

TWELFTH REPORT
STANDING COMMITTEE ON FINANCE
(2001)

(THIRTEENTH LOK SABHA)

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

DEMANDS FOR GRANTS (2000-2001)

*[Action taken by the Government on the recommendations contained
in the Seventh Report of the Standing Committee on Finance on
Demands for Grants (2000-2001) of Ministry of Finance
(Department of Revenue)]*

Presented to Lok Sabha on 18.4.2001

Laid in Rajya Sabha on 19.4.2001



LOK SABHA SECRETARIAT
NEW DELHI

April, 2001/Chaitra, 1923 (Saka)

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COMPOSITION OF STANDING COMMITTEE ON FINANCE
(2001)

Shri Shivraj V. Patil — *Chairman*

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3. Shri Sudip Bandyopadhyay
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44. Shri Ranjan Prasad Yadav
45. Vacant

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu — *Joint Secretary*
2. Shri P.K. Grover — *Deputy Secretary*
3. Shri S.B. Arora — *Under Secretary*
4. Shri L.V. Ramana — *Senior Executive Assistant*

INTRODUCTION

I, the Chairman, the Standing Committee on Finance (2001) having been authorised by the Committee to submit the Report on their behalf, present this Twelfth Report on action taken by Government on the recommendations contained in the Seventh Report of the Committee (Thirteenth Lok Sabha) on Demands for Grants (2000-2001) of the Ministry of Finance (Department of Revenue).

2. The Seventh Report was presented to Lok Sabha/laid in Rajya Sabha on 25 April, 2000. The Government furnished the written replies indicating action taken on all the recommendations on 6 September, 2000. The Committee sought further information on the action taken replies which was furnished by the Government on 9 March, 2001. The Committee also took oral evidence of the representatives of the Ministry of Finance (Department of Revenue) on 12 March, 2001 to seek clarifications on some of the action taken replies. The draft action taken report was considered and adopted by the Committee at their sitting held on 19 March, 2001.

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

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

NEW DELHI;
11 April, 2001
21 Chaitra, 1923 (Saka)

SHIVRAJ V. PATIL,
Chairman,
Standing Committee on Finance.

CHAPTER I

REPORT

This report of the Standing Committee on Finance deals with action taken by Government on the recommendations contained in their Seventh Report (Thirteenth Lok Sabha) on Demands for Grants (2000-2001) of Ministry of Finance (Department of Revenue) which was presented to Lok Sabha on 25 April, 2000.

2. Action Taken Notes have been received from the Government in respect of all the 10 recommendations contained in the Report. These have been categorised as follows:-

- (i) Recommendations/Observations which have been accepted by the Government:
Rec. Sl Nos.3,4, 6, 7,8 and 9
(Chapter II- Total 6)
- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:
Rec. Sl. No.10
(Chapter III-Total 1)
- (iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:
Rec. Sl. Nos. 1, 2 and 5
(Chapter IV-Total 3)
- (iv) Recommendation/Observation in respect of which final reply of the Government is still awaited:
Rec. Sl. No. -Nil
(Chapter V-Total –Nil)

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

4. The Committee express their dissatisfaction at the delay of about two months in furnishing the action taken replies by the Government. They desire that the Ministry of Finance (Department of Revenue) should ensure that the action taken replies are sent to the Committee for their consideration within the prescribed time in future.

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

A. Revenue Collection and fall in the Tax – GDP ratio
Recommendation (Sl. No. 1 Para Nos. 11 and 12)

6. The Committee were concerned to note that the ratio of Gross tax to GDP was hovering at 9.2% despite the efforts by the Government inter-alia to widen the tax base, phase out concessions and creation of smaller Commissionerates for effective tax administration. They felt that the persistent shortfall of actual tax collections of Corporation tax, Income tax and Union Custom Duties vis-à-vis their respective BEs and REs in 1997-98 and 1998-99 and the shortfall over BE of Excise duties since 1995-96 called for a more sincere endeavour on the part of the Ministry to project realistic Budgetary estimates. They were of the view that the slippages in the revenue collections of direct & indirect taxes which had occurred in Bhopal and Mumbai Commissionerates respectively, were causes of concern. They were also of the view that the maintenance of the income statistics of the new assesses slab-wise and the revenue accrued thereon was of critical importance and the same should be made available to ascertain the additional revenue generated by introduction of one by six scheme.

