

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

FIFTEENTH LOK SABHA

**MINISTRY OF FINANCE
(Department of Revenue)**

**Demands for Grants
(2011-12)**

THIRTY FOURTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

August, 2011/ Sravana, 1933 (Saka)

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STANDING COMMITTEE ON FINANCE
(2010-2011)

(FIFTEENTH LOK SABHA)

MINISTRY OF FINANCE
(Department of Revenue)

Demands for Grants
(2011-12)

Presented to Hon'ble Speaker on 30 June, 2011

Presented to Lok Sabha on 2 August, 2011

Laid in Rajya Sabha on 2 August, 2011



LOK SABHA SECRETARIAT
NEW DELHI

August, 2011/ Sravana, 1933 (Saka)

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. Shri Sarvey Sathyanarayana
16. Shri G.M. Siddeshwara
17. Shri N. Dharam Singh
18. Shri Manicka Tagore
19. Dr. M. Thambidurai
20. Shri Anjankumar M. Yadav
21. Dr. Kavuru Sambasiva Rao*

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 R.K. Jain | - | Director |
| 3. Shri T.G. Chandrasekhar | - | Additional Director |
| 4. Shri Ramkumar Suryanarayanan | - | Deputy Secretary |

* Nominated to this Committee w.e.f. 28.01.2011 vice Shri Y.S. Jagan Mohan Reddy, ceased to be a member of the Committee on his resignation from Lok Sabha.

INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorized by the Committee, present this Thirty-fourth Report (15th Lok Sabha) on the 'Demands for Grants (2011-12) of the Ministry of Finance (Department of Revenue).

2. The Demands for Grants (2011-12) of the Ministry of Finance (Department of Revenue) were laid on the Table of the House on 11 March, 2011. Under Rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha, the Standing Committee on Finance are required to consider the Demands for Grants of the Ministries/Departments under their jurisdiction and make reports on the same to both the Houses of Parliament. Thereafter, the Demands are considered by the House in the light of the reports of the Committee. However, this year, the Demands for Grants (2011-12) of the Ministry of Finance (Department of Revenue) were passed by Lok Sabha prior to their consideration by the Standing Committee on Finance. Nonetheless, in pursuance of the observation made by the Chair, the Committee examined the Demands for Grants (2011-12) of the Ministry of Finance (Department of Revenue) and issues arising therefrom.

3. The Committee took oral evidence of the representatives of the Ministry of Finance (Department of Revenue) on 08 April, 2011.

4. The Committee considered and adopted this Report at their sitting held on 25 May, 2011. Minutes of the sittings of the Committee are given in appendix to the Report.

5. The Committee wish to express their thanks to the representatives of the Ministry of Finance (Department of Revenue) for appearing before the Committee and furnishing the material and information which the Committee desired in connection with the examination of the Demands for Grants (2011-12).

**New Delhi;
20 June, 2011
30 Jyaistha, 1933(Saka)**

**YASHWANT SINHA,
Chairman,
Standing Committee on Finance.**

REPORT

Part – I

Background Analysis

1. INTRODUCTORY

1.1 The Department of Revenue exercises control in respect of matters relating to all the Direct and Indirect Union Taxes through two statutory Boards namely, the Central Board of Direct Taxes. (CBDT) and the Central Board of Excise and Customs (CBEC). The Boards are headed by a Chairman who is also *ex-officio* Special Secretary to the Government of India. Matters relating to the levy and collection of all Direct taxes are looked after by the CBDT whereas those relating to levy and collection of Customs and Central Excise duties and other Indirect taxes fall within the purview of the CBEC. The two Boards were constituted under the Central Board of Revenue Act, 1963. At present, the CBDT has six Members and the CBEC has five Members.

1.2 The Department of Revenue administers the following Acts:—

1. Income Tax Act, 1961;
2. Wealth Tax Act, 1957;
3. Expenditure Tax Act, 1987;
4. Benami Transactions (Prohibition) Act, 1988;
5. Super Profits Act, 1963;
6. Companies (Profits) Sur-tax Act, 1964;
7. Compulsory Deposit (Income Tax Payers) Scheme Act, 1974;
8. Chapter VII of Finance (No.2) Act, 2004 (Relating to Levy of Securities Transactions Tax);
9. Chapter VII of Finance (No. 2) Act, 2005 (Relating to Levy of Banking Cash Transaction Tax)
10. Chapter V of Finance Act, 1994 (Relating to Service Tax);
11. Central Excise Act, 1944 and related matters;
12. Customs Act, 1962 and related matters;

13. Medicinal and Toilet Preparations (Excise Duties) Act, 1955;
14. Central Sales Tax Act, 1956;
15. Narcotic Drugs and Psychotropic Substances Act, 1985;
16. Prevention of Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act, 1988;
17. Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976;
18. Indian Stamp Act, 1899 (to the extent falling within jurisdiction of the Union)
19. Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974;
20. Prevention of Money Laundering Act, 2002.

1.3 The administration of the Acts mentioned at Sl.Nos. 3, 5, 6 and 7 is limited to the cases pertaining to the period when these laws were in force.

1.4 The Department looks after the matters relating to the abovementioned Acts through the following attached/subordinate offices:-

1. Commissionerates/Directorates under Central Board of Excise and Customs;
2. Commissionerates/Directorates under Central Board of Direct Taxes;
3. Central Economic Intelligence Bureau;
4. Directorate of Enforcement;
5. Central Bureau of Narcotics;
6. Chief Controller of Factories;
7. Appellate Tribunal for Forfeited Property;
8. Income Tax Settlement Commission;
9. Customs and Central Excise Settlement Commission;
10. Customs, Excise and Service Tax Appellate Tribunal;
11. Authority for Advance Rulings for Income Tax;
12. Authority for Advance Rulings for Customs and Central Excise;

13. National Committee for Promotion of Social and Economic Welfare;
14. Competent Authorities appointed under Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976 and Narcotic Drugs and Psychotropic Substances Act, 1985;
15. Financial Intelligence Unit, India (FIU-IND); and
16. Ombudsman, Income Tax;
17. Appellate Tribunal under Prevention of Money Laundering Act; and
18. Adjusting Authority under prevention of money laundering Act.

II. BUDGETARY ALLOCATIONS

2.1 The detailed Demands for Grants (2011-12) of the Ministry of Finance were presented to Lok Sabha on 11 March, 2011. The details of the voted portion of the Demands for Department of Revenue, Central Board of Direct taxes (CBDT) and Central Board of Excise and Customs (CBEC) for the year 2011-12 are as follows :-

(Rs. in crore)

Sl. No.	No. and Name of Demand	Revenue voted	Capital voted	Total
1.	41 - Department of Revenue	13339.01	17.89	13356.90
2.	42 - Direct Taxes	2975.85	905.70	3881.55
3.	43 - Indirect Taxes	3251.34	127.55	3378.89

2.2 The Budget Estimates (BE), Revised Estimates (RE) and Actuals for the Demand No. 41, 42 and 43 from the years 2008-09 to 2011-12 are as follows :-

2008-09

(Rs. in crore)

	<u>BE</u>		<u>RE</u>		<u>Actual</u>	
	Plan	Non-plan	Plan	Non-Plan	Plan	Non-Plan
Demand No. 41	-	6197.82	-	6721.67	-	6692.60
Demand No. 42	-	1975.00	-	2517.63	-	2331.89
Demand No. 43	-	2121.00	-	2962.00	-	2499.63

2009-10

(Rs. in crore)

	Plan	<u>BE</u> Non-plan	Plan	<u>RE</u> Non-Plan	Plan	<u>Actual</u> Non-Plan
Demand No. 41	-	9647.87	-	12404.57	-	12347.33
Demand No. 42	-	3502.00	-	2840.40	-	2735.15
Demand No. 43	-	3385.00	-	3253.07	-	3128.57

2010-11

(Rs. in crore)

	Plan	<u>BE</u> Non-plan	Plan	<u>RE</u> Non-Plan	Plan	<u>Actual</u> Non-Plan
Demand No. 41	-	11122.89	-	-	-	-
Demand No. 42	-	4524.00	-	-	-	-
Demand No. 43	-	3007.50	-	-	-	-

2011-12

(Rs. in crore)

	Plan	<u>BE</u> Non-plan	Plan	<u>RE</u> Non-Plan	Plan	<u>Actual</u> Non-Plan
Demand No. 41	-	13356.90	-	-	-	-
Demand No. 42	-	3881.55	-	-	-	-
Demand No. 43	-	3378.89	-	-	-	-

2.3 Some of the heads of account under the Grants operated by the Ministry of Finance (Department of Revenue) are discussed in detail in the succeeding paragraphs of the Report.

2.4 Apart from examining the Demands for Grants (2011-12), in the present Report, the Committee have examined the following issues :-

1. Collection of Direct Taxes/Indirect Taxes
2. Revenue Foregone under Central Tax System
3. Unaccounted money both within and outside the country
4. Exemptions granted to BCCI /ICC
5. Tax revenues raised but not realised
6. Refund cases and interest paid on refunds
7. Disposal of appeals
8. Widening of tax base
9. Position of assessment

10. Service Tax Evasion

11. Unaccounted money both within and outside the country

Issues relating to Demands for Grants (2011-12)

Analysis of expenditure trends in Grant No. 42- Direct Taxes

3.1 During 2010-11, total expenditure incurred up to 31 December 2010 is Rs. 2615.18 crore which works out to 58% of total BE provision. Out of this, the expenditure under Revenue Section is Rs. 1927.65 crore which is 68% of BE 2010-11 under this section. Provision for 'Salaries' is Rs. 1700 crore against which the expenditure till December is Rs. 1401.18 crore. Another major constituent of expenditure under Revenue Section is 'Office Expenses' with a BE provision of Rs. 500 crore against which expenditure incurred upto December 2010 is Rs. 255.33 crore. A BE provision of Rs. 275 crore has been provided under 'Information Technology' against which the expenditure till December 2010 is Rs. 96.16 crore. Under 'Capital Section', the expenditure till December 2010 is Rs. 687.53 crore which works out to 41% of BE provision under this section.

3.2 On being asked about the reasons for shortfall in expenditure incurred till December, 2010 for the Financial Year 2010-11 under the above-mentioned heads, the Ministry in their written replies stated as follows :

“The expenditure under 'Information Technology', 'Office Accommodation' and 'Ready Built Flats' is incurred depending upon the physical progress of projects sanctioned by the Competent Authority. In respect of 'Information Technology', the expenditure trend shows that more claims are received in the later half/quarter of the year. The remaining two categories pertain to infrastructure related works which have a longer lead time from the proposal stage to final sanction stage. Hence, the expenditure is more in the last quarter as compared to the first three quarters of the year”.

3.3 Explaining their failure in utilizing the funds allocated under the head 'Information Technology' the Ministry in their written replies stated as under :

“'Information Technology' is meant for purchase of hardware and software relating to computerisation of the Income Tax Department. It involves various stages for finalising a project and implementation of the same. Some of the projects of computerisation could not meet their deadline from procedural/administrative angle.”

Demand No. 43 – Indirect Taxes

Major Head –2038

Minor Head –10

Total – Systems and Data Management

(Rs. in crore)

Year	BE	RE	Actuals
2008-09	120.37	269.17	145.82
2009-10	146.64	157.24	154.22
2010-11	131.80	83.78	127.91
2011-12	135.15	--	--

3.4 Upon noticing that budgetary allocations were revised upward despite decrease in Revised Estimates during the year 2010-11, the Committee desired to know the basis for arriving at such a large budgeted estimates for the year 2011-12.

In this regard, the Ministry in their written replies submitted as under :

“In Budget Estimates for 2010-11, total provision of Rs.131.80 crore made in the sub-head ‘Systems and Data Management’ included the provision of Rs.110.00 crore made for Directorate General of Systems under ‘Information Technology’ for consolidation project of computerization in CBEC. As expenditure of Rs.39.60 crore was incurred during first nine months of the financial year i.e. up to December, 2010 against the provision of Rs.110.00 crore provided in BE, the same was reduced to Rs.60.00 crore in RE leading to reduction of total provision for the sub-head to Rs.83.78 crore in Revised Estimates, 2010-11.

