/duty exemptions to SEZs, which will bring out the costs of tax/duty exemptions vis-à-vis the benefits. The Committee had also desired that the Department of Revenue should also maintain zone wise data on revenue foregone, revenue generated as well as violations of rules in respect of SEZ units.

19. In their Action Taken reply, the Ministry have stated as follows :

“In accordance with the recommendation of the Honorable Committee, the department has initiated steps to constitute a Study Group on the matter and the same is under process. As regards, the compilation of data on revenue forgone, revenue generated as well as the violations of SEZs, the department has taken up the matter with the Ministry of Commerce in order to get the requisite information.”

20. **The Committee note that in pursuance of the recommendation of the Committee to set up a Study Group for undertaking a comprehensive review on the desirability of tax / duty exemptions to SEZs, the Ministry have merely stated that they have initiated steps to constitute a Study Group on the matter. However, the reply is silent about the steps taken in this regard and the time period by which the Study Group will be constituted. Since a huge amount of revenue is being lost due to duty/exemptions to SEZs, the Committee desire that the Study Group should be constituted at the earliest and the Study Group should assess the benefits accruing from SEZs particularly with reference to the taxes foregone. They should also distinguish between revenue foregone on account of exemptions/ concessions and losses occurring due to pilferage of revenue. As regards maintaining zone wise data on revenue foregone, revenue generated as well as violations of rules in respect of SEZ units, the Ministry have simply informed that they have taken up the matter with the Ministry of Commerce to get the requisite information. It is thus obvious that the Ministry of Finance (Department of Revenue) have not taken the matter with due seriousness. The reply that “the department has taken up the matter with the Ministry of Commerce in order to get the requisite information” is purely routine and does not address the concerns expressed by the Committee on the question of revenue losses. Taking into account the heavy revenue losses that have admittedly accrued to the Government on account of tax/duty exemptions to SEZs, the Committee convey their displeasure over the lackadaisical approach of the Ministry in dealing with this matter. The Ministry should,**

therefore, submit to the Committee the action taken by them in specific terms including the precise information sought by the Committee.

**Fall in Indirect Tax Collection  
(Recommendation Para No. 7)**

21. While noticing the decline in the indirect tax collection during the period from April to December, 2009, the Committee had concluded that the disproportionate fall in collections would be attributable to evasion of duty or laxity on the part of the Department in enforcement.

22. The Ministry in their action taken reply have submitted as under:

- (i) **Break-up of Excise, Customs and Service Tax collections, targets and growth in 2009-10 vis-à-vis 2008-09 is as under:**

(Rs. in Crore)

	<b>Customs</b>	<b>Excise</b>	<b>Service Tax</b>	<b>Total</b>
Actual collection in 2008-09	100072	104701	60716	265489
Budget Estimate for 2009-10	98000	105000	65000	268000
<b>Revised Estimate for 2009-10</b>	<b>84477</b>	<b>102000</b>	<b>58000</b>	<b>244477</b>
<b>Revenue performance in 2009-10 -</b>				
Actual collection in 2009-10	<b>84288</b>	<b>102924</b>	<b>57455</b>	<b>244667</b>
Growth during 2009-10 over 2008-09	<b>-15.8%</b>	<b>-1.7%</b>	<b>-5.4%</b>	<b>-7.8%</b>
Growth in receipt during 2009-10 over BE	-14.07%	-2.0%	-11.6%	-8.7%
<b><u>Growth in receipt during 2009-10 over RE</u></b>	-0.22%	0.91%	-0.94%	<b><u>0.08%</u></b>

**Note:** The figures are provisional. Based on Departmental figures.

- (ii) In order to counter the economic slump and provide necessary fiscal support, a general duty reduction in Central Excise duty from 14% to 10% effective from 7<sup>th</sup> December, 08 was brought about. The duty was in fact further lowered to 8% w.e.f 24.2.2009. In view of these factors, the Revised Estimates (RE) for 2009-2010 for Central Excise was lowered to Rs 102000 Crore. The actual collection in 2009-10 was Rs. 102924 Crore. Though, there has been a negative growth of 1.7% over the collections in 2008-09, the actual revenue collections have exceeded the RE.
- (iii) On Customs side, the RE was revised downwards to Rs 84477 Cr taking into account the economic slowdown and duty cuts. The actual collection during the year 2009-10 was Rs 84288 Crore representing a negative growth of 15.8% over actual collections of Rs. 100072 Crore. for the year 2008-09. However, vis-a-vis the RE, the negative growth was marginal (0.22%).

- (iv) On the Service Tax side, the RE was Rs 58000 Crore. The actual collection was Rs 57455 Crore. Though there has been a shortfall of 0.94%, but the same is attributable to the general economic slowdown and the duty cut in Service Tax rates from 12% to 10% effective February 24, 2009.”

**23. From the figures of collection of Indirect Taxes in 2009-10 as submitted by the Ministry, the Committee note that the overall growth in receipt during 2009-10 over 2008-09, growth in receipt during 2009-10 over the Budget Estimates and the same during this period over Revised Estimates is negative in respect of all the Indirect Taxes viz. Customs, Excise and Service Tax. The Committee further observe that the Budget Estimates fixed for the Indirect tax collections for the year 2009-10 have been revised downward at the Revised Estimates stage. The Committee do not find wholly tenable the Ministry’s plea attributing the entire decline in collection to economic slow down and consequent duty reduction in Central Excise and Service Tax. It is also surprising that these causes were not factored in while formulating revenue targets. The Committee, therefore, desire that the Department of Revenue should enquire into the reasons for revenue shortfall during this period, which should also include in its ambit incidence of duty/tax evasion and enforcement laxity.**

**Service Tax Evasion  
(Recommendation Para No. 8)**

24. Upon noticing the increasing incidence of service tax evasion, the Committee had desired that the Department must subject service tax returns to strict scrutiny and efforts made to arrest the declining trend of service tax collection inspite of its widening ambit.

25. In their action taken reply, the Ministry inter-alia submitted as follows :

“In accordance with the Hon’ble Committee’s directions, instructions have been issued to the field formations to ensure that they put extra efforts to ensure a reinforced compliance verification system in Service Tax. These instructions are being reiterated for strict compliance by the field officers.”