7. In the light of above facts, the Committee had expected that the Ministry of Finance, should make concerted efforts to project realistic estimates both at the Budget as well as Revised Estimate stage after taking into consideration economic scenario both in the domestic and international arena. They had also desired that the pace of ongoing computerisation of tax operations should be speeded up to make the maintenance of income statistics of the assesses slab-wise feasible, which in the long run would be a prime input for fixing realistic budgetary estimates. The Committee had also recommended that the targets fixed at Commissionerate levels should be closely monitored for the desired expected results.

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

“(i) Direct Taxes

Sincere concerted efforts are being made to project realistic Budget Estimates and Revised Estimates taking into consideration the prevailing economic scenario apart from other relevant factors so that there is no significant variation in actual collections with reference to BE/RE. As far as Financial year 1999-2000 is concerned, it is anticipated that figures of revised estimates are likely to be achieved.

There is no shortfall in actual collections of direct taxes vis-à-vis the targets given during Financial Year 1999-2000 so far as Mumbai region is concerned. However, close, periodic and strict monitoring of collections is being

carried out in respect of each CCIT region to get the desired expected results. A statement showing collection of Corporation Tax/Income Tax vis-à-vis targets given to all the Chief Commissioners region is enclosed as Annexure – I.

(ii) Indirect Taxes

The first action point relates to fixing of Budget Estimates on a realistic basis. The Budget Estimates for the current financial year have already been finalised. The Budget estimates for customs receipts take into account the finance available for imports, the projected exchange rate, the trends in prices of major commodities such as Petroleum products and other relevant factors. Similarly, in the case of central excise receipts, the projected growth in the manufacturing sector, inflation rate for manufactured goods, the trends in production of major industrial sectors and other relevant parameters are considered. The projections of revenue receipts have been made on realistic basis, since it is based on the data available. While finalising the Revised Estimates, the actual trends in revenue growth, the trends in international and domestic prices, the patterns of imports and domestic production and all other relevant parameters would be taken into account so that the estimates are as accurate as possible.

The second action point relates to slippage in revenue collection and close monitoring of revenue targets at the Commissionerate level. For fixing the targets for the Commissionerates, we have asked the Chief Commissioners to indicate their assessment and projections of revenue receipt taking into account the relevant factors such as the changes in pattern of production and prices of major commodities, creation or expansion of production capacities and demand and supply position. All these inputs will be utilised while fixing the commissionerate level targets and monitoring the same.

(iii) Computerisation of income tax statistics

Computerisation application systems have been developed which maintain details of returns of income filed and taxes paid by all the assesses including new assesses. The system also keeps track of new assesses brought on the registers of the Department either voluntarily or as a result of action taken by Central Information Branch including notices issued to and return filed by persons covered by the one by-six scheme.

The system provides statistics on income slab-wise break up of returns filed by existing as well as new assesses and the taxes paid by them according to the category and slab of income.

Once all notices to persons covered by the one by six scheme are issued through the system all returns of income filed by assesses are processed on computers, it will be possible to generate statistics on slab-wise income of the new assesses and revenue accrued therefrom.

The computerised Tax Accounting System, which is now fully implemented and stabilised all over the country, provides details of taxes collected Assessing Officer wise, Additional/Joint Commissioner's Range-wise, Commissioner of Income-tax Charge-wise as well as Chief Commissioner of Income-tax Region-wise. This will be made use of by the Department in

monitoring collection of taxes vis-à-vis the budget fixed for various levels of officer.”