Some of the amount in respect of various stages of implementation of consolidation project of computerization in CBEC, which was payable during 2010-11 as per schedule of the contract but could not be paid due to time taken in procedural formalities, are likely to be paid during 2011-12. Keeping this in view, the provision of Rs.110.00 has been made for 2011-12 under ‘Information Technology’ for implementation of consolidation project of computerization in CBEC which is being administered by the Directorate General of Systems. This has consequential effect of increasing the provision for the sub-head to Rs.135.15 crore in Budget Estimates, 2011-12 compared to Revised Estimates for 2010-11”.

OTHER ISSUES

COLLECTION OF DIRECT TAXES

4.1 The details of the target fixed for collection of revenue in respect of direct taxes during the last three years and achievement made thereagainst as furnished by the Ministry in their reply are given below :-

Category	2007-08		2008-09		2009-10		2010-11	
	Collection (Rs. in crore)	% increase	Collection (Rs. in crore)	% increase	#Collection (Rs. in crore)	% increase	Collection (Rs. in crore.)upt o Feb. 2011	% increase
Corporate Income-tax	1,92,911	33.67	2,13,395	10.61	2,44,725	14.68	2,99,176	22.25
*Personal Income Tax	1,18,915	39.00	1,20,013	0.92	1,32,752	10.61	1,45,290	9.44
Wealth Tax	387	22.85	420	8.52	505	20.23	682	35.04
Total	3,12,213	35.63	3,33,828	6.92	3,77,982	13.23	445148	17.76

Note: - *Personal Income Tax collection includes collection under Security Transaction Tax, Fringe Benefit Tax and Banking Cash Transaction Tax.

Collection figures for 2010-11 are provisional.

4.2 The Committee sought to know as to whether the percentage increase in collection of corporate income tax is commensurate with the increase in growth of the companies during the year. The relevant data as furnished by the Ministry in this regard are as under :

Financial Year	Corporate Tax collection (Rs in crore)	Number of Corporate assessees
2008-09	2,13,395	3.27 lakh
2009-10	2,44,725	3.7 lakh

4.3 Further, as regards the data about collection of Personal Income Tax and number of Personal Income tax assessees, the Ministry furnished the following details :

Financial Year	Personal Income Tax collection Rs(in crore)	Number of Personal Income Tax assessees
2008-09	1,20,013	3,23,22,953
2009-10	1,32,752	3,37,14,542

4.4 On being asked about the details of contribution from salaries/business/profession to total direct tax collections, the Ministry in their written information stated that tax collection figures with reference to the source of income such as salaries/business/profession have not been maintained by them.

4.5 On enquiring about the Income tax collected at pre-assessment and post-assessment stage during last three years, the details as furnished by the Ministry in their written replies are given below :

(Rs. in crore)

Financial Year	Pre-assessment collection			Post-Assessment Collection		Gross Collection	Refund	Net Collection
	TDS	Adv. Tax	Self assessment	Regular Receipts	Other			
2007-08	104741	158121	21125	25720	43790	353497	41284	312213
2008-09	128230	143332	30779	21337	49247	372925	39097	333628
2009-10 *	145736	173417	32507	33274	50149	435083	57101	377982
2010-11*	160769	227027	37089	51027	42739	518651	73503	445148

*Figures of 2009-10 are provisional

TDS figures include Central TDS

4.6 It is seen from the above table that the Self Assessment Tax which has witnessed an increase of Rs. 9,654 crore during the year 2008-09 over the year 2007-08, has shown an increase of Rs. 6,310 crore during the two years period from 2008-09 to 2010-11.

4.7 Specifying the reasons for this less increase in Self Assessment Tax, the Ministry in their written information stated that :

“Presently, emphasis is on to collect Direct tax during the financial year itself by way of Advance tax, TDS, TCS etc. following principle of “pay as you earn”, hence, apparently less increase in respect to collection through Self Assessment Tax”.

4.8 As regards the details of TDS deducted and deposited into Government account during the years 2007-08 to 2010-11, the Ministry submitted the following figures :

(Rs. in Crores)

Financial Years	2007-08	2008-09	2009-10*	2010-11*(upto Feb. 2011)
TDS collected and deposited	104741	128230	145736	139738

* Figures for F.Y. 2009-10 & 2010-11 are provisional.

4.9 From the data of post assessment collection, it has been observed that the tax collected from 'others' has increased to Rs. 5,457 crore during the year 2007-08 to 2008-09, while it has increased to only Rs. 902 crore during the year 2008-09 to 2009-10. Further, during the year 2010-11, it has shown a decrease of Rs. 7,410 crore.

Collection of Indirect taxes

5.1 The break-up of targets fixed/tax collected/achievements made thereagainst in respect of Indirect Taxes during the years 2007-08 to 2010-11 is given as under :

(Rs. in crore)						
April-Jan. (P)						
Sl. No	Head	2007-2008	2008-2009	2009-2010	2009-10	2010-11
I	CUSTOMS					
	BE	98770	118930	98000	98000	115000
	RE	100766	108000	84477	84477	131800
	Actuals	104119	99879	83275	66281	108071
	% achievement of BE	105.4	84.0	85.0	67.6	94.0
	% achievement of RE	103.3	92.5	98.6	78.5	82.5
	% growth over previous year	20.6	-4.1	-16.6		63.0
II	UNION EXCISE*					
	BE	130220	137874	106477	105000	130471
	RE	127947	108359	102000	100391	133300
	Actuals	124234	109368	103765	71721	97301
	% achievement of BE	95.4	79.3	97.5	68.3	74.6
	% achievement of RE	97.1	100.9	101.7	71.4	73.0
	% growth over last year	5.6	-12.0	-5.1		35.7
III	SERVICE TAX					
	BE	50200	64460	65000	65000	68000
	RE	50603	65000	58000	58000	69400
	Actuals	51300	60937	58319	42693	51477
	% achievement of BE	102.2	94.5	89.7	65.7	75.7
	% achievement of RE	101.4	93.7	100.6	73.6	74.2
	% growth over last year	36.4	18.8	-4.3		20.6
IV	TOTAL INDIRECT					

	TAX(I+II+III)					
	BE	279190	321264	269477	268000	313471
	RE	279316	281359	244477	242868	334500
	Actuals	279653	270184	245359	180695	256848
	% achievement of BE	100.2	84.1	91.1	67.4	81.9
	% achievement of RE	100.1	96.0	100.4	74.4	76.8
	% growth over last year	15.8	-3.4	-9.2		42.1

Source: Pr. CCA

*- Inclusive of cess administered by Departments other than D/o Revenue.

P- Provisional (Exclusive of cess administered by Departments other than D/o revenue).

5.2 It is seen from the figures provided by the Ministry that while the percentage growth of collection of taxes during 2010-11 from Customs and Central Excise has shown an increase of 63% and 35.7% respectively, growth in the collection from service tax is only 20.6%.

5.3 Similarly, effective tax rate of sample companies in the manufacturing and service sectors (Financial year 2009-10) as stated in revenue foregone statement is given below :

Sl. No.	Sector	Number of companies	Share in total profits (in %)	Share in total tax payable (in %)	Effective tax rate (in %)
1.	Manufacturing	115366	51.7	51.33	23.40
2.	Service	311687	48.27	48.67	23.77
	Total	427053	100.00	100.00	47.17

5.4 The effective tax rate in percentage terms for service sector is quite illuminating in as much as it is only 23.77% as compared to 23.40% for the manufacturing sector and the share of service sector in total tax payable is only 48.67% as compared to 51.33% for manufacturing sector. Although the service sector is rapidly growing and contributing more as percentage of the GDP, its share in total tax payable is less than the manufacturing sector.

5.5 While submitting justification for the same, the Ministry in their written replies submitted as under :

“According to the Economic Survey 2010-11, the share of services in India’s GDP at factor cost (at current prices) is 55.2% in the year 2009-10. If

construction is also included, then the share of services increases to 63.4% in the year 2009-10.

Though services constitute 63% of GDP, current service tax revenue arises out of only a part of that 63%. **A large portion of services sector is not subject to service tax.** Besides a sizeable portion of services are provided by unorganized and informal sectors who are below the threshold levels”.

5.6 The composition of shares of services in India’s GDP at current prices during the year 2009-10 is given as under :

Sector	2009-10
Trade	14.9
Hotels and restaurants	1.4
Railways	1.0
Storage, Communication, transport other than railways	6.8
Financial services	5.4
Real estate, ownership of dwellings, and business services	11.4
Community, social and personal including public administration and Defence	14.4
Construction	8.2
Total services	63.4

Source: Economic Survey 2010-11

5.7 Upon noticing the fall in collection of Indirect taxes particularly the service tax collection, the Committee in 12th Report (15th Lok Sabha) had recommended that :

- (i) The Department must subject the service tax returns to strict scrutiny and efforts made to arrest the declining trend of service tax collection inspite of its widening ambit.
- (ii) Creation of reliable database of service providers, so as to identify potential tax payers as well as evaders and progressively bridge the gap between tax paying and tax-evading service providers.

5.8 Upon noticing from the action taken replies furnished by the Ministry that entire decline in collections were due to economic slowdown and duty reduction in central excise and service tax, the Committee in para 23 of 27th Report had desired that the Government should enquire into the reasons for revenue shortfall, which would also include in its ambit incidence of duty / tax evasion and enforcement laxity.

5.9 In their action taken replies to the said recommendation the Ministry stated that the fall in revenue collection during the year 2009-10 was solely due to global economic slow down and the fiscal stimulus provided by way of duty cut.

Overall Direct/Indirect Tax collections as a percentage of GDP

Direct Taxes

6.1 The details of the overall Direct Tax collection as a percentage of GDP at current market price for the past three years as furnished by the Ministry in their reply are given below :

FINANCIAL YEAR	NET COLLECTIONS OF DIRECT TAXES (Rs. in crore)	GDP AT CURRENT MARKET PRICES* (Rs. in crore)	DIRECT TAX- GDP RATIO
2007-08	312213	4986426	6.26%
2008-09**	333828	5582623	5.98%
2009-10***	377982#	6550271	5.77%
2010-11 upto Feb. 2011	336177#	N.A.	N.A.

*GDP figures as per Economic Survey 2010-11

** Figures of 2008-09 are provisional

*** Figures of 2009-10 are based on quick Estimates.

Collection figures for 2009-10 & 2010-11 are provisional.

6.2 The reasons as attributed by the Ministry for decrease in Direct Tax-GDP ratio are as under :

- Increase in threshold limit for individuals (excluding Senior Citizens and Women)/ HUF from Rs 1,00,000 to Rs 1,10,000 in F.Y. 2007-08 (for AY 2008-09) which was further increased to Rs 1,50,000 in FY 2008-09 (for AY 2009-10) and to Rs 1,60,000 in FY 2009-10 (for AY 2010-11).
- Consequent increase in the threshold limits for senior citizens and women in the above financial years.
- The rates of deduction of tax at source (TDS) were rationalized for various provisions by the Finance Act 2009. It affected the revenue collections under TDS during FY 2009-10, although the overall collection under TDS increased in FY 2009-10 as compared to FY 2008-09.
- The surcharge on Personal Income Tax, Fringe Benefit Tax (FBT) and Banking Cash Transaction Tax (BCTT) was withdrawn in the budget for 2009 thereby affecting the revenue collections during the financial year 2009-10.
- The provisions of Section 35AD of Income tax Act, 1961 were inserted by Finance Act, 2009 with a view to granting certain investment-linked incentives to assesseees carrying on a specified business thereby granting

accelerated depreciation and affecting the taxable profits.

- The contribution of Services sector to the GDP (which is above 50 %) has been increasing consistently. However, on account of the admissible deductions/exemptions etc granted under the Income Tax Act to the services industry, the profits chargeable to tax have not proportionately increased.
- On overall basis, revenue foregone in gross amount terms on Corporate Taxpayers in F.Y. 2007-08 to 2009-10 has increased from Rs 62,199 crore to Rs 72,881 crore.

6.3 Further, the details of Direct tax- GDP ratio at Factor Cost of 2004-05 are given as under :

FINANCIAL YEAR	NET COLLECTIONS OF DIRECT TAXES	GDP AT FACTOR COST 2004-05 PRICE*	DIRECT TAX-GDP RATIO (at factor cost)
	(Rs. in crore)	(Rs. in crore)	
2007-08	3,12,213	38,98,958	8.00%
2008-09**	3,33,828	41,62,509	8.00%
2009-10***	3,77,982#	44,93,743	8.40%

*GDP figures as per Economic Survey 2010-11

** Figures of 2008-09 are provisional

*** Figures of 2009-10 are based on quick Estimates.

Collection figures for 2009-10 are provisional.