**(Recommendation Para No. 10)**

26. The Committee had further found that a substantial amount of revenue collected from the service tax had not been deposited with the exchequer during the last three years. Considering the reduction in collection of Service Tax during the year 2008-09, the Committee had desired that the Department of Revenue should take punitive action against such defaulters.

27. In their action taken reply, the Ministry have submitted as follows :

“Directions of the Hon’ble Committee have been noted for compliance and instructions are being issued to the field officers to be vigilant in ensuring timely deposit of service tax and take prompt punitive action against defaulters.”

**28. In their Report, the Committee had expressed concern over reduction in collection of service tax and the extent to which it was attributable to defaults and evasion. The Ministry’s reply does not address squarely the concerns of the Committee. They have merely submitted that instructions are being issued to field officers to be vigilant and take punitive action against defaulters. Such terse and routine replies are not acceptable to the Committee. The Ministry was expected to furnish the specific action taken by them against defaulters and enforcement measures initiated to pre-empt service tax evasion. A more deliberated and detailed response would thus have been in order. The Committee, therefore, recommend that the Ministry should accordingly submit a fresh action taken note in the matter for the consideration of the Committee.**

**Lack of data-base in CBEC**

**(Recommendation Para No. 14)**

29. Having observed that there is no system available in the Central Board of Excise and Customs at present to maintain centrally the details of the cases of non-levy/short levy of excise duty, incorrect allowance of exemptions, non-levy of interest on delayed payment of service tax, short levy of service tax due to undervaluation, incorrect classification of services etc., the Committee expected

the Ministry to take up this issue seriously and create a comprehensive data base expeditiously to deal with cases of non-compliance.

30. In their action taken reply, the Ministry have stated as under:

“Automation of Central Excise & Service Tax (ACES) application was rolled out in different field formations in phases. The national roll-out was completed on 23<sup>rd</sup> December, 2009. ACES is an online application that enables electronic filing of returns, registrations, e-payment of taxes in respect of Central Excise and Service Tax, besides, enabling electronic processing of various other business processes such as Audit, Adjudication, Refunds, amidst others. The application ACES being fairly recent it would take some time to stabilize. Presently, the use of various modules of ACES is on a voluntary basis except the mandatory provision for e-filing of select returns and e-payment by a select group of assesses.

Presently, data on the subjects mentioned by the Standing Committee is manually compiled and monitored by the field formations and even the CBEC. In course of time as the ACES system stabilizes, CBEC will consider making it mandatory for all users to use all modules that will enable the monitoring mechanism of CBEC to be transformed to automotive mode.”

**31. The Committee are dismayed that even after one year of the presentation of the their report to the Parliament, the Ministry of Finance (Department of Revenue – CBEC) have not been able to establish a system to maintain a comprehensive database for smooth functioning of the Department. They have merely stated that the requisite data is being manually compiled and as the Automation of Central Excise and Service Tax (ACES) system stabilizes, CBEC will consider making it mandatory for all users to use all modules. The Committee regret to observe that the Ministry have been tardy on this count and the requisite urgency has not been shown by them in computerisation of their functions and operations. It is rather astonishing that even in such times when every aspect of administrative / governance system is being addressed on-line, the Central Board of Excise and Customs has chosen to be dependent on manual operations for crucial database, even as large amount of funds are being sanctioned and spent on computerisation year after year. The**



Committee, while taking a serious view of the laxity and inability of the CBEC to have their entire database online, would now expect the Ministry of Finance to enquire into this and fix responsibility in the matter. The Committee desire that a factual report be submitted to the Committee in this regard within one month, indicating inter-alia the culpability of concerned officials and the action initiated against them.

New Delhi;  
08 December, 2010  
17 Agrahayana, 1932 (Saka)

YASHWANT SINHA  
Chairman,  
Standing Committee on Finance

## **CHAPTER – II**

### **Recommendations / Observations that have been accepted by the Government**

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

##### **Setting up of TINXSYS-Grants-in-Aid**

1. The Committee regret to observe that there had been persistent under-utilisation of budgetary provision under the head “Setting up of TINXSYS-Grants-in-Aid” meant for State Value Added Tax (VAT) and other tax reform related support activities undertaken through the Empowered Committee (EC) of State Finance Ministers. The project includes support for effective tracking of inter-state transactions through Tax Information Exchange System (TINXSYS) Project, grant-in-aid for smooth functioning of the Empowered Committee and for computerisation of VAT administrations of Special Category States – Himachal Pradesh and Jammu & Kashmir. The Committee have been informed that huge shortfall in utilization of allocations has occurred due to non-issuing the formal work order by the Empowered Committee till date and non-computerisation of their VAT Departments by some States. The Committee are of the view that no sincere effort has been made by the Department of Revenue to get the interface between the State VAT System and TINXSYS operationalised on time, as evident from the fact that huge allocations made at BE stage were finally surrendered year after year. The Committee, therefore, desire that every effort should now be made to ensure that project activities are implemented as per the schedule by utilizing the budgeted allocations.

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

It is pointed that the responsibility for implementing TINXSYS is with the empowered Committee of State Finance Ministers, which legally is an autonomous society. The investment decisions are taken by them, they own the system and the benefit accrues entirely to the states. The centre's role is that of a facilitator, providing 50% of the expenditure by way of grant-in-aid.

Notwithstanding the above, concerted efforts are being made by the Department of Revenue to ensure that States start using TINXSYS to its full potential. The Empowered Committee of State Finance Ministers (EC), while granting extension to the existing contract for TINXSYS, has asked the vendor to create features which will ensure higher usage and meaningful sharing of information among States. Central Government has agreed to continue bearing 50% of the cost for this period of extension. Now that extension has been granted, it is hoped that the budget provisions will be spent.

(OM No. H-11013/8/2010-Parl. dated 2 June, 2010)

### **Recommendation (Sl. No. 2)**

The Committee had, in their 2<sup>nd</sup> Report (15<sup>th</sup> Lok Sabha) on Demands for Grants (2009-10) of the Department of Revenue emphasized that hindrances in computerization/networking should be ironed out early for smooth transition to the proposed Goods and Service tax (GST) regime. In response, the Ministry replied that they are making every effort to address the problems related to computerization of VAT administrations and networking. However, the demands for grants figures submitted to the Committee clearly indicate the department's persistent inability to spend the allocated money, thus establishing their failure to implement such an important programme, timely implementation of which has been repeatedly emphasized upon by the Committee. The Committee, therefore, desire that the Ministry must ensure that project of computerisation/networking of VAT administrations is strictly implemented as per schedule.