9. Supplementing on the issue pertaining to the slippage in the collection of Excise duty in Mumbai, the Ministry of Finance in their written reply have stated that:

“It is submitted that the matter mainly relates to collection of revenue and its monitoring. Necessary communication has been issued to the Chief Commissioner of Central Excise, Mumbai to tighten his preventive operations/activities.”

10. Despite the deep concern expressed by this Committee regarding the near stagnant ratio of Gross tax to GDP, the Ministry of Finance (Department of Revenue) in its action taken reply had not detailed out the course of action to augment the ratio of gross tax to GDP. When further asked about the policy measures initiated/proposed to be initiated to bring in greater buoyancy in the said ratio, the Department has stated as below :

“Direct Taxes

In respect of Central Board of Direct Taxes, the reply is as under :

The ratio of Direct Tax collections with reference to GDP for the years 1990-91 to 1999-2000 has been tabulated and is enclosed as Annexure ‘A’. As may be seen, there has been generally a growth in the ratio of Direct Tax collections to GDP over the years. Over the last 10 years, the Direct Taxes have increased by 425.52% from Rs. 11028.94 crores to Rs. 57958.97 crores. During this period the Direct Tax percentage of GDP increased from 1.94% to 2.96%. As a proportion of total tax revenue also, the Direct Taxes have generally increased over these years.

The major thrust areas to augment the Direct Tax-GDP ratio being pursued over the last few years by way of legislative and administrative measures relate to “Widening of Tax Base” and “Voluntary Tax Compliance” coupled with stability of moderate tax rates. So far as widening of tax base is concerned, the modified 1/6 scheme which was introduced in the Finance Act 1998 and was operative in 133 cities last year has been proposed to be extended to all the urban areas in the country as per the Finance Bill 2001. Moreover, the ambit of TDS provisions has also been progressively enlarged to top the potential tax payers. As regards encouraging tax compliance, measures taken in this regard include :

- (i) continued simplification of tax laws, procedures and various statutory/non statutory forms.
- (ii) Changing attitude towards tax payments-implementation of Samman Scheme for top tax payers to recognize the contribution of the tax payers towards the nation.

- (iii) Phase-wise computerisation of various activities of the Income Tax Department.
- (iv) Strengthening of administrative machinery for monitoring of revenue collection.

Thus, on account of the above, Direct Tax-GDP Ratio has shown consistent growth over the years despite a number of exemptions and deductions still available in the Act.

In respect of Central Board of Excise and Customs, the reply is as under :

To bring in buoyancy in the collection of revenue and to contain fall in tax GDP ratio, all possible measures are being adopted in a phased manner. However, continuing economic constraints, slow down of growth in the economy, decline in the price of imports, unstable oil prices etc. are affecting all the intended measures to augment the revenue.

Measures adopted are indicated as under :-

- i) Tax rates have been rationalized for better and effective tax administration and also for inducing greater tax compliance. A structure based on rationalized rates would also reduce considerably scope for loopholes and leakages.
- ii) MRP based assessment has been extended to more commodities.
- iii) Govt. has decided, as a policy, to remove exemptions in Excise and Customs duties. In the Budget 2001-2002 Excise duties have been introduced on select item @4% without CENVAT credit to bring more commodities in the tax net. Within four years the rate will be gradually increased to 16%. It has been decided that more and more items will be brought into the tax net. Also Excise duty of 16% has been imposed on branded readymade garments.
- iv) Tax base of service tax has been widened by bringing in many new services, which will be effective from 1st July 2001. It will be the Govt.'s policy to expand the base to more services.
- v) During the financial year 2001-2002, efforts have been initiated to raise the revenue by more than rupees 5000 crores in the area of indirect taxes."

11. Statement showing the total tax revenue as a percentage of Gross Domestic Product at current prices* as given in the Economic Survey 2000-2001 (page 45) is as under :-

	1990-91	1995-96	1996-97	1997-98	1998-99	1999-2000 @	2000-2001
Gross Tax Revenue	10.1	9.4	9.4	9.1	8.2	8.8	9.2

@ : Based on Provisional unaudited tax figures as per Controller General of Accounts.