Indirect Taxes

6.4 Similarly, the following table indicates the position of overall indirect tax collection as percentage of GDP during the year 2007-08 to 2009-10 :

(Rs. in crore)

Year	Indirect Tax collection	Indirect Tax Growth (%)	GDP at current market prices	GDP growth rate (%)	Indirect Tax-GDP Ratio (%)
2007-08	279653	16.1	4986426	16.40	5.61
2008-09	270184	-3.4	5582623	12.83	4.84
2009-10	245359	-9.2	6550271	17.33	3.75

Revenue foregone under the Central Tax System

7.1 The figures of revenue foregone for Financial Years 2009-10 and 2010-11 in respect of both direct and indirect taxes are given below :

(Rs. in crore)

	Revenue Foregone 2009-10	Actual collection 2009-10	Revenue Foregone 2010-11	Estimated collection 2010-11
Corporate Income-tax	72,881	2,44,725	88,263	2,96,377
Personal Income-tax	45,142	1,32,832	50,658	1,49,066
Excise Duty	1,69,121	1,02,858	1,98,291	1,33,300
Customs Duty	1,95,288	85,847	1,74,418	1,31,800
Total	4,82,432	5,66,262	5,11,630	7,10,543

7.2 It is revealed from the above table that the revenue foregone for the corporate tax assesseees has sharply increased from Rs. 72,881 crores in 2009-10 to Rs. 88,263 crores in 2010-11. As a percentage of actual tax collection also, revenue foregone has significantly increased. Particularly, the revenue foregone in respect of customs duty was as high as Rs. 1,95,288 crores in 2009-10 with actual tax collection in 2009-10 being Rs. 85,847 crores; while in 2010-11, customs revenue foregone was equally high to the tune of Rs. 1,74,418 crore with the estimated tax collection in the year being Rs. 1,31,800 crores.

7.3 While furnishing the justification for the revenue foregone in corporate income tax and personal income tax, the Ministry submitted as follows :

“Regarding direct taxes, in the case of **corporate tax payers**, the absolute amount of revenue foregone is estimated at Rs. 88,263 crores for 2010-11, which is mainly as a result of higher incomes of the corporate tax payers which has also resulted in absolute increase in the corporate tax collection. However, as indicated above, corporates are paying an increasing proportion of their income as direct taxes as their effective tax rate has increased over the years. With regard to the **personal income tax**, the revenue foregone is estimated at Rs. 50,658 crore for 2010-11. The maximum revenue foregone is due to the deduction on account of certain savings, investments and payments available under section 80C of the Income-tax Act, 1961. This is basically an instrument for encouraging savings in the economy. The other major revenue foregone in this category is due to higher basic exemption limit for senior citizens and women. These incentives are a conscious decision of the government”.

7.4 Details of the revenue foregone for corporate income tax, due to incentives given to corporate tax payers, as furnished by the Ministry in their written replies are given below :

(Rs. in crore)

Financial Years	Revenue Foregone On Corporate Taxpayers	Corporate Tax Collection	Revenue Foregone As a Percentage of Corporate Tax Collection (%)	Effective Tax Rate (%) [Ratio of Total Taxes Paid to the Total Profits Before Taxes]
2005-06	34618	101277	34.18	19.26
2006-07	45034	144318	31.20	20.55
2007-08	62199	192911	32.24	22.24
2008-09	66901	213395	31.35	22.78
2009-10	72881	244725	29.78	23.53

Revenue foregone on account of export promotion concessions

7.5 Revenue foregone by way of various concessions given to export promotion schemes and SEZs is given as under :

(Rs. in crore)
(Up to Feb. 2011)

	2007-08	2008-09	2009-10 (Provisional)	2010-11 (Estimated)
Revenue foregone on account of export promotion concessions other than SEZs	57,345	46,729	39,388	49,976
Revenue foregone on account of SEZs	1,804	2,324	3,987	8,614

7.6 The actual figures of the revenue foregone in respect of SEZ units has turned out to be higher than the projected figures as can be seen from the table below. -

(Rs. in crore)

Amount Of Revenue Foregone With Respect To SEZ Units	Projected Figures For 2008-09	Actual Figures For 2008-09	Projected Figures For 2009-10	Actual Figures For 2009-10
	1222	2677	3183	4233

7.7 While submitting their justification in regard to increase in revenue foregone in respect of export promotion concessions, during the year 2010-11 vis-à-vis 2009-10, the Ministry stated that the increase in the revenue foregone is due to increase in exports and profits reported by businesses operating in SEZs.

Action taken on the previous recommendation

7.8 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.

7.9 On being asked about the latest position of setting up of the Study Group and maintaining zone wise data, the Ministry in their written replies submitted as under :

Setting up Study Group

“As directed by the Committee, a Study Group comprising representatives of CBEC, CBDT, DOC and Prof. R. Kavita Rao of NIPFP has already been set up on 13.7.2010 to carry out the study and undertake a review of the scheme and functioning of the SEZs. The Group has been unable to proceed in the matter because of non-receipt of data required for the study from the Department of Commerce. After a lot of efforts and communications, some data was received from DOC on 21.1.2011. The data was scrutinized and was found to have several gaps/ internal inconsistencies. The same has already been pointed out to DOC for urgent rectification so that the data could be examined for the purpose of correctly carrying out the Cost-Benefit analysis of the SEZ scheme as desired by the Standing Committee. The Group is still awaiting receipt of such data from DOC”.

Maintaining zone-wise data

“As regards maintaining zone wise data on revenue foregone/ generated, it is stated that DOC is the administrative department for SEZs. Revenue Secretary has accordingly requested Commerce Secretary to put in place a mechanism for compilation of such data and furnishing the same to DOR on a monthly basis. DOC has informed that the data would be furnished in due course”.

Effective tax rate of companies

8.1 Profile of sample companies across range of profits before taxes (financial year 2009-10) [sample size – 427811] as mentioned in revenue foregone statement is given below :

Sl. No.	Profit Before Taxes	Number of Companies	Share in Profits Before Taxes (in %)	Share in Total Income (in %)	Share in Total Corporate Income tax Payable (in %)	Ratio of Total Income to Profits Before Taxes (in%)	Effective Tax Rate (in %)
1.	Less than Zero	149283	0.00	0.38	0.33	-	-
2.	Zero	28551	0.00	3.25	1.63	-	-
3.	Rs. 0-1 Crore	223888	3.13	3.72	3.42	77.90	25.70
4.	Rs. 1-10 Crore	20621	7.54	7.77	8.00	67.46	24.97
5.	Rs. 10-50 Crore	3880	10.08	9.53	10.19	61.92	23.79
6.	Rs. 50-100 crore	680	5.71	5.08	5.54	58.19	22.82
7.	Rs. 100-500 crore	692	17.79	16.31	17.46	60.03	23.09
8.	Greater than Rs. 500 Crore	216	55.75	53.95	53.43	63.35	22.55
8.	All Sample Companies	427811	100.00	100.00	100.00	65.47	23.53

8.2 Profile of sample companies across range of effective tax rate* (financial year 2009-10) [sample size – 427811] as given in revenue foregone statement is given below :

Sl. No.	Effective tax rate (in %)	Number of Companies	Share in Total Profits (in %)	Share in Total Income (in %)	Share in Total Tax Payable (in %)
1.	Less than Zero and Zero	164984	3.05	0.44	0.33
2.	0-20	68918	43.15	21.03	26.75
3.	20-25	14491	7.83	8.00	7.57
4.	25-30	24049	15.46	18.97	17.79
5.	30-33.99	84074	15.66	22.77	21.46
6.	>33.99	42744	14.83	25.53	24.46
7.	Indeterminate	28551	0.00	3.25	1.63
8.	All Sample Companies	427811	100.00	100.00	100.00

*Effective tax rate is inclusive of surcharge and education cess.

8.3 On being asked about the reasons for the low rate of collection of taxes from high profit making companies than the rate of tax collection for individuals, the representatives of the Ministry, during evidence stated as follows :

“The major revenue collection in case of corporate tax comes from accelerated depreciation. In general, the correlation is that the higher profit making companies have got a much higher asset base, and therefore, since the accelerated depreciation claim comes higher, their effective tax rate goes lower than those whose incomes are on the lower side”.

8.4 Further, the Committee during evidence desired to know the amount involved in the ad-hoc exemption given at the level of Finance Minister, Secretary (Revenue) and the Chairman (CBDT & CBEC) during the years 2008-09 to 2010-11. In response, the data as furnished by the Ministry are as follows :-

“The data pertaining to exemptions issued during the financial years 2008-2009, 2009-2010 and 2010-2011 are as follows :

	Customs					
	2008-2009		2009-2010		2010-2011	
	MOSF (R)	FM	MOSF (R)	FM	MOSF (R)	FM
No. of Ad-hoc Exemptions issued	25	0	41	7	24	1
Total Duty foregone on exemption (Rs. in crore)	10.05	0	5.23	111.53	6.89	4.69

	Central Excise					
	2008-2009		2009-2010		2010-2011	
	MOSF (R)	FM	MOSF (R)	FM	MOSF (R)	FM
No. of Ad-hoc Exemptions issued	2	0	0	0	1	1
Total Duty foregone on exemption (Rs. in crore)	0.55	0	0	0	0.04	3.97

	Service Tax					
	2008-2009		2009-2010		2010-2011	
	MOSF (R)	FM	MOSF (R)	FM	MOSF (R)	FM
No. of Ad-hoc Exemptions issued	1	0	1	0	0	2
Total tax foregone on exemption (Rs. in crore)	1.34	0	0.01	0	0	45.77

No ad-hoc exemption has been issued at the level of Revenue Secretary and the Chairman”.

Unaccounted money both within and outside country

9.1 The Committee sought to know about the proactive steps taken by the Government to reduce the generation of black money in the country. The reply, as furnished by the Ministry in this regard is given below :

“Income Tax Department takes several deterrent and punitive steps to unearth unaccounted money and curb tax evasion. These include scrutiny of returns, surveys, search and seizure action, imposition of penalty and launching of prosecution in appropriate cases. Information Technology has also been used in a big way in collection, collation and dissemination of taxpayer information. Tax Information Network (TIN) has been set up as a depository of important tax related information which can be accessed by the Department. The basic components of TIN are information relating to Tax Deduction at Source (TDS), payment of taxes and high value transactions reported in Annual Information Returns (AIR). The Department has set up an Integrated Taxpayer Data Management System (ITDMS) to electronically collate information collected from various sources i.e. Tax Deduction at Source, Electronic Filing of Return, Annual Information Returns, Central Information Branches (CIB) etc, to create 360 degrees profile of High net-worth assesses. Information received from Financial Intelligence Unit under the Department of Revenue regarding suspicious transactions from various banks, insurance companies etc, are also investigated by the Income Tax Department.

Further, the Department has implemented Computer Assisted Selection of Scrutiny (CASS) wherein returns are selected for scrutiny on the basis of comparison of the information gathered from various sources with the information available and declarations made by the assesseees in the return of income.

9.2 Further, the steps taken by the Government to restrain the galloping rise in black money stashed away in foreign banks, the Ministry submitted as under :

“India has formulated a five pronged strategy to tackle this problem. This consists of joining the global crusade against ‘black money’; creating an appropriate legislative framework; setting up institutions for dealing with illicit funds; developing systems for implementation; and imparting skills to the manpower for effective action”.

9.3 Besides, following legislative measures have been proposed by the Government. The details thereof are as under :

“Vide the Finance Act, 2011 Anti- avoidance measures with regard to Non-cooperative Jurisdictions were introduced. With a view to discourage transactions by a resident assessee, with persons located in any country or

jurisdiction which does not effectively exchange information with India, a tool box of counter measures in respect of transactions with persons located in such notified jurisdictional area have been provided in the form of a new section 94 A of the Act. [Clause 14 of the Finance Act, 2011]

9.4 Upon noticing that no proposal is under consideration of the Ministry for getting any fresh study conducted on the quantum of unaccounted money in the country, the Ministry was reminded that the Committee in para 8 of their 2nd Report (15th Lok Sabha) had emphasized the need to conduct a thorough assessment /survey on unaccounted income/wealth.

9.5 Questioned about the study on the estimation of unaccounted income /wealth both inside and outside the country, the Ministry in their post-evidence replies submitted as under :

“The Government is getting a fresh study conducted on unaccounted income/wealth both inside and outside the country bringing out the nature of activities engendering money laundering and its ramifications on national security. The Study will be independently conducted by three Government Institutes with inputs from various ministries/ departments. Memorandums of Understanding have been signed with the institutes in March, 2011. The Study will be completed over a period of 18 months”.