### **Reply of the Government**

A Mission Mode Project for computerization of VAT administrations has recently been sanctioned and launched by the Central Government at a total cost of Rs.1133 crore, out of which, around Rs.850 crore will be provided by the Central Government to the States. Project proposals of 11 States/UTs, having an overall cost of Rs.586.04 crore have already been approved under this

scheme. An amount of Rs.145 crore has already been released to 11 States as first installment of the Central Share. Remaining States have been requested to submit proposals as per the guidelines. It is expected that project proposals for all the remaining States will be ready and approved by September, 2010. This Project will provide a definite boost to computerization of State VAT administrations. Department will ensure regular monitoring of project activities so that all the services planned are launched within the time frame prescribed.

(OM No. H-11013/8/2010-Parl. dated 2 June, 2010)

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

#### **Information Technology**

The Committee are surprised to note that year after year unrealistic Budget Estimates are being projected under the Head “Information Technology.’ Though the actual utilization of budgeted amount for 2009-10 was only Rs. 1.77 crore as compared to BE of Rs. 15.17 crore, the Ministry has proposed an allocation of Rs. 24.12 crore as Budget Estimates again for this year. The Committee have been informed that the process of selecting Suitable Consultant and System Integrator for the project for development of software and linkages with financial institutions and other concerned agencies titled “FINnet” of Financial Intelligence Unit-India (FIU-IND) could not be finalized in these years. Hence, the provision made for the purpose could not be utilized. The Committee deprecate such a casual approach towards implementation of this important project, thereby impacting on the efficiency of the Department. The Committee, therefore, desire that the Government should strive to avoid delays in the implementation of the project and utilize the allocated funds in time under this Head. As delays in computerisation has become an endemic problem, the Committee recommend that the Department of Revenue may set up a specially empowered Group or a coordination mechanism to ensure effective monitoring of the project.

### **Reply of the Government**

As already informed earlier to the Committee, the provision under the head “Information Technology” is meant for purchase of hardware and software relating to computerization of the Department of Revenue and its 12 constituent units, including implementation of “Project FINnet” by the Financial Intelligence Unit-India. For hiring of a System Integrator for implementation of this project, the Request for Proposal (RFP) was issued in October 2008. The last date for submission of bid document was extended up to 7<sup>th</sup> January 2009. After pre-qualification and comprehensive technical evaluation, the commercial bids of the technically qualified vendors were opened in May 2009. The Commercial Evaluation Committee evaluated the commercial bids and selected the L1 bidder. As the total cost of the project exceeded Rs.25 crore, a comprehensive proposal was prepared and submitted by the FIU-IND, in July 2009, for obtaining the approval of the Committee on Non-Plan Expenditure (CNE) under the Department of Expenditure. The proposal was examined and certain clarifications were sought from FIU-IND relating to cost estimates for the Data Centre proposed to be hosted by NIC. It was then decided that although not part of the tender issued, the Primary Data Centre as well as Business Continuity Plan/Disaster Recovery Site have to be treated as integral to the project as a whole and hence the estimates for these also required to be included in the proposal. This was done and a revised proposal was submitted for approval of the competent authority.

The proposal was considered by the Committee for Non-Plan Expenditure in its meeting held on 26<sup>th</sup> November, 2009 and recommended for approval of Hon’ble Finance Minister. The approval of the competent authority for implementation of the project was finally communicated to FIU-IND in December, 2009. The contract document was finalized by FIU-IND with the help of the Consultant and was signed on 25<sup>th</sup> February, 2010. As per the contract, the new technical infrastructure would be rolled out over a period of next 15 months in three phases. During the financial year 2009-10, no payment was made to the System Integrator as the first deliverable i.e. the

Project Plan was submitted in March 2010. It was for this reason that there was virtually no expenditure on the project in 2009-10.

A budget provision of Rs.19 crore has been made for 2010-11 for implementation of this project and payments would be released to the vendor as per the approved milestones for the project. **Now that the project has started, it is expected that the budget provisions will be spent as per expected schedule.**

For effective implementation of the project, **the Department of Revenue has set** up three Committees, namely – Project Steering Committee (PSC), Project Monitoring Committee (PMC) and Project Technical Committee (PTC). The Committees have commenced functioning.

(OM No. H-11013/8/2010-Parl. dated 2 June, 2010)

#### **Recommendation (Sl. No. 5)**

##### **Collection of Direct Taxes & Revenue foregone**

5. In the context of shortfall in direct taxes collection, the Committee note with concern the huge amount of revenue lost to the exchequer by way of tax exemptions and deductions, which aggregated to more than Rs. 1,50,000 crores. The Department have submitted that the revenue foregone in respect of corporate income tax during the year 2009-10 increased to Rs. 79,554 crores, while the same for personal income tax was Rs. 40,929 crores. Revenue foregone on account of direct tax incentives / deduction given to export promotion schemes etc. amounted to a whopping Rs. 30,000 crores and more during this period. Facts are so evident that it requires no over-stating that tax concessions and exemptions provided in general have been huge and phenomenal, amounting to more than half of the total direct tax collections in 2009-10. If the aggregate exemptions in both direct and indirect taxes is taken into account, it works out to a massive Rs. 5,02,299 crore (2009-10), which is

almost 80% of the total revenue collections. Such exemptions have been increasing, leaving an adverse impact upon revenue buoyancy.

The Committee would, therefore, recommend that while formulating the proposed Direct Taxes Code, the Government should review the present regime of tax exemptions and deductions, which is obviously loaded in favour of corporates and big tax payers at the expense of small tax payers and the salaried class. Thus, keeping in mind the fact that most of these exemptions have outlived their purpose, and in the light of the glaring facts cited above, it would be just and equitable to put in place a Policy on Exemptions, which would substantially reduce the percentage of tax foregone but at the same time encourage household savings, foster social security and is generally favourable to small tax payers. The revenue thus retrieved may be utilized to fund Government's developmental programmes, particularly in agricultural sector.