* : The ratios to GDP at current prices for 2000-2001 are based in CSO's Advance Estimates.

12. Responding to a query regarding the feasibility to generate statistics on slab-wise income of the new assesseees covered under one by six scheme and the time schedules fixed, if any, to achieve the same, the Department in its written communication has stated as below :-

“Any person having taxable income is required to submit his return of income under Section 139 (1) of the Income Tax Act. However, under the proviso to the Section, if somebody’s income is not taxable but, that person gets covered by any of the criteria laid down in one by six scheme, for example, he has travelled abroad or he owns a car, he is required to file a return of income under one by six scheme. Thus, strictly speaking, under one by six scheme no return is to come which is taxable. This being the legal position there is no proposal to fix a time schedule to bifurcate the new assesseees arising out of one by six scheme income slab-wise and also there is no scope for working out the revenue received out of such returns of income. There may be, however, certain cases where a person is covered by one by six scheme and whose return is taxable. In respect of such cases, the Department’s reply is that the process of computerisation is in full swing. Presently, salary returns are being processed on computers. Gradually, all returns will be processed on computers. It is possible to categorize such returns of income slab-wise and the revenue accrued thereon. However, this will be done in a gradual manner as the computerisation progresses.

This is not to say that one by six scheme is not a successful scheme. In fact, the information collected under one by six scheme has created a psychological atmosphere whereby potential tax payers now realize that they cannot remain out of the tax net for long. In effect, the level of voluntary compliance has gone up after the introduction of one by six scheme. The drive to collect information under one by six scheme and our attempt at verification of these information has gone a long way in widening the tax base.

However, all potential tax payers who fall in the tax net file their returns of income under the regular provisions of the Act. Very few persons are filing return of income in Form No. 2C. The point which emerges out of this is that most of the persons who file their return of income are filing a return of taxable income. This point becomes clear with the help of following chart wherein the total number of new assesseees added and out of that total number of persons filing return in Form No. 2C is indicated.

Financial Year	Total number of new assesseees added	Total number of persons filing return in Form No. 2C out of Col. 2.
(1)	(2)	(3)
1999-2000	33.07 lakhs	6.47 lakhs
2000 upto 31.1.2001	23.11 lakhs	2.30 lakhs

Thus, one by six scheme has helped in widening the tax base.”

13. Reacting to the viewpoint on the feasibility to dovetail the income statistics generated slab-wise with the Tax Accountancy System so as to monitor revenue collection vis-à-vis the targets fixed for various levels of officers, the Department has informed that :

“The Finance Minister in his budget speech has indicated that by March 31, 2002, the Income Tax Department will be fully computerised. In view of this, the process of computerisation in the Department is in full swing.

Presently, salary returns are being processed on computers. Gradually, all returns will be processed on computers. In respect of returns processed on computers, the income slab-wise bifurcation of assesseees coupled with information available in the Tax Accounting System will provide statistics on Assessing Officer wise revenue collection which can be utilised for monitoring performance vis-à-vis the revenue collection target fixed. Once all returns are processed through computers, statistics on revenue collected from persons under different slabs of income would be available. Once all systems are fully implemented, the system would help in evaluating performance of various levels of officers as well as in respect of revenue collection from various income levels of tax payers.”