9.6 Apprising the steps taken by the Government to identify the different tax havens destinations to where people are depositing black money from India; the Ministry in their written replies stated as follows :

“The Government has also prioritized countries/jurisdictions with which it wants to enter into Tax Information Exchange Agreements (TIEAs) so that information regarding trade mispricing or secret bank accounts or ownership information or any other information can be obtained from such countries/jurisdictions. TIEAs are being negotiated with these countries/jurisdictions since we do not have DTAAs with them. Negotiation of TIEAs with 12 countries/jurisdictions have been completed which are Argentina, Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Costa Rica, Guernsey, Isle of Man, Jersey, Marshall Islands, Monaco and Saint Kitts & Nevis. Out of these cabinet approval has been obtained in 9 cases and TIEAs have been signed with 5 jurisdictions (Bahamas, Bermuda, British Virgin Islands, Cayman Islands and Isle of Man)”.

9.7 The Committee further desired to know about the success achieved by the Indian Government to find out the source of funds routed through Mauritius. The Ministry in their written response submitted as under :

“Information is collected on a case-to-case basis through the FT&TR Division of CBDT to verify the source of funds being invested from outside India, including Mauritius, where there is ongoing tax scrutiny or tax investigation has been initiated on the basis of credible information. Necessary action under the Income Tax Laws is taken to bring to tax any unexplained investment routed from outside the country. However, the data as regards unexplained investment through Mauritius brought to tax is not centrally maintained in the Ministry as the information is dispersed all over the country with jurisdictional assessing officers and investigating officers”.

“The Income Tax Overseas Units (ITOUs) are required to assist the Indian competent authority in various works carried out by it like negotiation of DTAA, negotiation of TIEAs, exchange of information, Mutual Agreement Procedure, representation in various international meetings, etc. In addition it is required to help investors by providing clarification on tax issues”.

9.8 On being asked as to how the Income Tax Overseas Units are useful for recovering the black money, the Ministry in their written replies stated as follows :

“At present two units at Singapore and Mauritius are fully operational. These units have been helpful in obtaining information under the DTAA with these two countries. The ITOU officers are assisting in exchange of information as requested by the field officers. Following receipt of information necessary enquiries/investigation are being conducted by the field officers. Any estimation of recovering black money due to functioning of ITOUs is not possible as they have an indirect effect on the whole process”.

Tax Revenues raised but not realized

(As at the end of Reporting Year 2009-2010)

Major Head	Description	Amounts under dispute (Rs. in crore)					Amounts not under dispute (Rs. in crore)					Grand Total
		Over 1 year but less than 2 years	Over 2 years but less than 5 years	Over 5 years but less than 10 years	Over 10 years	Total	Over 1 year but less than 2 years	Over 2 years but less than 5 years	Over 5 years but less than 10 years	Over 10 years	Total	
	Taxes on Income & Expenditure	31,170	21,039	13,039	748	66,536	18,530	12,941	9,990	1,488	42,949	109,485
0020	Corporation Tax	19,840	9,782	3,964	594	34,180	7,704	5,755	3,254	660	17,373	51,553

0021	Taxes on Income other than Corporation Tax	11,870	11,257	9,075	154	32,356	10,826	7,186	6,736	828	25,576	57,032
	Taxes on Commodities & Services	10,277	11,747	4,231	828	27,083	1,514	3,324	2,802	706	8,346	35,430
0037	Customs	1,612	1306	712	260	3889	349	1426	872	198	2845	6734
0038	Union Excise	4699	8432	3406	566	17104	900	1645	1872	461	4880	21984
0044	Service Tax	3966	2008	114	1.63	6089	264	253	58	47	623	6712
	Total	41987	32786	17270	1576	93619	20044	16265	12792	2194	51296	144915

10.1 The following shortcomings have been noticed from the above said figures :

Amounts under dispute

- Tax revenue of Rs. 93,619 crore is pending from 1 year to over 10 years under dispute for realization. Out of this, Rs. 66,536 crore (more than 70%) is pending under taxes on Income and Expenditure.
- Most of the revenue under taxes on Income and Expenditure is pending for realization under corporation tax (Rs. 34,180 crore).

Amounts not under dispute

- Rs. 51,296 crore is pending for over 1 year to 10 years not under dispute, out of which Rs. 42,949 (more than 82%) is pending under taxes on Income and Expenditure.
- Major portion of amounts under dispute and not under dispute from taxes on commodities and services are pending under Union Excise.

10.2 While specifying the reasons for this pendency, the Ministry in their written replies stated as under :-

“The amount under dispute represents demand pending before various judicial authorities like CIT(A), ITAT, High Court/Supreme Court. Though the department is making efforts for vacation of stay and early hearing wherever possible, the department has little control over disposal of these pendency before judicial authorities.

The raising of demand and recovery of outstanding demand is a continuous process in which old demands are liquidated (by way of collection or reduction) and new demands are added. Though Rs 42,949 crore is categorized as demand pending for over 1 year to 10 years not under dispute, it is submitted that collection of outstanding demand has to be measured from

collectible demand (net collectible demand). Though a particular demand may not be under dispute but this alone is not enough for enforcing its recovery because the recovery of a demand is dependent upon the relevant other factors. Such factors may include non-traceability of the tax payers, inadequacy of assets or no assets available with the tax payer for recovery, liquidation of company, case pending before BIFR, installment allowed by the authorities concerned after considering the financial position of the assessee etc. Sometimes, demand is not enforceable as it is a protective assessment. Every year while fixing the targets for collection out of arrears, the collectability of the demands is considered based on the reports received from the field and targets are set accordingly”.

10.3 During evidence, the Committee sought to know about the number of taxpayers in each category for “amounts under dispute” and also “amounts not under dispute”. In their written replies submitted to the Committee, the Ministry stated that the said figure is not being maintained.

10.4 Further, on being asked during evidence as to whether demands raised in the Hasan Ali Khan Group has been included in the above-said figures, the Ministry in their written replies stated as under :

“In March 2010, the tax demand in Hassan Ali Khan Group of cases was included in the columns for tax demand raised and realizable. However, the demand was not included in Col.12 as its status, whether in dispute or otherwise, was not known. The CIT(A) had confirmed the tax demands by appellate orders passed in March 2010 itself, and the information as to whether further appeal had been filed in ITAT was not available. This inadvertent mistake was later rectified”.

10.5 On being asked as to how the Government intends to recover the big chunk of tax revenues pending for more than 10 years, the Ministry replied as under :

“In cases where big chunk of tax revenue is pending for more than 10 years, if there are no impediments for recovery as stated above, necessary efforts are being made by the Department to expedite the disposal of appeals, get the stay vacated, pursue the claims before various authorities like the official liquidator, Special Courts, BIFR/AAIFR etc. and by taking all recovery steps under the Income Tax Act”.

10.6 On being asked as to whether there should be any prescribed time limit for disposal of cases upto the Appellate Tribunal, the Ministry stated as under :

“In the existing framework the appellate authorities, up to the Appellate Tribunal, have been legally mandated to pass orders, in the cases pending

before them, in a prescribed time limit. Section 250 (6A) of the Income-tax Act, 1961 requires the Commissioner of Income-tax (Appeals) to pass an order within a period of one year from the end of the financial year in which an appeal is filed before him. Further, legislative mandate has also been provided in the case of appeals lying before the ITAT. As per the provisions of section 254(2A) of the Act, the tribunal is required to pass orders within four years from the end of the financial year in which an appeal before it is filed. These time limits for commissioner of Income-tax (Appeals) as well as for ITAT are advisory in nature. Also, in the cases where the tribunal has granted stay in proceedings under its consideration, such stay can be granted for a period up-to 180 days which can at the maximum be extended upto 365 days in all and the tribunal has to dispose-off the appeal within this period”.

10.7 On being asked about the steps taken by the Department to follow up the cases pending for realization, the Ministry in their written replies stated as under :

“The Department has constantly focused on recovery efforts and recovery priorities are advised through the annual Action Plan and other performance monitoring mechanism. The Assessing officers and the Tax Recovery officers have statutory powers under the Income Tax Act (including attachment of bank account, debtors, etc, attachment and sale of immovable property, recovery surveys etc.) that are exercised to enforce recovery of demand.

At the administrative level, necessary Instruction/s on recovery of tax demand and streamlining the recovery procedure are issued by CBDT from time to time. These include guidelines to deal with petitions of stay of outstanding demands. Some such guidelines are enumerated below:

- a) Stay Petitions filed before the Income Tax Authorities are to be decided within two weeks.
- b) A demand can be stayed only if there are valid reasons for doing so, and not merely on the ground that an appeal has been filed.
- c) Stay may be given by the I.T. Authorities, subject to certain conditions which may include part payment of the demand, may be in installments, or furnishing of some security against default.
- d) The stay orders are reviewed periodically and if the assessee does not co-operate during the recovery proceedings, stay may be vacated.
- e) Time limit of two weeks has been prescribed for giving the effect of an appeal order and for deciding rectification application.
- f) CsIT (A) have been advised to ensure expeditious disposal of cases especially those involving substantial revenue. Monthly targets are kept so as to achieve this objective.

- g) Vide Instruction No. 17/2003 dated 23.12.03, the Board has instructed all CCsIT/DgsIT (inv) that they should invariably request the ITAT for priority hearing of appeals wherever demands in dispute is Rs. 10 crore or more, for early resolution of the dispute as also recovery of disputed demand.
- h) Through Instruction No. 12/2004 dated 18.10.2004, the Board has instructed all CCsIT/DgsIT (inv) to accord utmost priority to the petition for stay of recovery of demand by assesseees in the cases pending before ITAT. The Board has further instructed that:
 1. Department Representatives (DR) should move written submission before ITAT opposing grant of stay on applications filed by assesseees. DR should also submit that stay granted, if any, should be conditional and covered by bank guarantee in favour of Revenue. DR should also ensure that wherever the conditions prescribed under Rule 35A of the Appellate Tribunal Rules, 1963 are not met, attention of the Bench is drawn in writing to sub rule (3) of said Rule.
 2. In case where stay has been granted by ITAT, the Board desires that after examining the legal position involved in the matter, immediate steps should be taken on case to case basis by jurisdictional CCIT/DGIT/CIT/DIT to get stay vacated or modified or to seek appropriate orders, on priority basis, by moving the jurisdictional H.C.
 - i) Requests are also made to the Settlement Commission to dispose of high demand cases on priority.
 - j) An amendment had been made in section 254(2A) w. e. f. 01.10.2008 whereby the ITAT can give stay from payment of demand to the assessee now with all its extensions up to 365 days and such stay gets vacated automatically on expiry of this period, even if delay in disposing off the appeal is not attributable to the assessee.
 - k) The field authorities have also been advised in recent meetings to try in consultation with the Standing Counsels, to get the stays granted by the courts vacated, wherever possible.”

CBEC

10.8 It has been noticed that the Department is not able to realize tax revenue amounting to Rs. 35,430 crore in case of taxes on ‘commodities and services’ out of which an amount of Rs. 8,346 crore is not under dispute.

10.9 On being asked about the reasons for non-recovery of revenue pending for more than one year to more than ten years and the amount involved therein, the

Ministry in their written replies stated that the information is being collected from the field formations and will be supplied separately.

Refund Cases and interest paid on refunds

Refund cases in CBDT

11.1 When asked to furnish the details about the number of refund cases and interest paid on refunds the Ministry in their written replies stated that as on 31.12.2010, overall 42.2 lakh returns of income, in which refund was claimed, were pending processing. This included returns of income filed during Financial Year 2009-10 and 2010-11. The break-up of refunds pending (All India) as on 01.12.2010 is as follows :

(Figure in lakh)

Returns brought forward as on 01.04.2010	Returns received upto November 2010	Total returns of processing	No of Returns in which refund is due	No. of returns processed out of col.(4) upto Nov.2010	Pending refund returns as on 01.12.2010
233.20	83.49	418.40	87.45	45.19	42.2

11.2 Further, as regards the interest paid on refunds during the last three years, the Ministry submitted the following figures :

(Rs. in crore)

Financial Year	Interest u/s 244A paid
2007-08	4410
2008-09	5800
2009-10	4700*

* as per data base of refunds issued by OLTAS

11.3 On being asked about the reasons for this huge pendency of refunds, the Ministry stated as follows :

“There has been an increase in the workload of the department during last one decade, whereas the resources did not grow in the same proportion. As a result, department has been receiving more returns than the processing capacity/ resources of the Department”.