### **Reply of the Government**

#### **CBDT**

As per Annexure-12 of the Receipt Budget 2010-11 the actual revenue foregone for 2008-09 has shown a decline from the figure that had originally been projected in the Receipt Budget of 2009-10. The data is as under:-

<b>Head</b>	<b>projected Revenue Foregone for 2008-09 in Receipt Budget 2009- 10 (Rs. in Crores)</b>	<b>Actual Revenue Foregone for 2008-09 in Receipt Budget 2010- 11(Rs. in Crores)</b>	<b>Percentage decrease</b>	<b>projected Revenue Foregone for 2009-10 in Receipt Budget 2010- 11(Rs in Crores)</b>
<b>Corporate tax</b>	68,914	66,901	2.92%	79,554
<b>Personal income tax</b>	39,553	37,570	5.01%	40,929
<b>Total</b>	1,08,467	1,04,471	---	1,20,483

Under the Income-tax act, 1961 also, the policy thrust has been not to extend the area or scope or the sunset date of profit linked exemptions. Through the introduction of section 35AD by the Finance (No.2) Act, 2009 is policy shift towards investment linked deduction for specified businesses has been made. This should moderate the revenue forgone on account of such tax concession and exemption once the profit linked deduction get phased out through the respective sunset clauses. This philosophy of removing profit linked incentives and minimizing exemptions has also been carried forward in the draft Direct Taxes Code discussion paper. Final decision in this regard will be reflected in the DTC Bill proposed to be introduced in Parliament soon, after which a final decision will be taken by the Parliament itself.

(OM No. H-11013/8/2010-Parl. dated 2 June, 2010)

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

The Committee further find that with regard to evaluation of collection and payment of service tax by registered service providers, the Ministry has prepared a Service Tax Return Scrutiny Manual, which has been circulated to the field formations, wherein guidelines have been issued for checking/verifying the Service tax returns submitted by the service providers. In view of the increasing incidence of service tax evasion, the Committee desire that the Department must subject these returns to strict scrutiny and efforts made to arrest the declining trend of service tax collection inspite of its widening ambit.

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

In accordance with the Hon'ble Committee's directions, instructions have been issued to the field formations to ensure that they put extra efforts to ensure a reinforced compliance verification system in Service Tax. These instructions are being reiterated for strict compliance by the field officers.

(OM No. H-11013/8/2010-Parl. dated 13 July, 2010)



### **Recommendation (Sl. No. 9)**

The Committee are also constrained to observe that the Department has no mechanism to maintain data centrally in respect of (a) the service providers, who have escaped the tax net by not registering and not paying the applicable service tax, (b) instances of decline in revenue from a particular service despite increase in the registered tax base and (c) details of incorrect and excess realisation of service tax by service providers. With regard to the service providers who have escaped the tax net by not registering and not paying the applicable service tax, the Government have expressed their inability to derive and maintain such reliable data, as according to them, these are not empirically observable data. In the light of the Ministry's helplessness, the Committee find it difficult to comprehend as to how the Department proposed to widen the tax net of service tax providers without supporting data-base. The Committee are constrained to point out that the Ministry of Finance, with large resources at their command, have not made any effort to maintain such crucial data centrally, which has inevitably resulted in substantial revenue loss to the exchequer. The Committee, therefore, recommend creation of reliable database of service providers, so as to identify potential tax payers as well as evaders and progressively bridge the gap between taxpaying and tax-evading service providers.

### **Reply of the Government**

The department maintains database of registered service providers. There are a large number of small and individual service providers which keep on entering and exiting the business activity and hence it is not feasible to have a database of every service provider irrespective of whether he pays service tax or not. However to identify new and potential service tax payers the department resorts to the following action:

- Conduct intensive door-to-door surveys.

- Collect information from other Commissionerates and also other departments viz. Public Works Departments, Income Tax, Banks, etc. regarding the assesseees.
- Collation of data through related websites, yellow pages, examination of financial returns and other relevant documents.
- Exchange of information with various departments at the periodical meetings of the Regional Economic Intelligence Committee.
- Tax payer awareness through advertisement in print and electronic media

(OM No. H-11013/8/2010-Parl. dated 13 July, 2010)

### **Recommendation (Sl. No. 11)**

#### **Arrears of Revenue and Appeals**

The mounting arrears of tax demands has repeatedly invited adverse comments against the Department. The total outstanding arrears as on 31.12.2009 were Rs. 40875.78 crore, out of which, the maximum arrears were in respect of Central Excise i.e. Rs. 25047.39 crore, representing about 61% of the total outstanding arrears. The reasons that contributed to the pendency of arrears are stay orders by the courts, CESTAT, pending cases relating to Public Sector Units, cases pending with BIFR/DRT/OL, assets not available or defaulters not traceable, cases pending with district administration under certificate action etc. The Committee would expect the Department of Revenue to have close liaison with the courts/CESTAT to ensure expeditious disposal of the stay petitions. The Committee consider that the reasons advanced for the outstanding arrears are all normal incidents and could well have been foreseen and a viable strategy planned out to meet the eventualities. The Committee recommend that the Ministry should augment the strength of the first-level appellate authorities and also take steps to set up additional benches of the Appellate Tribunal to cope with the increasing workload and step up disposal of cases.

In the context of tax demands and appeals in general, the Committee would like to emphasize that since majority of the departmental appeals get quashed or orders reversed at higher fora, the Department should remain more selective while filing their appeals, which should not be filed in a routine manner. At the same time, the Department should ensure that assessments are also made in a fair manner without causing any harassment to individual assesses.

### **Reply of the Government**

Field formations have been instructed to intensify their efforts at realization and liquidation of all realizable revenue arrears free from encumbrances. Liquidation of other arrears is also being tackled on priority. The following steps have been taken in this direction by the field formations:

- i) Seeking early hearing of all cases pending in CESTAT/Courts involving revenue of over Rs.1 crore or having a recurring effect or involving an issue having all India ramification.
- ii) Seeking vacation of stay orders granted by the Courts in appropriate cases.
- iii) Utilization of the provisions of the Customs (Attachment of Property of Defaulters for Recovery of Government Dues) Rules 1995 as made applicable to Central Excise.
- iv) Close monitoring of pending cases before BIFR, Debt Recovery Tribunal, Official Liquidator etc, and quicker realization of revenue in such cases decided in favour of revenue.
- v) Initiation of write-off proceeding in deserving cases, in accordance with the instructions issued.