ANNEXURE - I**INCOME TAX (BUDGET)
CENTRAL BOARD OF DIRECT TAXES**

(Rupees in crores)

Corporation Tax				Income Tax			CT+IT		
CCIT Regions	Target for 1999-200	Collections for 1999-2000	% Inc./decrease over target	Target For 1999-2000	Collections for 1999-2000	% Inc./decrease over target	Target for 1999-2000	Collections for 1999-2000	% Inc./decrease over target
Ahmedabad	868.00	802.03	-7.60	1935.00	1576.11	-18.55	2803.00	2378.14	-15.16
Bangalore	999.00	1038.64	3.97	1815.00	1793.25	-1.20	2814.00	2831.89	0.64
Bhopal	1037.00	729.64	-29.64	732.00	557.12	-23.89	1769.00	1286.76	-27.26
Mumbai	13582.00	13373.71	-1.53	6455.00	6675.36	3.41	20037.00	20049.07	0.06
Calcutta	1501.00	1256.7	-16.28	1445.00	1374.99	-4.84	2946.00	2631.69	-10.67
Cochin	347.00	282.16	-18.69	636.00	505.94	-20.45	983.00	788.10	-19.83
Hyderabad	741.00	692.51	-6.54	1091.00	1087.8	-0.29	1832.00	1780.31	-2.82
Jaipur	256.00	185.22	-27.65	587.00	526.13	-10.37	843.00	711.35	-15.62
Chennai	1721.00	1639.58	-4.73	2321.00	2015.15	-13.18	4042.00	3654.73	-9.58
Delhi	6164.00	5795.46	-5.98	4377.00	3334.85	-23.81	10541.00	9130.31	-13.38
Chandigarh	490.00	490.43	0.09	1326.00	1299.65	-1.99	1816.00	1790.08	-1.43
Kanpur	1382.00	2757.82	99.55	656.00	613.09	-6.54	2038.00	3370.91	65.40
Lucknow	125.00	89.02	-28.78	557.00	554.07	-0.53	682.00	643.09	-5.71
Pune	972.00	825.49	-15.07	2020.00	1729.74	-14.37	2992.00	2555.23	-14.60
Patna	665.00	723.23	8.76	957.00	814.89	-14.85	1622.00	1538.12	-5.17
TOTAL	30850.00	30681.64	-0.55	26910.00	24458.14	-9.11	57760.00	55139.78	-4.54
CTDS (Upto Feb.)	0.00	15.23		0.00	838.31			853.54	
G. Total	30850.00	30696.87	-0.50	26910.00	25296.45	-6.00	57760.00	55993.32	-3.06
	29915 (RE)	30696.87	2.61	26684 (RE)	25296.45	-5.20	56599.00	55993.32	-1.07

Direct Tax-GDP ratio

Fin. Year	GDP	Direct Taxes Collns.	Ratio
	<u>(Rs. In crores)</u>	<u>(Rs. In crores)</u>	<u>In %</u>
1990-91	568809	11028.94	1.94
1991-92	653304	15342.36	2.35
1992-93	748554	18097.29	2.42
1993-94	859220	20298.24	2.36
1994-95	1012770	26970.88	2.66
1995-96	1188012	33559.28	2.82
1996-97	1368208	38895.08	2.84
1997-98	1522441	48280.4	# 3.17
1998-99	1758276	46600.07	2.65
1999-2000	1956997	57958.97	2.96

includes VDIS collection of Rs. 9554 crores.

14. The Committee are perturbed to note that the efforts underway to augment the revenue mobilisation have failed to infuse ample buoyancy in the near stagnant ratio of Gross tax to GDP which is hovering at around 9% for quite some time now. They are of the view that to remove the bottlenecks persisting in the system of taxation, the Government instead of carrying out minor modifications randomly year after year should seriously pursue the task of simplification of tax laws and rationalise the tax structure with renewed commitment. If necessary a Committee may be appointed by the Government to achieve this end. Utmost primacy should be assigned to beefing up revenue administration to plug the revenue leakages wherever noticed and the targets fixed at Commissionerate levels should be closely monitored for desired / expected results. The reply of the Ministry that it would not be possible to generate income statistics slab-wise of the new assesseees covered by the one by six scheme and revenue accrued therefrom until all the notices to persons are issued and all the returns of income filed by assesses are processed on computers, is not acceptable to the Committee. They view the non-committal reply seriously which tries to circumvent the whole issue of the generation of income statistics. They are of the opinion that the Ministry besides taking concrete measures for speedily completing the process of computerisation, should also process the returns and update the statistics at regular intervals as the issue of notices and processing the returns is a continuous process. They also desire that the scope to process the returns of incomes on computers should be further widened to encompass returns filed under other heads of incomes also. They, therefore, reiterate their original recommendation and recommend that the Department should evince greater commitment to (i) increase the tax GDP ratio; and (ii) generate income statistics slab-wise of the new assesseees and dovetail the same with the Tax Accounting System to monitor revenue collections vis-à-vis the targets fixed for various levels of officers.