11.4 Specifying the steps taken by the Department to speed up and streamline the refund disbursal system, the Ministry stated as follows :-

- (i) “Promoting e-filing of the returns for speedy processing. As of now it is mandatory for Corporate taxpayers and all non-corporate taxpayers, who have to get their accounts compulsorily audited u/s 44AB of the Income Tax Act, 1961, to e-file their return of Income.
- (ii) Centralized Processing Centre (CPC) at Bengaluru has been set up for processing of e-filed returns of the entire country and manually filed returns of Karnataka & Goa Region.
- (iii) Steps to set up two more such CPCs at Manesar and Pune are underway. Decision to set up one more CPC in Kolkata has been taken. These CPCs will process the manually filed paper returns to speed up the processing work.
- (iv) Through Citizens’ Charter and other press releases issued by the Department, taxpayers are requested to carefully mention the relevant particulars in return of income, and especially to avoid the common deficiencies that may cause delays as mentioned above.
- (v) Verification of tax credit is a sine-qua-non for speedy processing. TDS deductors are required to compulsorily e-file their TDS returns on quarterly basis.
- (vi) To improve the fidelity of the mechanism and to reduce mismatches between deductee claims and corresponding tax deduction statement from deductors, quoting of PAN by deductors in their return has been made mandatory. For improved compliance, failure to provide PAN number to deductor now results in higher rate of TDS.
- (vii) Facility of viewing individual Tax Credit Statement in Form 26AS is made available to tax payers so that they can verify the TDS details before filing their return of income and take proper steps with the deductor(s) to rectify mistakes, if any.
- (viii) To expedite faster issue, dispatch and delivery of refunds, Refund Banker Scheme has been extended to whole of India for non-corporate taxpayers since 2nd August 2010.
- (ix) Grievance Redressal Mechanism has been strengthened and prompt disposal of taxpayer grievances and its continuous monitoring has been made necessary. Income Tax Ombudsman across the country has been created to ensure that delivery of this objective becomes effective.
- (x) The Income-tax Department is constantly monitoring the mechanism/procedure of issuance of refunds so as to upgrade the existing system to avoid delays and improve taxpayer service in this respect. The

Chairman CBDT directly undertook upon himself day to day monitoring about progress of disposal of Refund cases.

- (xi) As a short term necessity, despite impinging upon the overall integrity of data that is captured due to electronic processing, in cases where it has been found difficult to process Returns of income on the AST like in case of difficulty in PAN migration, instruction was issued allowing the Assessing Officer to process these returns on stand alone software (TMS) from 15th March 2011 onwards”.

11.5 According to the Ministry, as a result of above measures, there is significant improvement in refund processing in current year and even the returns of income filed during the year have been processed in large numbers. The outgo on account of refunds till February, 2011 has been more by about 33% than the outgo in the corresponding period of Financial year 2009-10.

11.6 The Ministry further stated that the number of pending refund cases have gone up in the past but the department has been taking steps to reverse the situation and it is expected that by the end of the current financial year 2010-11, the number of returns of income claiming refund but pending to be processed would decrease substantially. Moreover, all the returns of income claiming refund filed during the financial year 2009-10 will get processed and disposed of by 31.03.2011.

11.7 On being asked to know the number of refund cases pending disposal beyond the stipulated 4 months, the Ministry in their written replies submitted as under :

“The law stipulates that Return of Income received in a particular financial year can be processed upto one year from the end of the financial year in which the Return is received. Pendency of refund claim is not maintained on the basis of the age of the return of income in which such claim is made. However, cumulative pendency of the returns filed in the previous FY and current FY at the end of a particular month is maintained. Hence, the number of cases where refund claims are pending disposal beyond the stipulated 4 months cannot be submitted.”

11.8 The Committee further sought to know the following information about the refunds pending for disposal :

- Maximum and minimum amount of refund pending for disposal ;
- No. of cases above Rs. 1 lakh are pending and No. of small cases involving amount of Rs. 100 or so are pending;

- Oldest case pending for refunds, for how many years it is pending and amount involved therein.

11.9 The Ministry in their written replies on the above said issues stated that no such specific case details are maintained with the Department.

Action taken on previous recommendations

11.10 During the course of examination of DFGs (2009-10) the Committee upon noticing the delay in income tax refunds had desired the Income Tax Department to pay special attention to prompt settlement of refund claims, which has been an area causing needless hardship to common assesseees. (Para 14, 2nd Report, 15th Lok Sabha).

11.11 In their Action Taken reply, the Ministry had stated as follows :

“The Department has put in place a scheme referred to as ‘Refund Banker Scheme’ for bulk handling of refunds by the designated banker SBI. It deals with the Refund Banker which picks up the refunds from Assessment information System (AST) database after the processing of I.T. return. After the refunds are picked up, these are dispatched through paper mode in T+3days & through ECS mode in T+1day. Refund Banker facility has been extended in phases and is now available at 15 stations (Bangalore, Chennai, Patna, Mumbai, Kolkata, Delhi, Allahabad, Ahmedabad, Bhubneshwar, Kochi, Trivendrum, Pune, Hyderabad, Chandigarh, Kanpur) for non-corporate assesseees. The Refund Banker Scheme though has limited coverage but the scheme has handled close to 18.6 % of total refunds issued in FY 2008-09”.

11.12 Having observed that the coverage of the scheme is only about 18.6% of total refunds issued in (2008-09), the Committee in para 14 of the 17th Report (15th Lok Sabha) had desired the Ministry to extend the scope of the Scheme to all such stations, where delays beyond four months in issue of refunds is a regular feature. The Committee had also desired to be apprised of the efficacy of this scheme in ensuring prompt receipt of refunds.

11.13 In their action taken replies to the above said recommendations the Ministry stated that :

“The Refund Banker Scheme has ensured that the refunds are given speedily to the taxpayers once the Income Tax Returns are processed. The status of the refunds paid or unpaid is also available to the taxpayers on internet. The

Refund Banker Scheme is also available to the taxpayers all across the country who have filed Income Tax Returns through electronic mode and where such returns are being processed in the Central Processing Centre at Bangalore. The Department is examining the feasibility of the expanding the scope of scheme in view of the recommendations of the Committee”.

11.14 Further, with regard to the revenue loss occurring due to avoidable payment of interest on refunds, the Committee in para 15 of the 2nd Report (15th Lok Sabha) had recommended that the culpability of the Income Tax Officials should be fixed unhesitatingly in the matter.

11.15 Having observed that the Action Taken reply on the above said recommendation is completely silent about the issue of fixing culpability of the Income Tax Officials for the revenue loss occurring due to avoidable payment of interest on refunds, the Committee in para 17 of 17th Report (15th Lok Sabha) had emphasized that responsibility should be fixed on the negligent officials for their laxity in issuing refunds causing loss of revenue to government on the one hand and hardship to taxpayer on the other. In this context, the Committee had also desired to be apprised about the number of cases of refunds issued beyond the stipulated period and the quantum of interest involved therein since January 2010.

11.16 In their action taken statement on the above said recommendation, the Ministry had stated that the actions of an assessing officer are closely monitored by the administrative hierarchy comprising of Addl./Jt. Commissioner Range, Administrative Commissioner and Chief Commissioner of Income Tax. Thus, it can be said that effective checks and balances are applied on the functioning of the assessing officer, so that assesseees are not put to undue harassment and the performance is as per the procedure laid down.

11.17 As regards the specific cases where refunds are issued beyond statutory period and quantum of interest involved therein since January, 2010, the Ministry stated that the said figures have not been centrally maintained.

Refund cases in CBEC

11.18 Similarly, with regard to the refund cases pending for disposal in CBEC, the Ministry in their reply submitted as under :

Year	No. of cases pending disposal
2008-09	2376
2009-10	2633
2010-11(upto December, 2010)	5138

11.19 It is seen from above table that in case of CBEC number of refund cases pending for disposal in Central Excise has been increasing from the year 2008-09 to 2010-11.

11.20 Specifying the reasons for this increase in pendency in central excise refund cases, the Ministry in their written replies submitted that the same are being ascertained.

11.21 As regards the information about interest paid on refunds in CBEC, the Ministry stated that the same is not centrally maintained.

Disposal of appeals

Direct Taxes

12.1 The details of the appeals disposed and pending for disposal with the Commissioners (Appeals) and Supreme Court/High Court/ Income Tax Appellate Tribunal/Settlement Commission for the past three years, as submitted by the Ministry in their written replies are as under :

Year	ITAT	HC	SC	CIT(A)
Disposal during 2007-08	31393	8678	278	63645
Pendency at the end of March 2008	34667	31590	3344	13058
Disposal during 2008-09	29356	7397	564	66351
Pendency at the end of March 2009	31384	34986	3984	158031
Disposal during 2009-10	26151	10087	480	79709
Pendency as at the end of March 2010	24693	30544	5009	180991

12.2 It has been observed from the above table that while the pendency of appeals at ITAT level has been decreasing during the years 2007-08 to 2009-10, it has shown an increasing trend at SC and CIT (A) level. It has also been seen that most of the appeals are pending for disposal at the CIT (A) level.

12.3 As desired by the Committee during evidence, the figures regarding length of pendency (year-wise) at the end of March 2008, March 2009, March 2010 for cases pending before all authorities are as under:

Length of Pendency of Appeals before various authorities as 1.4.2008				
Appeals before	Less than 1 year	1 to 2 years	More than 2 years	Total
CIT (A)	NA	NA	NA	1,30,358
ITAT	11,156	13,111	9,436	33,702
High Court	9,802	8,431	11,216	29,449
Supreme Court	1,046	934	1,304	3,284
Length of Pendency of Appeals before various authorities as 1.4.2009				
Appeals before	Less than 1 year	1 to 2 years	More than 2 years	Total
CIT (A)	1,04,285	30,367	23,379	1,58,031
ITAT	9,507	12,087	8,914	30,508
High Court	10,643	10,081	13,793	34,517
Supreme Court	993	1,343	1,670	4,006
Length of Pendency of Appeals before various authorities as 1.4.2010				
Appeals before	Less than 1 year	1 to 2 years	More than 2 years	Total
CIT (A)	1, 20,422	35,228	25,341	1,80,991
ITAT	8,865	10,769	7,191	26,825
High Court	9 ,185	9,882	11,604	30,671
Supreme Court	1 ,199	1,487	1,553	4,239

12.4 Explaining the reasons for increase in pendency during the above said period, the Ministry stated as under :

- (a) Number of CIT(A) has reduced over the years from 265 in F.Y. 2007-08 to 240 in F.Y. 09-10. Even out of 240 posts of CIT(A), the number of officers actually working as CIT(A) has been around 220.
- (b) Due to concerted efforts of the Department, the average disposal per CIT(A) has been increasing year after year as per the following statistics for last 3 years

Financial Year	Average Disposal Per CIT(A)
2007-08	240
2008-09	268
2009-10	330

12.5 Further, with regard to the details of amount locked up in appeals before CIT (A), the Ministry submitted as under :

F.Y.	Amount locked up in appeals at CIT(A) level (Rs. in crore.)
2007-08	70570.85
2008-09	199100.89
2009-10	220148.36

12.6 As per the instructions of the Board, each CIT (Appeal) is required to dispose off a minimum of 60 appeals per month, and a total of 720 appeals annually. Thus, 1.1 lakh appeals could have been disposed off during the year on the basis of the working strength of CIT (Appeals). It is revealed from the Ministry's reply that average disposal of appeals per CIT (A) is 240, 268 and 330 during the years 2007-08, 2008-09 and 2009-10 respectively.

12.7 On being asked as to whether disposal norm fixed for each CIT (A) has been followed during these years, the Ministry in their written replies stated as under :

"The CsIT (A) have made sincere efforts to meet the disposal norms. However, in certain cases norms could not be met because of infrastructural constraints.

With a view to ensure higher disposal of appeals by CsIT(A), a new Central Action Plan was introduced by the CBDT for F.Y. 2010-11. As per this Central Action Plan, every CIT (A) has been given the target of disposal of 400 Appeals in the year consisting of 150 High Demand & 250 other appeals".