As regards the strength of first level appellate authorities, all efforts are being put in by the department to ensure that there are no vacancies on this count. On the issue of being selective in filing of appeals so as to ensure that appeals are not filed in a routine manner, especially in higher fora, it is to state that a Legal Cell in the CBEC scrutinizes cases fit for filing appeals before Supreme Court and all SLPs are filed only after seeking opinion of Ministry of

Law. All due diligence will, however, continue to be exercised while filing appeals against the orders of the High Courts. The appeals against the order of CESTAT and matters concerning valuation or classification are likewise examined by the Judicial Cell for filing the civil appeals in the Hon'ble Supreme Court. Utmost care is, however, exercised before filing of appeals in higher fora.

(OM No. H-11013/8/2010-Parl. dated 13 July, 2010)

### **Recommendation (Sl. No. 12)**

#### **Outstanding audit observations of internal audit**

The Committee note that as on 31 March, 2008, 8,409 observations of Internal Audit of Income Tax Department raised during 2007-08, involving a tax effect of Rs. 1,374.06 crore were pending. However, according to the departmental instructions, internal audit observations are to be attended to by the assessing officers within three months. While deprecating the departmental delay in acting upon the internal audit cases promptly, the Committee would like to point out that this delay is also indicative of the inadequate system of monitoring the internal audit objections at various levels, which needs to be remedied.

### **Reply of the Government**

#### **CBDT**

The position in respect of internal audit reports had already been explained in the reply given earlier on the above subject in the General List of Points.

The Department of Revenue duly noted the Committee's observations. Necessary steps are being taken to strengthen the internal audit mechanism and the response of the various officers of the CBDT to their reports.

(OM No. H-11013/8/2010-Parl. dated 2 June, 2010)

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

#### **Manpower Shortage**

The Committee also note that there is an acute manpower shortage at almost all the levels in the Income Tax Department. The Department obviously has been functioning with depleted strength; the working strength of Addl. CIT/JCIT is 33.51% less than the sanctioned strength, in case of DCIT/ACIT the shortage of working strength is 24.26%, while in case of Inspectors it is 11.40%. During evidence, the Revenue Secretary, while conceding that it would be their biggest problem, stated that in the last three to four years, the intake of Assistant Commissioners was reduced to 25 or 30 per year, which was a mistake. The Committee cannot but express their concern over the apathetic attitude of the Ministry towards manpower planning in the Income Tax Department. They, therefore, recommend that urgent steps be taken to assess manpower requirements at all levels so that work does not suffer on that account.

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

##### **CBDT**

- I. Regarding the recruitment of IRS officers, the number of officers being recruited has been increasing over the two years, and the level of recruitment is likely to remain high in the near future until the shortages come down. However, a balance would need to be drawn to ensure that there is no stagnation for these officers at higher level. Sudden increase in off take also cannot be resorted to.
- II. Regarding shortages at Group-C level, the recruitment process of 7051 posts sanctioned by Government in 2006 is ongoing. There have been some problems encountered in the process including the non-availability of candidates for the posts of Stenos, because of the waning popularity and relevance of shorthand-training facilities. A special drive is proposed for recruiting people adept in data entry and organize requisite shorthand training for them so that they can be considered for induction as stenographers if they qualify.

(OM No. H-11013/8/2010-Parl. dated 2 June, 2010)

### **Recommendation (Sl. No. 15)**

#### **TDS Collections**

The Committee, are surprised to find that most of the TDS collections is made by the Income Tax department in the last quarter of the year instead of getting it in every quarter. The reason, as attributed by the Ministry for this is delay in accounting by various authorities. The Committee do not find this plea tenable as a system of e-governance obtains in the department which should have taken care of such problems. The Committee, therefore, recommend that e-governance in the Income Tax Department should be made more effective, so that better coordination could be achieved between different wings of the department to avoid delays in accounting of TDS. This will also help the Department in receiving the TDS uniformly almost every quarter of the year instead of waiting for the last quarter.

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

#### **CBDT**

Monthly TDS collection for FY 2009-10 as per systems data is as under:

<b>Month wise TDS Collections at NCC F. Y. 2009-10</b>		
<b>Month</b>	<b>Count of Challans</b>	<b>Amount (Rs. i crore)</b>
April 09	1276379	16290.13
May 09	1429235	13615.03
June 09	1235617	10458.47
July 09	1267149	10966.24
August 09	1119320	9824.08
September 09	1178062	9892.21
October 09	1281793	11598.40
November 09	1104470	9286.76
December 09	1173825	9097.36
January 10	1248026	10671.00
February 10	1176699	10175.99
March 10	1938517	17793.47
<b>Total</b>	<b>15429092</b>	<b>139669.14</b>

In the light of statistics as above, it is submitted that the monthly TDS/ TCS collections were not at wide variations between May 2009 to February 2010. However, in April, 09 (1<sup>st</sup> of month of the F. Yr.) and March, 10 (last month of the F. Yr.), the TDS collections are higher because:

- (a) In the case of salaried taxpayers, the annual liability of tax deductions is determined based on the annual income and investments made by the taxpayer;
- (b) In contractual payments also, the final bills are drawn when deductions are made;
- (c) Even though disbursal may not be done, amount is credited in the books of accounts at the end of the year and at that time deduction is made by the deductor.
- (d) It is also worth mentioning that the due dates for depositing Tax Deducted/Collected at source is by 7<sup>th</sup> of next of month during which TDS/TCS is done. As mentioned above since the maximum bills are raised in the months of Feb & March and also tax savings are actually finalized by the assesses in the months of Feb & March, therefore maximum TDS deposit amount is accounted for in the months of March & April.

Regarding the recommendations on e-governance and effective mechanism to avoid delays in accounting of TDS, the Directorate of Income Tax (Systems) has undertaken the following measures:

- (1) TIN (Tax Information Network) has been placed on Managed Service Provider (MSP) Model and it has improved compliance by the Deductors in filing of E-TDS returns.
- (2) The online tracking of status of e TDS quarterly returns is available to the Deductors now.
- (3) E-payment of taxes has been streamlined and made tax payer friendly for efficient and accurate transmission of TDS challan data. E- Payments constitute 72% of the direct taxes payments.