B. Pendency in Appeals and the uncollected Tax Demands

Recommendation (Sl. No. 2 Para Nos. 22 and 23)

15. As regards the uncollected tax demand locked in the cases that are lying pending before various Tribunals /Courts, the Committee in their Seventh Report on Demands for Grants of Ministry of Finance (Department of Revenue) for 2000-2001 observed/recommended as follows:

“The Committee are deeply concerned to note that the outstanding tax demand/arrears of direct taxes and excise duties have reached an astronomical figure of more than Rs. 52000 crore. It is also found that a major portion of the arrears are locked up in the cases pending in various appellate bodies within the Deptt, Tribunals, High Courts and the Supreme Court. The Committee also observe that steps taken/initiated to liquidate the pending cases before various Tribunals/ Courts have not resulted into any marked progress. Thousands of cases involving crores of confirmed tax demands are still pending for years.

The Committee strongly feel that concerted measures must be taken for efficacious recovery of such a huge amount which is locked up.

The Committee therefore recommend that setting up two additional benches of the Income Tax Settlement Commission and the proposal to shift two benches of Customs, Excise and Gold (Control) Appellate Tribunal (CEGAT) from Delhi to Mumbai may be taken up expeditiously. It is also of a paramount importance that concerted efforts should be made for the disposal of pending cases expeditiously. For closely monitoring the progress of the cases, it is but essential that the data pertaining to the number of cases pending before various Tribunals/Courts and the demand locked therein should be maintained. The Committee expect that necessary steps in this regard shall be taken urgently by the Ministry. They also desire that necessary structural/systematic reforms in consultation with Ministry of Law should be carried out without further delay ”.

16. The Action Taken reply furnished by the Govt. is as follows: -

“Direct Taxes

The total outstanding demands for Corporation Tax/Income Tax as on 31.03.2000 is Rs. 53,137 crores. The reasons-wise analysis of the total outstanding demand on 31-03-2000 is given in Annexure-I. As may be seen, the

total outstanding demands includes Rs. 27,803 crores which have been stayed by Courts, Settlement Commission, ITAT and various Income tax authorities. Further Rs. 13,350 crores of demands have not fallen due as on 31-03-2000. The net collectible demand is Rs. 3591 crores only. However, the reduction of total outstanding demands is topmost priority item of work for the Government.

Indirect Taxes

In this regard, it is stated that Board had last year during Chief Commissioners' Conference, identified liquidation of cases involving arrears of revenue, as a special area for specific attention by field officers. Steps have been taken for monitoring the progress of recovery by monthly technical reports which give progress in various key result areas. DG, Inspection gives analysis to Board in this regard.

The Board has also been monitoring by writing to the Commissioners and Chief Commissioners on the need to quickly liquidating of arrears of revenue – specially arrears pending against persuasive and certificate action. Progress of court cases (cases pending before Supreme Court and High Courts) are also being regularly monitored by Legal Cell and Chief Commissioners specially asked to monitor and report progress in each case involving more than one crore revenue. Chief Commissioners have also been advised to monitor specially cases with higher stakes pending with CEGAT and move miscellaneous applications for priority listing. They are also advised to monitor disposal of pending cases before appellate.

Considering the Committee's observation and certain recent direction by MOS(R) for regular monitoring of each critical area of pendency, further instructions have also been issued to all field formations so that liquidation of arrears of revenue gets high priority.