12.8 In the C& AG's Report (No. 26 of 2010-11), it has been stated that CIT (A) were required to dispose of 2,60,700 cases during 2009-10. Out of this, only 0.8 lakh appeals (30.6%) were disposed off and the average annual disposal per CIT (A) during 2009-10 was only 528 appeals. The amount locked up in appeal cases with CIT (A) was Rs. 2.2 lakh crore in 2009-10 which is equivalent to 66.9 percent of the revised revenue deficit of Government of India. Further, the amount locked up in appeals of higher levels (ITAT/High Court/Supreme Court) was Rs. 91,087 crore in 60,246 cases as on 31 March, 2010.

12.9 While giving their justification on the above said audit observation, the Ministry submitted the following :

"The figures of availability of appeals for disposal by the CIT (A) during F.Y. 2009-10 and actual disposal are as under:-

(i)	Appeals brought forward as on 1.4.2009	158660
(ii)	Institution of appeals during F.Y. 2009-10	89271
(iii)	Disposal of appeals during F.Y 2009-10	79709
(iv)	Appeals pending for disposal as on 31.03.2010	180991

Average disposal per CIT (A) in F.Y. 2009-10 was 330 which were much higher than the previous two years, as in 2007-08 it was 240 per CIT (A) and in 2008-09 it was 268 per CIT (A).

It is also relevant to mention that the average disposal of 330 in F.Y. 2009-10 is based upon the number of posts of CIT (A) at 240. As against this, actual number of CIT (A) working has been approximately 220 only.”

12.10 On being observed that bad assessments are equally responsible for mounting arrears of appeals, the Committee sought to explain the reasons thereof.

In this regard, the Ministry submitted as follows :

“The statistics given hereunder shows that the Department is filtering out (not preferring appeal) about 65% cases while filing appeal before ITAT, about 50% cases while filing appeal before High Court and approximately 80 % cases while filing appeal before Hon’ble Supreme Court.

For Orders by CIT (A)

	Orders appealable* by Department from orders of CIT(A)	Cases where appeals have been filed by department before ITAT	%age of cases where appeals have been filed/appealable orders
F.Y. 2007-08	45769	20022	43.75
F.Y. 2008-09	46468	17840	38.39
F.Y. 2009-10	57303	14962	26.11

For Orders by ITAT

	Orders appealable* before High Court	Cases where department has gone in appeal before H.C	%age cases where department has gone in appeal before H.C
F.Y. 2007-08	20579	10968	53.30
F.Y. 2008-09	19434	9256	47.63
F.Y. 2009-10	15641	8630	55.18

For Orders by High Courts

	Orders appealable* before Supreme Court	Cases department has gone in appeal before S.C	% age Cases where department has gone in appeal before S.C.
F.Y. 2007-08	6147	782	12.72
F.Y. 2008-09	4878	1172	24.03
F.Y. 2009-10	6497	1418	21.83

*Orders Appealable = case decided fully against the department + cases decided partly against the department out of both assessee's as well as Departmental appeals

- Further it is also important to mention here that Department's success ratio in appeals filed before ITAT, H.C. & S.C. is quite decent, which speaks for itself. The relevant statistics are as below:

F.Y.	Disposal by ITAT out of appeals filed by Department.			Disposal by High Court out of appeals filed by Department.			Disposal by Supreme Court out of appeals filed by Department.		
	Cases decided fully against the Department	Total disposal out of appeals filed by Department.	%age of cases Decided against the Department out of Department appeal	Cases decided fully against the Department	Total disposal out of appeals filed by Department.	%age of cases Decided against the Department out of Department appeal	Cases decided fully against the Department	Total disposal out of appeals filed by Department.	%age of cases Decided against the Department out of Department appeal
2007-08	12286	23712	51.81	5195	8305	62.55	104	273	38.10
2008-09	12068	22350	54.00	4333	6973	62.14	282	532	53.01
2009-10	9641	18306	52.67	5740	8894	64.54	217	398	54.52

The above statistics suggests that substantial number of cases are decided by ITAT/High Court/Supreme Court in favour of Department, which proves that Department is filing appeal on merits.

- (i) Poor quality of assessment orders could be one of the reasons for higher number of appeals. However, following statistics shows that about 70 % of cases are decided either fully or partly in favour of Department by CIT(A).

Nature of Disposal of Appeals by CIT's (Appeal)						
Year	Partly confirmed/ partly allowed	Fully confirmed	Fully Allowed	Other	Total	%age of cases decided partly or fully in favour of Department
2007-08	26,275	16,547	19,494	1,329	63,645	67.28
2008-09	27,451	19,324	19,017	559	66,351	70.50
2009-10	34,842	21,900	22461	506	79,709	71.19

Further, even at higher level i.e. ITAT, High Court and Supreme Court, out of Departments appeal about 50-55%, 60-65% & 40-50% cases respectively are decided totally against the Department. These statistics shows that performance of assessment orders at appellate level is decent. Thus bad assessments although may be a cause of mounting arrears but cannot be considered a major cause of arrears”.

12.11 Further to improve upon the quality of orders, several steps have been taken by the Department, some of these are as follows :

- Department has started practice of circulating the good assessment and appellate orders in the form of ‘Let us share’.
- A project on **National Judicial Reference System (NJRS)** is being developed by the CBDT. The NJRS will contain judicial pronouncements and data base on all appeals pending before various judicial authorities. The NJRS will comprise a repository data base of all reported and un-reported judgments of ITAT, High Courts and the Supreme Court. Besides, the statutory provisions, allied laws, circulars, instructions etc. will be accessible in e-form. The NJRS will have facility of a search engine to peruse through/search for, cases in the repository data base as well as in the database for tracking the appeals (the judicial monitoring database). **Such a system will help in the following manner:**
 - i) It will help in tracking all appeals in ITAT, High Courts and the Supreme Court and enable for bunching of appeals on the same/similar issues
 - (ii) It will facilitate issuing alerts and reminders in case of delays in filing appeals (there will be provision for physical letters also to be issued to CCITs in case of substantial delays)
 - (iii) It will empower the Assessing Officers in arriving at just and fair assessment orders through easy accessibility to judicial information, case laws and judgments. It will help in improving the quality of assessment orders.
 - (iv) Easy availability of this database will help the Assessing Officers and the supervisory officers (Joint/Additional Commissioners and Administrative Commissioners) to know latest judgements of Supreme Court, various High Courts and ITAT on an issue and thus to avoid frivolous litigation.
 - (v) It will assist the Departmental Representatives/Counsels in improving the quality of representation before Tribunal & Courts and enhancing the success rate of the department in appeals”.

12.12 On being asked about details of the oldest case pending for adjudication with CIT (A), reasons for such pendency and amount involved therein, the Ministry informed that it is not centrally maintained.

Indirect Taxes

12.13 Year-wise details of disposal of appeals by various Appellate fora, as furnished by the Ministry are as under :

Year	Supreme Court	High Court	CESTAT	Commissioner (Appeals)
2008-09	572	2729	9263	20585
2009-10	565	3443	9254	27066
2010-11 (1.4.10 to 30.9.10)	244	2354	4370	14769

12.14 It is seen from the above table that upto 30 September, 2010 less than 50% of appeals over the previous year have been disposed off at Supreme Court, CESTAT and Commissioners (Appeals) level. It is also revealed from the above table that most of the appeals are pending at CESTAT level.

12.15 Specifying the reasons for lesser disposal of appeals at CESTAT level, the Ministry stated that this is mainly because of shortages of benches and vacancies at the level of members.

12.16 Further, with regard to the details about the year-wise pendency of appeals, the Ministry in their written replies stated that the requisite details are being collected.

12.17 As regards the pendency of appeals before various appellate authorities as on 30.09.2010, the Ministry submitted as under :

S. No.	Appellate Forum	No. of appeals
1.	Supreme Court	2668
2.	High Court	15323
3.	CESTAT	41691
4.	Commissioner (Appeals)	23591

12.18 While noticing the same position during examination of DFGs (2009-10), the Committee in para 20 of 2nd Report (15th Lok Sabha) had recommended the Ministry to initiate concrete and time bound measures to get the cases settled by activating their Directorates for this purpose.

12.19 In their Action taken reply to the above-said recommendation (submitted on 31 December, 2009), the Ministry stated as follows :

“The matter relating to high rate of pendency in the Tribunal was taken up with Registry of the Tribunal and the Registry has taken up following positive steps for speedy disposal of cases viz:

(i) subject-wise grouping of all pending appeals and taking up the same subject appeals for hearing;
(ii) hearing of Larger Bench cases on priority as following the issuance of orders in Larger Bench cases, many appeals are expected to be disposed of automatically;

(iii) introduction of the procedure of monthly roster as against weekly roster;

(iv) starting of a new procedure for listing the short matters on Mondays and Fridays and regular matters on Tuesdays, Wednesdays and Thursdays,
(v) preparation of the Cause list of final hearing matters subject-wise so that matters are decided in chronological orders.

(II) On account of non-availability of suitable candidates, lengthy processing of proposals etc, delay occurs in filling up of vacant posts of Member. It is being ensured that all efforts are made by the Department to fill up the vacancies of Members in CESTAT expeditiously.

(III) The office of the Chief Departmental Representative is ensuring that adequate number of Departmental Representatives are made available for representing the department on the dates fixed”.

Widening of Tax Base

13.1 On being asked about the new assesseees registered and tax collected therefrom for each of the last three years (category-wise), the Ministry in their replies have furnished the following details :

Financial year (as on 31st March)	Number of new assessee added
2007-08	17,64,993
2008-09	17,84,709
2009-10	16,75,069

13.2 From the data given above, it is seen that since the number of new assesseees registered has increased during 2008-09, it has decreased during the year 2009-10.

13.3 Specifying the reasons for this decrease in number of new assesseees added during 2009-10 the Ministry stated that the new assesseees added during any

financial year may be affected by several factors which may include extraneous factors like slowdown in economic growth compared to previous years, the threshold limit for filing the income tax returns etc.

13.4 On the issue of new assesseees registered and tax collected therefrom for each of the last three years (category-wise), the Ministry in their reply submitted that they have not maintained tax collection data separately with reference to the new assesseees.

13.5 Informing about the steps taken to broaden the tax base, the Ministry in their written replies stated as follows :

- (i) “Mandating compulsory quoting of Permanent Account Number (PAN) for certain specified financial transactions. These typically include sale and purchase of immovable property valued at Rs. 5 lakhs or more; Sale or purchase of a motor vehicle; time deposit/fixed deposit exceeding Rs. 50000 with any Banking company/ Post Office; payment to purchase units, shares, debentures, bonds above Rs. 50,000 from a Mutual fund/Company/ institution/ RBI; payment to hotels/ restaurants against their bills for an amount exceeding Rs. 25,000/- at any one time; opening of an account with a banking company; contract of value exceeding one lakh rupee for sale and purchase of securities; payment in cash above Rs. 25,000 on travel to any foreign country, etc.
- (ii) Collection of information from certain class of persons specified depending upon the nature and value of transactions in the form of Annual Information Return (AIR). These typically include information from banking company of cash deposits aggregating to Rs ten lakh or more in any savings account of a person, payment made through credit card aggregating Rs. 2 lakh or more in a year, information from a trustee of a Mutual Fund on receipt of Rs. 2 lakh from any person for acquiring units of that fund, or from Registrar/Sub-registrar of properties on sale or purchase of immovable property valued at Rs. 30 lakh or more, etc.
- (iii) Expanding the areas within the ambit of Tax Deduction at Source/Tax Collection at Source (TDS/TCS). Further mandating compulsory furnishing of PAN by the deductee to the tax deductor failing which tax shall be deducted at a higher rate.
- (iv) Better tax compliance ensured through procedural simplifications.
- (v) Anti-evasions measures”.

Action taken on previous recommendations

13.6 Upon noticing the decrease in the number of new assesseees registered during the year 2007-08, the Committee in their 2nd Report (15th Lok Sabha) had recommended as follows :-

“The Committee would, however, like the Department to make efforts to augment the number of new assesseees, so that the tax base remains wide and dispersed, reflecting truly the increase in per capita income as also the diversified nature of our economy. The Department should also maintain data in this regard slab-wise in a centralized manner, which should provide both horizontal as well as vertical information on the new assesseees brought on board.”