Tax Credit Statements (Form No. 26AS) are available online on the internet for viewing by the respective taxpayers and verification of the taxes paid/deducted in the individual cases. This has had a persuasive effect on compliance with various provisions of TDS, correct quoting of TAN and correct

reporting of TDS amount. As a result of such exercise, there has been significant improvement of matching of data reported by deductors and data of tax payment challans received through Banks.

(OM No. H-11013/8/2010-Parl. dated 2 June, 2010)



### **CHAPTER-III**

#### **Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies**

##### **Recommendation (Sl. No. 4)**

##### **Collection of Direct Taxes & Revenue foregone**

The Committee have been given to understand that the collection of direct tax revenue has registered an increase from Rs. 2,30,598 crore in 2008-09 to Rs. 2,50,232 crore in 2009-10, that is an increase of only 8.51%. However, out of this increase, the contribution of other taxes is 63.6%, whereas the contribution of corporate tax is only 13.47% and that of personal income tax is actually negative, that is, -0.41%. The Committee also find that the percentage increase in direct tax collection has been below the target of 15%. However, as per information furnished by Ministry of Corporate Affairs, there are 8.45 lakh active companies registered in the country, which has been showing a steady increase in recent years. The Committee are dismayed that corporate tax has not been growing commensurate with the growth in number, scale and profits of companies. The negative growth registered in respect of personal income tax is also inexplicable, considering the large increase that has occurred in corporate salaries. The causes cited by the Department for reduction in revenue like reduction in surcharge etc. could well have been factored in before fixing the target. While expressing concern over the laxity in the matter resulting in such a steep shortfall in collection vis-à-vis targets, the Committee desire that the Ministry should analyse the reasons for the shortfall in collections, while reviewing the performance of Income Tax Department with regard to tax assessments and enforcement.

## Reply of the Government

### CBDT

(i) The figures of Collection of Direct taxes for 2008-09 and 2009-10 are as under:-

Head	Corporate tax (Rs. in crore)	*Non- Corporate Tax (Rs. in crore)	Total (Rs. in crore)
BE for 2008-09	2,26,361	1,38,369	3,65,000
RE for 2008-09	2,22,000	1,23,000	3,45,000
Actual collection for 2008-09	2,13,395	1,20,433	3,33,828
BE for 2009-10	2,56,725	1,13,275	3,70,000
RE for 2009-10	2,55,076	1,31,932	3,87,008
Provisional collection for 2009-10	2,44,581	1,32,185	3,76,766

\*Non- Corporate Tax includes personal income tax, securities transaction tax, wealth tax & other residual taxes.

(a) The actual direct taxes collection for 2009-10, which provisionally stands at Rs 3,76,766 crore, has exceeded the Budget Estimates of 2009-10 (Rs 3,70,000 crore) by more than Rs 6,700 crore. If we compare the growth of Major Heads of Taxes, following trend emerges

Major Head	Collection in 2008-09	Collection in 2009-10	Growth
Corporate Tax	213395	244581	14.61%
Personal Income Tax	106046	121733	14.8%
Securities Transaction Tax	5405	7394	36.8%
**Other Taxes	8982	3058	-65.9%
Total	333828	376766	12.86%

\*\* Other Taxes include Wealth Tax, Fringe Benefit Tax, BCTT etc.

As evident above, all the major heads of taxes have shown significant growth. The other taxes (which also includes Fringe Benefit Tax) have shown a substantial decline because in 2009-10 the Government abolished Fringe Benefit Tax from which it had collected around Rs 7,976 crore in the previous year (2008-09).

(b) Mere registration of a company does not imply that it will have taxable profits. There are various companies claiming exemptions/ deductions under various provisions of the Income-tax Act, 1961(Act). There are many companies, which are holding or investment companies in nature not having taxable profits but contributing to the business activity.

Therefore, the rate of increase of registration of companies does not necessarily translate into tax growth at the same rate.

(ii) Details of corporate tax collections are as under:-

Financial year	Net collection of corporate taxes (Rs. in crores)	Direct tax – GDP ratio (%)	GDP( Nominal) growth rate (%)	Corporate tax growth rate (%)
2004-05	82680	4.10	17.59	30.07
2005-06	101277	4.46	14.42	22.49
2006-07	144318	5.37	15.58	42.49
2007-08	192911	6.31	15.50	33.67
2008-09	213395	5.99	12.66	10.61
2009-10	244581 (Provisional)	6.11	10.58	14.61

(GDP for 2008-09 is based on Quick Estimates and GDP of 2009-10 is based on Advanced Estimates. Figure for 2009-10 is provisional.)

- (a) Over the previous six years the growth in corporate tax collections has far exceeded the rate of growth of GDP except in 2008-09 which was the period of global economic crisis. During 2008-09 the impact of the global crisis was felt through the channels of capital flows, financial markets and trade. This translated into a lower growth rate of GDP at 12.66% in 2008-09 as against an average growth rate of 15.72% over the period 2004-05 to 2007-08. However, India has been more resilient to the global crisis when compared to many other economies.
- (b) In order to provide relief to tax payers, it was decided to increase the exemption limit and remove surcharge on personal income-tax (PIT) in the budget of 2009-10. This aspect was factored in the Budget Estimates for 2009-10 for PIT which was set at a lower level of Rs.1, 12,850 crores as against the actual collection of Rs. 1,06,046 crores for 2008-09. Despite these reliefs and the global economic meltdown, PIT collections have shown a positive growth in 2009-10. The provisional collection for PIT for 2009-10 is Rs. 1,21,733 crores which reflects a positive growth rate of 14.8%.

Notwithstanding the above, the department of Revenue and the senior functionaries of the CBDT are keeping a constant watch over the direct tax collections. The position is being reviewed continuously and all necessary actions taken to ensure a healthy growth in tax collection as it existed prior to the global economic crisis.