As suggested by the Standing Committee, the appeals structure in the Customs, Excise & Gold (Control) Appellate Tribunal has been analysed and based on the pendency at various places, a proposal to shift two benches to Mumbai and one bench to Bangalore is under examination. Whenever the question of law is involved, Law Ministry will be consulted, as suggested by the Committee.

17. The Ministry of Finance (Department of Revenue) while replying on the issue of setting up of the benches of Income Tax Settlement Commission have *inter-alia* stated as under: -

“As regards Settlement Commission (IT/WT), a proposal for setting up of two benches – one at Delhi and the other at Ahmedabad – is being taken up.”

18. On the issue of simplification of tax procedures, the Central Board of Direct Taxes (CBDT) in a written note separately submitted to the Committee has *inter-alia* stated as under: -

“A continuing process of simplification and rationalisation of tax procedures is under way:

- Simplified forms for returns of income, particularly in the cases of small income tax payers, have been introduced, e.g. non-corporate tax payers, other than certain trusts, can now file their returns in a simple one-page Form 2D, known as the ‘Saral’ form. Further simplification and rationalisation is being examined in detail by a Committee which will submit its report by end of July, 2000.
- An acknowledgement of the filing of the return of income is now considered to be an acceptance by the tax department of the income/loss declared. It is only in about 2% of the cases that the returns are taken up for further scrutiny.
- Measures have been taken to reduce the time involved in disposal of appeals by prescribing advisory time limits for such disposals by the Commissioner (Appeals) and the Income Tax Appellate Tribunal.
- Provisions have been enacted for reducing the quantum of litigation. Fees have been prescribed for filing appeals before the Commissioner and enhancement of the appeal fee in case of appeals before the Tribunal has been effected in order to discourage frivolous appeals.
- Provision has been made for filing appeals directly to the High Court without waiting for the Appellate Tribunal to refer the matter to the Court.
- The scope of the Authority for Advance Rulings has been widened to include determination of issues arising out of transactions undertaken or proposed to be undertaken by residents with non-residents.
- No approval of tax authorities is required for voluntary retirement schemes framed as per the prescribed guidelines.”

19. In the written note submitted to the Committee in response to a query regarding the measures proposed to simplify the tax laws and rationalise tax structure in order to liquidate the outstanding tax demands, the Department has stated as under :

“Several measures have been taken through Finance (No.2) Act, 1998, Finance Act, 1999 and Finance Act, 2000 to reduce the pendency of cases before Commissioner (Appeals), ITAT and High Court. These are as under :

Finance (No.2) Act, 1998 amended section 249 of the Income-Tax Act to provide that appeals filed by the assessee before the Commissioner (Appeals) shall be accompanied by a fee ranging from two hundred and fifty rupees to one thousand rupees depending on the quantum of total income and also amended section 253 relating to appeals filed before the Appellate Tribunal to enhance the existing scale of fees and to provide that appeals filed before the Appellate Tribunal shall be

accompanied by a fee ranging from five hundred rupees to ten thousand rupees, depending on the quantum of total income.

- i) Finance (No.2) Act, 1998 inserted section 260A in the Income-tax Act, to provide that an appeal against the order of the Tribunal can be filed directly to the High Court only if the High Court is satisfied that the case involves a substantial question of law.
- ii) Finance Act, 1999 amended section 250 to provide that where it is possible, the Commissioner (Appeals) may hear and decide every appeal within a period of one year from the end of the financial year in which the appeal is filed. Further section 254 was amended by the same Act to provide that the Appellate Tribunal, where it is possible, may hear and decide every appeal within a period of four years from the end of the financial year in which the appeal is filed by the assessee.
- iii) Finance Act, 2000 extended the advisory time-limit of four years provided in section 254 to include appeals filed by the Commissioner before the Appellate Tribunal. It also amended the meaning of advance ruling and applicant in section 245N relating to Advance Rulings to enlarge the scope of such advance rulings to cases of residents entering into transactions with non-residents.
- iv) Further, Finance Bill, 2001 proposes to amend section 254 of the Income-tax Act to provide that where, in an appeal filed by the assessee, the Appellate Tribunal passes an order granting stay, the Tribunal shall hear and decide such appeal within a period of six months from the date of passing such order granting stay, failing which the stay granted shall stand vacated on the expiry of the aforesaid period.