13.7 In their Action Taken Notes to the above-said recommendation, the Ministry stated as under :

“The department has already taken certain steps such as collection of information about large value transactions in the form of Annual Information Reports (AIR) from third parties, collection of information about tax deductees through the TDS returns filed by tax deductors, mandatory intimation of PAN to the tax deductors failing which the rate of tax deduction shall be higher than normal etc. Keeping into consideration the constraints of manpower and of structural nature relating to the lack of integrated database prior to the year 2008, Income Tax Department intends bring new taxpayers into the tax net.

The recommendations of the Standing Committee may require suitable legislative amendments/changes in IT Rules and software modifications to capture the relevant data. These are under consideration.”

Position of assessment

14.1 It has also been observed from the C&AG's report (No. 26 of 2010-11) that out of total 8.7 lakh scrutiny assessment cases for disposal, the department had disposed off 4.3 lakh (49.3%) cases in 2009-10. The pendency of scrutiny assessments increased from 45.7% in 2005-06 to 50.7% in 2009-10. Details in this regard are given below :

	2005-06	2006-07	2007-08	2008-09	2009-10
Assessments due for disposal	425225	527005	997813	953767	870620
Assessment completed	230698	241983	407239	538505	429585
% assessment completed	54.3	45.9	40.8	56.5	49.3

No. of officers deployed for assessment duty	3801	3954	3218	3106	3605
No. of assessment completed per assessing officer	61	61	126	173	119

Source: C&AG's report (No. 26 of 2010-11)

14.2 Specifying the reasons for this pendency in disposal of scrutiny assessment cases, the Ministry in their written replies stated that this is due to shortage of assessing officers.

Action taken on previous recommendations

14.3 During the course of examination of Demands for Grants (2009-10), while observing that disposal of Income Tax Scrutiny assessment cases was not commensurate with the increasing workload, the Committee in their 2nd Report (15th Lok Sabha) had expected the Income Tax Deptt. to arrest this trend, if necessary, by increasing the number of Assessing officers, while also simultaneously enhancing the disposal target for each officer to make them more productive.

14.4 The Ministry in their Action taken reply had stated that :

“The selection of cases for scrutiny and the assessment of the scrutiny cases are ongoing processes. Even as some scrutiny cases are disposed of, others are picked up as per the guidelines of the Computer Assisted Scrutiny System (CASS) and manual selection. Therefore, there is always some pendency of scrutiny cases.

In order to tackle the issue of deployment of more manpower, the Cadre review of the Indian Revenue Service has been initiated”.

14.5 They had further informed that for enhancing the Scrutiny disposal, the infrastructure at the assessing officer / field formation level has been recently augmented by way of Comprehensive Computerization and networking of the offices with a Centralised TAXNET Project.

14.6 Having observed that the reply of the Government is silent on Committee's specific recommendation on enhancing the disposal target for each officer to make them more productive, the Committee had reiterated their earlier recommendation

and desired that the Ministry should not hesitate to set targets for scrutiny assessments, as it will help increase productivity of the income tax department.

14.7 In their action taken replies to the above said recommendation, the Ministry stated as under :

The targets for scrutiny assessments already exist and are included in the Central Action Plan for the financial year 2009-10. These targets for the Financial Year 2009-10 were as under :

KEY RESULT AREA	TARGET OF DISPOSAL OF SCRUTINY ASSESSMENT	
	Charge	Number
Assessment Work	(i) Corporate charge	5 per month
	(ii) Non corporate/Mixed charge	15 per month
	(iii) Salary Charge	20 per month
	(iv) Range Head	20 per year (Corporate Charge)
	(v) Range Head	30 per year (Non Corporate Mixed Charge)

Service Tax Evasion

15.1 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.

15.2 In their action taken notes to the above said recommendations, the Ministry had merely stated that instructions are being issued to the field officers to be vigilant and take punitive action against defaulters.

15.3 While noticing that the reply of the Ministry was of a routine nature, the Committee in para 28 of their 27th Report (15th Lok Sabha) had desired the Ministry to furnish a fresh action taken note in the matter which is reproduced as below :

“The total number of ST-3 returns scrutinized as per the guidelines / instructions contained in the Service Tax Scrutiny Manual were 149137 during the period April to August 2010. In 2302 cases, total short payment amounting to Rs.77.55 crore was detected after the scrutiny.

The details of cases of service tax evasion booked by the department during the last three years are as under. These figures reflect the increased efforts by the department for identifying defaulters.

Period	Number of cases	Amount of Service tax in Rs. crore
2007-08	2317	3085.45
2008-09	2783	5154.94
2009-10	2642	5714.57

Section 73A of the Finance Act, 1994, provides that any person who is liable to pay Service Tax and has collected any amount in excess of the tax payable from the receiver of such taxable services, in any manner as representing Service Tax, shall forthwith pay the amount so collected to the Central Government. If any instance is noticed where a service tax payer has collected amounts as Service Tax but has not paid the same to the Government, action is taken to recover the same.

To detect whether the service tax collected by the service providers is being paid to the credit of the Central Government, it is stated that the collection and development of intelligence, receipt of specific complaints and audit verification are the major sources of detections. Wherever such instances are noticed, action for recovery under Section 73 A is coupled with the offence of tax evasion. The provisions of Section 75, 76 and 78 of the Finance Act, 1994, provide for imposition of interest and penalty. If any defaulter service providers are identified, then cases are booked against them, followed by show cause notice and adjudication proceedings”.

15.4 On being asked as to whether the entire quantum of service tax detected during the year 2010-11 has been deposited in the exchequer, the Ministry in their reply stated as follows :

“As per information provided by field formations during the financial year 2010-2011 (upto 31.08.2010) a total of 609 service providers were detected who collected Service Tax amounting to Rs. 194.57 crore from consumers but did not deposit with the exchequer. During that period, an amount of Rs.146.06 crore was recovered from 409 service providers and 176 demand cum show cause notices have been issued”.

15.5 The details of the amount of service tax collected but not deposited and actually realized during the years 2006-07 to 2008-09 as submitted by the Ministry are given as follows :

Period	Number of cases booked	Amount of service tax collected but not deposited (Rs. in crore)	Amount of service tax realised (Rs. in crore)
2006-07	42	20.09	12.13
2007-08	71	34.15	12.07
2008-09	69	48.06	27.62

15.6 During evidence, the Committee sought to know about those services which have a tendency of not accounting for the service tax that they have actually collected. In their replies, the Ministry stated that separate data in respect of individual services is not maintained.

15.7 As regards the steps taken to deter such instances, the Ministry in their written replies stated that in the Budget of 2011, the interest rate for delayed payment of service tax has been increased to 18% per annum. A new section 88 has been added to the Finance Act, which provides for prosecution of persons with imprisonment upto a period of three years in case he collects any amount of service tax but fails to pay the same to the credit of Central Government beyond a period of six months from the date on which such payment becomes due.

PART-II

RECOMMENDATIONS / OBSERVATIONS

Analysis of Expenditure Trend in Grant No. 42 – Direct Taxes

1. The Committee's examination of Grant No. 42 – direct taxes has revealed that till 31 December, 2010 only about 50% or less expenditure has been incurred in the year 2010-11 under several heads of the Grant, despite norms stipulated by the Ministry that not more than 33^{1/3}% will be spent in the last quarter. It means that the remaining expenditure would have to be squeezed in three months only. The Committee deprecate such a casual approach of the Ministry towards spending of funds during the last quarter of the year under the vital sections of the Grant. Such large scale expenditure in the last quarter of the year despite stipulated ceilings, in the opinion of the Committee, clearly shows not only lack of financial discipline and accountability but also indifference to the Ministry's own norms. Rush of expenditure just before the fiscal end or erratic spending for the rest of the year would also render the budgetary process itself meaningless and the schemes/programmes on which money is sought to be spent weak, unattended and infructuous. As the Ministry of Finance, being the nodal Ministry, is expected to set standards for other Ministries to follow, the Committee, would expect them to show greater financial discipline and responsibility by evenly laying out expenditure, for which quarterly expenditure targets may be fixed and review meetings held to ensure expenditure monitoring and financial discipline. The Committee desire that

only in exceptional circumstances, to be certified by the Head of the Department, should any deviation be made.

2. The Committee are surprised to note that out of BE of Rs. 275 crore, sanctioned under the Head 'Information Technology', the expenditure till December, 2010 is Rs. 96.16 crore only. The Ministry have attributed their failure in realistic spending of the funds to non-completion of some of the projects of computerization from procedural / administrative angle, timely implementation of which has been repeatedly emphasized by the Committee. The Committee expected the Ministry to anticipate the procedural/administrative constraints and addressing the same well in time. The Committee would again emphasize that the existing system of budget formulation for computerization projects and follow up /monitoring of the projects leave much to be desired, warranting a comprehensive review and reappraisal of the projects for their timely completion and gainful utilisation of funds for the intended purposes.

Systems and Data Management

3. The Committee's examination of this Head has revealed that Budget Estimates were revised upward during the year 2011-12, despite decrease in Revised Estimates during the year 2010. The reasons adduced by the Ministry for such upward revision of BE are that some of the amount in respect of different stages of implementation of consolidation project of computerization in CBEC, which was payable during 2010-11, could not be paid due to procedural formalities. The Committee are unhappy to note that inspite of

their recommendation in their 12th Report (15th Lok Sabha) the CBEC has not taken effective steps to maintain centrally the requisite data. The Committee find that during the period 2008-09 to 2010-11, total amount of Rs. 398.81 crore was budgeted under this Head with the actual expenditure being Rs. 427.95 crore; but the results achieved leave much to be desired. It is obvious that the efforts of the Government towards computerization of tax machinery in CBEC has slackened considerably and undertaken in a piecemeal and desultory manner, causing long and interminable delays, inspite of large amount of funds having been sanctioned and spent during the last 3 years. While expressing their serious concern on the Ministry's lackadaisical approach towards completion of computerization projects in CBEC, despite incurring huge expenditure in the preceding few years, the Committee desire that a dedicated mechanism be put in place for planning, coordination and timely completion of various computerisation projects in CBEC. Procedural or operational hurdles, if any, should be resolved expeditiously at the highest level of the Department.

Collection of Direct Taxes

4. With regard to collection of direct taxes, the information furnished by the Ministry indicate that the percentage increase in personal income tax was 9.2% in 2008-09, 10.61% in 2009-10 which again declined to 9.44% in 2010-11. On the other hand, corporate income tax declined to 10.61% in 2008-09 and marginally increased to 14.68% in 2009-10, while registering an increase of 22.25% in 2010-11. The number of corporate assesseees is stated to have

marginally increased to 3.7 lakh in the year 2009-10 from 3.27 lakh in 2008-09. The Committee thus find that after the global melt down period, the increase in tax collections has been gradual and not commensurate with the growth in the corporate sector and rising personal incomes in the post recession period. The Committee, would, therefore, like the Ministry to analyse the reasons for the lukewarm trends, instead of gloating over marginal increases in the direct tax collections in absolute terms. When the Committee sought the break-up of tax contribution separately from different categories such as salary/business/profession etc. the Ministry have stated that such data with reference to the sources of income have not been maintained by them. The Committee would, therefore, like the Ministry to maintain tax collection figures of different categories separately so that the trends of collection in each category would be easily discernable for effecting changes in rates and exemptions and improving compliance.

5. The Committee find from the data made available that the Self-Assessment Tax which had witnessed an increase of Rs. 9,654 crore during the year 2008-09 showed an increase of only Rs. 6,310 crore during the two years from 2009-10 to 2010-11. The post-assessment collection which had increased to Rs. 5,457 crore during 2007-08 could register an increase of only Rs. 902 crore during the period 2008-09 to 2009-10. Surprisingly, during the year 2010-11, it in fact showed a decrease of Rs. 7,410 crore. The Committee are surprised that not only has the post-assessment collection of direct taxes declined, but even the pre-assessment or self-assessment collections, which

should have shown an increasing trend due to post recession recovery in the economy, have also not made a significant mark. Such a trend particularly in pre-assessment collections clearly indicates the loosening of the grip of the Department, which has failed to ensure that pre-assessment/self-assessment tax is fully collected. The Committee desire that the Department of Revenue should study/analyse these trends and the reasons for the same and take necessary corrective measures both statutory as well as administrative. The Committee would also like to point out in this regard that the decreasing trend in post-assessment collections can only suggest that the efforts made by the Department and the administrative resources deployed are not getting adequately reflected in the collection of post-assessment taxes. It also indicates that exorbitant demands/assessments may lead to non-maintainability of demands, while causing only harassment to genuine taxpayers. Therefore, the Committee would like the Department of Revenue to ensure that such harassment due to inflated/non-maintainable demands does not arise. At the same time, they should also deploy their resources efficiently so that post-assessment income tax collections by way of scrutiny, survey, etc. register a substantial increase.