(OM No. H-11013/8/2010-Parl. dated 2 June, 2010)

## **CHAPTER-IV**

### **Recommendations/Observations in respect of which replies of Government have not been accepted by the Committee**

#### **Recommendation (Sl. No. 6)**

##### **Collection of Direct Taxes & Revenue foregone**

With regard to loss of revenue from Special Economic Zones (SEZs), during the course of examination of Demands for Grants (2007-08), the Ministry of Finance (Department of Revenue) had furnished details of projected revenue loss for the period 2005-2010 as Rs. 106,412 crores; comprising of Rs. 57,531 crores direct tax; Rs. 29,700 customs; Rs. 10,368 excise and Rs. 8813 service tax. The Ministry then further stated that taking into account the number of approvals which have already been granted and pending SEZ proposals, revenue loss on account of development of SEZs alone could increase substantially. However, in the context of examination of Demands for Grants for this year, the Ministry have tersely stated that no study has been done by CBEC in the recent past to evaluate revenue losses on account of tax concessions to SEZ units. On this issue, the Department of Commerce have now contended that the purported revenue loss is only hypothetical, as SEZs have contributed tremendously in terms of investment, employment and exports. The Committee are surprised that inspite of Ministry's earlier concerns and projections on revenue loss, they have not so far done any appraisal or indepth study on the extent of revenue loss arising out of exemptions allowed to SEZs. Besides, on the related issue of mis-use of exemptions by SEZs and cases booked against them for defaults, the Department of Revenue have informed that till 10 March, 2010, 415 cases involving duty of Rs. 567.48 crore have been booked against units in SEZs. Thus, keeping in view the need for a balanced approach on this issue, the Committee recommend that the Ministry of Finance (Department of Revenue) should set up a Study Group to undertake a comprehensive review on the desirability of tax / duty exemptions to SEZs, which will inter alia bring out the costs of tax / duty exemptions vis-à-vis the

benefits. The Department of Revenue should also maintain zone wise data on revenue foregone, revenue generated as well as violations of rules in respect of SEZ units.

### **Reply of the Government**

#### **Direct Taxes (CBDT)**

As per Annexure-12 of the Receipt Budget 2010-11 the actual and projected revenue foregone for 2008-09 and 2009-10 of corporate assesses respectively due to exemptions/deduction available in SEZ are as under:-

<b>Sl. No.</b>	<b>Nature of incentive/Name of the measure</b>	<b>Revenue Foregone (in Rs. Crore) [2007-08]</b>	<b>Revenue Foregone (in Rs. Crore) [2008-09]</b>	<b>Projected Revenue Foregone (in Rs. Crore) [2009-10]</b>
1.	Deduction of export profits of units located in SEZs (section 10A and 10AA)	1103	2677	3183
2.	Deduction of profits of undertakings engaged development of SEZs in the pursuance to SEZ Act,2005 ( section 80-IAB)	1607	1422	1691
<b>TOTAL</b>		<b>2710</b>	<b>4099</b>	<b>4874</b>

#### **Indirect Taxes (CBEC)**

In accordance with the recommendation of the Honorable Committee, the department has initiated steps to constitute a Study Group on the matter and the same is under process. As regards, the compilation of data on revenue forgone, revenue generated as well as the violations of SEZs, the department has taken up the matter with the Ministry of Commerce in order to get the requisite information.

(OM No. H-11013/8/2010-Parl. dated 13 July, 2010)

## Recommendation (Sl. No. 7)

### Fall in Indirect Tax Collection

The Committee note with concern that Indirect Tax Collection during the period April to December, 2009 has declined by 18.1% as compared to the previous year, out of which, central excise duty declined by 13.2% and service tax by 6.5%. The reasons adduced by the Central Board of Excise and Customs (CBEC) for the shortfall in collection of indirect taxes include the global economic slow down and reduction in rates of customs duty, central excise duty and service tax. The Committee cannot fully accept the justification of the Ministry for decline in the indirect tax collection, particularly when the manufacturing sector has registered an impressive growth in the second half of 2009 and range of service tax has also been broadened. The Committee cannot but conclude that the disproportionate fall in collections would be attributable to evasion of duty or laxity on the part of the Department in enforcement.

### Reply of the Government

#### CBEC

- (v) **Break-up of Excise, Customs and Service Tax collections, targets and growth in 2009-10 vis-à-vis 2008-09 is as under:**

**Figures in Crore of Rs.**

	<b>Customs</b>	<b>Excise</b>	<b>Service Tax</b>	<b>Total</b>
Actual collection in 2008-09	100072	104701	60716	265489
Budget Estimate for 2009-10	98000	105000	65000	268000
<b>Revised Estimate for 2009-10</b>	<b>84477</b>	<b>102000</b>	<b>58000</b>	<b>244477</b>
<b>Revenue performance in 2009-10 -</b>				
Actual collection in 2009-10	<b>84288</b>	<b>102924</b>	<b>57455</b>	<b>244667</b>
Growth during 2009-10 over 2008-09	<b>-15.8%</b>	<b>-1.7%</b>	<b>-5.4%</b>	<b>-7.8%</b>
Growth in receipt during 2009-10 over BE	-14.07%	-2.0%	-11.6%	-8.7%
<b><u>Growth in receipt during 2009-10 over RE</u></b>	-0.22%	0.91%	-0.94%	<b><u>0.08%</u></b>

**Note:** The figures are provisional. Based on Departmental figures.

- (vi) In order to counter the economic slump and provide necessary fiscal support, a general duty reduction in Central Excise duty from 14% to 10% effective from 7<sup>th</sup> December, 08 was brought about. The duty was in fact further lowered to 8% w.e.f 24.2.2009. In view of these factors, the Revised Estimates (RE) for 2009-2010 for Central Excise was lowered to Rs 102000 Crore. The actual collection in 2009-10 was Rs. 102924 Crore. Though, there has been a negative growth of 1.7% over the collections in 2008-09, the actual revenue collections have exceeded the RE.
- (vii) On Customs side, the RE was revised downwards to Rs 84477 Cr taking into account the economic slowdown and duty cuts. The actual collection during the year 2009-10 was Rs 84288 Crore. representing a negative growth of 15.8% over actual collections of Rs. 100072 Crore. for the year 2008-09. However, vis-a-vis the RE, the negative growth was marginal (0.22%).

On the Service Tax side, the RE was Rs 58000 Crore. The actual collection was Rs 57455 Crore. Though there has been a shortfall of 0.94%, but the same is attributable to the general economic slowdown and the duty cut in Service Tax rates from 12% to 10% effective February 24, 2009.

(OM No. H-11013/8/2010-Parl. dated 13 July, 2010)

### **Recommendation (Sl. No. 10)**

The Committee are surprised to find that a substantial amount of revenue collected from the service tax had not been deposited with the exchequer during the last three years. The loss of revenue on this count increased from year to year and stood at Rs. 48.06 crore during the year 2008-09, out of which only Rs. 27.62 crore have been realized so far. The Committee thus find that efforts made by the Department for ensuring timely deposit of service tax, collected from consumers has been far from satisfactory. Considering the reduction in collection of service tax this year, it is imperative that the Department takes punitive action against such defaulters.

### **Reply of the Government**

Directions of the Hon'ble Committee have been noted for compliance and instructions are being issued to the field officers to be vigilant in ensuring timely deposit of service tax and take prompt punitive action against defaulters.

(OM No. H-11013/8/2010-Parl. dated 13 July, 2010)

### **Recommendation (Sl. No. 14)**

#### **Lack of data-base in CBEC**

The Committee are perturbed to find that there is no system in the Central Board of Excise and Customs (CBEC) at present to maintain centrally the details of the cases of non-levy/short levy of excise duty, incorrect allowance of exemptions, non-levy of interest on delayed payment of service tax, short levy of service tax due to undervaluation, incorrect classification of services etc. The Committee find it incomprehensible as to how in the absence of centralized database, the monitoring of all such cases was being done by the Central Board of Excise and Customs. The Committee are also surprised that the CBEC, even with rapid advancements in information technology, have not succeeded in making any headway in maintaining data crucial to their performance. The Committee, therefore, expect the Ministry to take up this issue seriously and create a comprehensive database expeditiously to deal with cases of non-compliance. The Committee would like to be apprised about the progress made in this regard within a period of one month.

### **Reply of the Government**

#### **CBEC**

Automation of Central Excise & Service Tax (ACES) application was rolled out in different field formations in phases. The national roll-out was completed on 23<sup>rd</sup> December, 2009. ACES is an online application that enables electronic filing of returns, registrations, e-payment of taxes in respect of Central Excise and Service Tax, besides, enabling electronic processing of various other business processes such as Audit, Adjudication, Refunds, amidst others. The application ACES being fairly recent it would take some time to stabilize. Presently, the use of various modules of ACES is on a voluntary basis except the mandatory provision for e-filing of select returns and e-payment by a select group of assesses.



Presently, data on the subjects mentioned by the Standing Committee is manually compiled and monitored by the field formations and even the CBEC. In course of time as the ACES system stabilizes, CBEC will consider making it mandatory for all users to use all modules that will enable the monitoring mechanism of CBEC to be transformed to automotive mode.

It is also to be pointed out that service collection in the country has had impressive growth rates in the past.

(OM No. H-11013/8/2010-Parl. dated 2 June, 2010)

## **CHAPTER-V**

**Recommendations/Observations in respect of which final replies by the Government are still awaited**

**NIL**

## **Minutes of the Eighth sitting of the Standing Committee on Finance**

The Committee sat on Wednesday, the 8<sup>th</sup> December, 2010 from 1500 hrs. to 1550 hrs.

### **PRESENT**

**Shri Yashwant Sinha - Chairman**

### **MEMBERS**

#### **LOK SABHA**

2. Dr. Baliram (Lalganj)
3. Shri C.M. Chang
4. Shri Bhakta Charan Das
5. Shru Gurudas Dasgupta
6. Shri Nishikant Dubey
7. Shri Bhartruhari Mahtab
8. Shri Rayapati Sambasiva Rao
9. Shri Magunta Sreenivasulu Reddy
10. Shri Manicka Tagore
11. Dr. M. Thambidurai

#### **RAJYA SABHA**

12. Shri Raashid Alvi
13. Shri Vijay Jawaharlal Darda
14. Shri Moinul Hassan
15. Shri Satish Chandra Misra
16. Dr. Mahendra Prasad
17. Shri Y.P. Trivedi

### **SECRETARIAT**

- |                                 |   |                     |
|---------------------------------|---|---------------------|
| 1. Shri A.K. Singh              | - | Joint Secretary     |
| 2. Shri T.G. Chandrasekhar      | - | Additional Director |
| 3. Shri Ramkumar Suryanarayanan | - | Deputy Secretary    |

2. The Committee took up the following draft Reports for consideration and adoption :-

- (i) Draft Report on action taken by the Government on the recommendations contained in the Eleventh Report (15<sup>th</sup> Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Finance (Departments of Economic Affairs, Financial Services, Expenditure and Disinvestment);

- (ii) Draft Report on action taken by the Government on the recommendations contained in the Twelfth Report (15<sup>th</sup> Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Finance (Department of Revenue);
- (iii) Draft Report on action taken by the Government on the recommendations contained in the Thirteenth Report (15<sup>th</sup> Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Planning;
- (iv) Draft Report on action taken by the Government on the recommendations contained in the Fourteenth Report (15<sup>th</sup> Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Statistics and Programme Implementation; and
- (v) Draft Report on action taken by the Government on the recommendations contained in the Fifteenth Report (15<sup>th</sup> Lok Sabha) on Demands for Grants (2010-11) of the Ministry of Corporate Affairs.

3. The Committee adopted the draft reports with minor modifications. The Committee also authorized the Chairman to present all the Reports to Parliament in the current session.

The Committee adjourned at 1550 hours.

## APPENDIX

(Vide Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE  
RECOMMENDATIONS CONTAINED IN THE TWELFTH REPORT OF THE  
STANDING COMMITTEE ON FINANCE (FIFTEENTH LOK SABHA) ON DEMANDS  
FOR GRANTS (2010-2011) OF THE MINISTRY OF FINANCE (DEPARTMENT OF  
REVENUE)

Total	Total	% of
(i)	Total number of Recommendations	15
(ii)	Recommendations/observations which have been accepted by the Government (Vide Recommendations at Sl. Nos. 1, 2, 3, 5, 8, 9, 11, 12 13 and 15)	10 66.67
(iii)	Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies (Vide Recommendation at Sl. No. 4)	01 6.67
(iv)	Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee (Vide Recommendations at Sl. No. 6,7, 10 and 14)	04 26.67
(v)	Recommendation/observation in respect of which final reply of the Government is still awaited	Nil 00.00