6. As regards widening of tax base, the Committee note that the number of new assesseees added had declined in 2009-10 as compared to the previous years. While seeking to justify this decline, the Ministry have stated that the new assesseees added during any Financial Year may be affected by several factors like slow down in economic growth, threshold limit for filing income

tax returns etc. As regards the tax collected from new assesseees for the last three years category-wise, the Ministry have merely stated that they have not maintained any such data separately. On this issue, the Committee had specifically asked the Department in their earlier Report on the subject to make efforts to augment the number of new assesseees so that the tax base becomes widely dispersed, reflecting the increase in per capita income as also the diversified nature of our economy. In their action taken reply, the Ministry had submitted that suitable legislative amendments/changes in rules and software modifications are required to capture the relevant data, which are under consideration. The Committee would like the Department of Revenue to recognize the declining rate of accretion to assessee base and expedite the procedural and enforcement measures to bring new assesseees into the tax net, in order to expanding the tax base. The Committee would also reiterate that the Department should also widen their data base to include more aspects and categories for better monitoring of income tax operations.

Collection of Indirect Taxes

7. It is seen from the figures provided by the Ministry of Finance (Department of Revenue) that the percentage growth in collection of indirect taxes during 2010-11 from customs and central excise has shown an increase of 63%, with achievement of 94% of the target set and 35.7%, with achievement of only 74% of the target respectively. The Committee are surprised that targets fixed by the Department have not been achieved in the indirect tax collections and it also has not reached the pre-meltdown levels. Besides, it is

also noteworthy that the growth in the collection from service tax is only 20.6% and the effective tax rate in percentage terms in service sector as a whole is also seen to be only 23.77%, as compared to 23.40% for the manufacturing sector, even as the service sector has been steadily growing and contributing a lot more as percentage of the GDP. The Committee note that according to the Economic Survey 2010-11, the share of services in India's GDP at Factor Cost (current prices) is 63.4% in the year 2009-10. The Committee, therefore, are of the view that the service sector with such immense/potential has not been contributing by way of taxes in proportion to its share of the GDP. The Committee would therefore, recommend that the Ministry should chalk out an action plan so that the potential of service sector gets commensurately reflected in its fiscal contribution as well.

Revenue Foregone

8. From the figures made available to the Committee, it is revealed that the Revenue Foregone for corporate tax assesseees has sharply increased from Rs. 72,881 crore in 2009-10 to Rs. 88,263 crore in 2010-11. Further, as a percentage of actual tax collection also, it is noted that revenue foregone has quite significantly increased. Particularly, the revenue foregone in respect of customs duties was as high as Rs. 1,95,288 crores in 2009-10 with actual tax collection in that year being only Rs. 85,847 crore; while in 2010-11, customs revenue foregone was equally high to the tune of Rs. 1,74,418 crore as compared to actual tax collection of Rs. 1,08,071 crore. The Committee are not

convinced with the Ministry's justification that higher incomes of corporate tax payers, higher depreciation and various incentives/deductions/exemptions are factors responsible for this trend. Further, the Committee also observe a regressive trend with respect to collection of corporate taxes; as for instance, there were only 692 companies in the slab of profit before tax of Rs. 100-500 crore. On the other hand, the number of companies with profit before tax slab of 'less than zero' was 1,49,283, slab of 'zero' tax 28,851 and slab of 'Rs. 0-1 crore' tax 2,23,888. The Committee thus can only conclude from these figures that the extent of revenue foregone together with the corporate tax collection trends point towards a regressive tax regime. The Committee would, therefore, recommend that the Government should review their exemptions/incentives policy for the corporate sector as a whole so that the effective tax yield from corporates significantly improves. It goes without saying that any tax regime in democratic societies like ours should stay progressive with higher incomes generating proportionately higher effective tax yields.

9. The revenue foregone on account of Export Promotion Concessions other than SEZs has been stated to be Rs. 39,388 crores in 2009-10, which has increased to 49,976 crores in 2010-11, out of which revenue foregone on account of SEZs has been shown as Rs. 3,987 crores in 2009-10 which has more than doubled to Rs. 8,614 crore in 2010-11. The Ministry have explained this increase in revenue foregone on the increase in exports and profits reported by SEZ units. On this subject, the Committee had recommended in

their 12th Report (15th Lok Sabha) 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 exemptions vis-à-vis the benefits. In their action taken reply, the Ministry have informed that a Study Group has already been set up to undertake a review of the exemptions scheme and functioning of the SEZs. However, this Group has been unable to proceed in the matter because of non-receipt of data required for the study from the Department of Commerce. Whatever data was received subsequently was also found to have several inconsistencies. The Committee are astonished that such a conflicting situation can develop in basic approach between the two Departments of Government, namely Department of Revenue and Department of Commerce, who have evidently failed to coordinate with each other and arrive at an acceptable agreement with regard to policy changes required for SEZs. The Committee would, therefore, like this matter to be taken up at appropriate level of the Government, so that inter-departmental wrangling over fundamental policy matters are ironed out. The Committee would also like to be apprised about the findings of the Study Group and the decisions taken thereupon.

Unaccounted Money

10. On the recommendation of the Committee, the Government has agreed to get a fresh study conducted on unaccounted income/wealth both inside and outside the country, bringing out the nature of activities engendering money laundering and its ramifications on national security. The Committee desire

that they be apprised about the findings of the study and the decisions taken thereupon at the earliest. The Committee would like to emphasise that the Department of Revenue should re-orient their efforts and focus their energies on the specific sectors/channels/categories responsible for generating unaccounted money within the country and take policy and enforcement measures both to prevent generation as well as to detect and unearth the money/wealth. The Tax Intelligence Network should be fully deployed and utilized for this purpose by establishing a platform for sharing of information with other enforcement organizations.

11. With regard to the funds illegally stashed abroad, the Committee have been informed that information is collected on case to case basis through the Foreign Tax & Tax Research (FT & TR) Division of CBDT to verify the source of funds being invested from outside India. The Government has also prioritized countries/jurisdictions with which it wants to enter into Tax Information Exchange Agreements (TIEAs) so that information regarding trade mispricing or secret bank accounts or ownership information or any other information can be obtained from such countries/jurisdictions. TIEAs are being negotiated with these countries/ jurisdictions since there are no Double Taxation Avoidance Agreements (DTAAs) with them. Negotiation of TIEAs with 12 countries/jurisdictions have been completed which are Argentina, Bahamas, Bermuda, British Virgin Islands, Cayman Islands, Costa Rica, Guernsey, Isle of Man, Jersey, Marshall Islands, Monaco and Saint Kitts & Nevis. Out of these, cabinet approval has been obtained in 9 cases and TIEAs have been signed

with five jurisdictions (Bahamas, Bermuda, British Virgin Islands, Cayman Islands and Isle of Man). The Committee have also been informed in this regard that the Income Tax Overseas Units set up for this purpose are required to assist the Indian Authorities in negotiation of Double Tax Avoidance Agreements, exchange of information etc. The Committee desire that they be apprised of the results achieved by these Units by way of number of cases detected and action taken thereon. The Committee are of the view that legislative framework alone is not enough because tax evaders may keep shifting their operations. The Government must therefore use diplomatic pressure particularly on smaller nations for eliciting the requisite information. The Committee would also recommend that the Double Tax Avoidance Agreements should also be constantly reviewed in the light of inputs received from these Units as well as other enforcement agencies.

Tax Revenues raised but not realized

12. The Committee are astonished to find that huge amount of tax revenue to the tune of Rs. 51,296 crore is pending realization for a period ranging between 1 year to 10 years and the same is not under any dispute either. Although the Ministry have sought to assure the Committee that the Department has been making efforts to recover the tax dues and necessary instructions are issued from time to time including guidelines to deal with stay petitions of outstanding demands, it seems obvious that these efforts have not yielded the desired results. The Committee further observe that under indirect taxes another Rs. 8,346 crore, which is not under any dispute, is

pending for realization. As regards the reasons for non-recovery of such dues, the Ministry have routinely submitted that this information is being collected from the field formations. The Committee are not able to accept such a routine and cursory reply, which only suggests that the Ministry is not very serious about recovering pending revenue dues, even when these are not under any dispute. It appears that the statutory powers vested in the authorities are not being exercised to recover dues. The Committee would, therefore, recommend that the Ministry of Finance (Department of Revenue) should immediately formulate a time bound Action Plan in this regard by constituting a special cell, if required, so that all the revenue dues which are not disputed in any way are realised within a period of 6 months. The Committee may be apprised about the action taken and the outcomes achieved in this regard.

Position of Assessment

13. It is seen from available records that the pendency of scrutiny assessments in income tax increased from 45.7% in 2005-06 to 50.7% in 2009-10. The Ministry have tried to explain such a pendency on shortage of assessing officers. In this regard, the Committee in their 2nd Report (15th Lok Sabha) had asked the Income Tax Department to arrest the trend of declining percentage of scrutiny assessments, if necessary, by increasing the number of Assessing Officers. In their action taken reply, the Ministry have submitted that the selection of cases for scrutiny and their assessment is an ongoing process and that the issue of deployment of more manpower will be dealt with

by way of cadre review of the Indian Revenue Service. The Ministry have also informed that targets for scrutiny assessments as suggested by the Committee have also been included in their action plan. The infrastructure is also stated to have been recently augmented by way of comprehensive computerisation. The Committee would recommend that the Income Tax Department must not only minimize the pendency of scrutiny assessment cases but also take up more cases for scrutiny, keeping in view the increasing number of returns being filed. As the assessee base widens and the tax workload expands, it is necessary that the Income Tax Department fully equips itself for larger scrutiny work.

Refund Cases and interest paid on refunds

14. Another disquieting matter which has engaged the attention of the Committee relates to large pendency of refund cases and huge interest outgo on that account. The Committee are shocked to find that 42.2 lakh returns of income in which refund was claimed were pending processing as on 31st December, 2010. This included returns of income filed during the Financial Year 2009-10 and 2010-11 as well. Further, an amount as high as Rs. 5,800 crore was paid as interest on refunds in 2008-09 and Rs. 4,700 crore in 2009-10. According to the Department, they have been receiving more tax returns than the processing capacity of the Department. They have sought to assure the Committee that they have been taking steps to reverse the situation. The Committee are astonished to find that inspite of such large pendency and outgo of interest, the Department have not maintained necessary data such as

the number of pending cases above Rs. 1 lakh, the number of small cases involving amount of Rs. 100 or so, the oldest case pending for refund settlement, and the number of cases where refunds are issued beyond statutory period and quantum of interest involved therein. On this issue, the Committee had recommended in their 2nd Report (15th Lok Sabha) that the culpability of the income tax officials should be fixed unhesitatingly in the matter. In their action taken reply, the Ministry have generally submitted that effective checks and balances are applied on the functioning of the Assessing Officer. The Committee, while reiterating their earlier recommendation for fixing accountability, would once again stress that the Department should recognize that settlement of refunds has become a chronic problem confronting the Department, which besides causing hardship to taxpayers, has also resulted in avoidable loss of revenue by way of interest outgo. The Committee recommend that the Department should set up a Special Monitoring Cell at the level of the Board to ensure that refund claims whether electronically or otherwise are settled within the stipulated period of four months. Any deviation from this should be viewed strictly and explanation called for from the concerned officials. The interest rate on refunds may also be reduced so as to be pegged at the level of bank rate with a view to disincentivising careless and inflated payment of self-assessment/advance tax.

15. While concluding their examination of the subject, the Committee would like to point out that both the Boards under the Department of Revenue,

namely CBDT and CBEC as well as their field formations require to get their act together in so far as computerisation, networking and creation and maintenance of data base is concerned. The Committee's observations and recommendations notwithstanding, the Department of Revenue and the two Boards in question have not been able to provide crucial information to the Committee on key aspects of their functioning due to non-maintenance of appropriate data base. The Committee are at a loss to understand as to how the Department is able to function effectively and monitor their operations without critical data base. The Committee would, therefore, urge upon the Department of Revenue to oversee and closely monitor creation and maintenance of requisite data base and report to the Committee on the progress made.

New Delhi;
20 June, 2011
30 Jyaistha, 1933 (Saka)

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