Rationalisation and simplification of tax laws has been an on-going process. Recently, measures were taken through Finance Act, 2000 to rationalise certain income-tax provisions so as to simplify them and reduce the scope for litigation. Some of the measures taken were :-

- (a) Phasing out of tax concessions in respect of foreign exchange earnings – Sections 10A, 10B, 80HHB, 80HHBA, 80HHC, 80HHE, 80HHF, 80R, 80RR and 80RRA. Ten year tax holiday available under sections 10A and 10B for units set up in Free Trade Zones and software Technology Parks or as Export Oriented Units, is to be withdrawn in a phased manner over a ten year period. Thus companies that have been set up in 1999-2000 will get concessions for ten years, those set up in 2000-2001 for nine years and so on till the end of ten year period i.e., FY 2009-2010. The benefits in other sections are also to be phased out over a five year period.
- (b) Minimum Alternative Tax (MAT) is now to be charged at 7.5% of book profits by all companies without any exception, barring export profits during the phasing out period.
- (c) Provisions relating to corporate restructuring were rationalised to provide that :-
 - Assets to be retained by amalgamated company for the specified period would be only the fixed assets
 - Value of assets would be the book value
 - 'Net worth' in case of slump sale would mean assets minus liabilities.

Further, proposals have been made in the Finance Bill, 2001, which seek to clarify certain issues which had been giving rise, or could lead to litigation. These include :-

- (i) Making it mandatory to claim depreciation in computing business profits;
- (ii) Providing for rules to compute non-agricultural income from rubber and coffee plantations;
- (iii) Making income from onsite services eligible for deductions as export profits;
- (iv) Providing clear definition of ' industrial undertaking' for purposes of set off of losses in cases of amalgamations;
- (v) Amending the definition of 'royalty';
- (vi) Clarifying that income from transfer of units of UTI and mutual funds is not exempt except in case of redemption."

20. Supplementing on the issue of liquidating the tax arrears and the measures undertaken to vacate the stays granted by the Courts, Settlement Commission and IT Authorities, the Deptt. has stated that :

"The Government is seriously concerned about the tax arrears and is making all out efforts to recover these tax dues. However, before the process of recovery is initiated, the Statutory Provisions of the Income Tax Act have to be followed. This process starts after the demand falls due after 30 days of the service of the Demand Notice. Thereafter, action is taken by Assessing Officer in respect of unstayed demand by attaching bank accounts, charging interest, levying penalty etc. In difficult cases, matter is referred to Tax Recovery Officer who takes various coercive measures as per the Act like attachment and sale of defaulter's movable and immovable properties, arrest of defaulter and his detention in prison, appointment of Receiver for the management of the defaulter's movable and immovable properties. The recovery action taken by the Assessing Officers and TROs is closely monitored by the higher Income-tax authorities.

Further, dossier cases having outstanding demand of Rs. 10 lakhs and above are monitored by higher authorities on a regular periodic basis and necessary instructions are issued for taking various coercive measures for effecting the recovery of demand.

In view of the above measures, the above reduction/collection made out of arrear demand (as on 31/3/2000) so far up to January 2001 is Rs. 14591.76 crores.

The stay granted by Income tax Authorities are continuously reviewed. Such stay is normally granted in respect of part of the demands till the disposal of appeals by CIT(Appeal). Therefore on passing of appellate orders, the stay is vacated accordingly. In many cases where demand is outstanding, applications are filed before the Settlement Commission. No collection is possible in such cases except as per directions of the Settlement

Commission. As regards stay granted by ITAT, Courts etc, the efforts are invariable made for out-of-turn hearing of these cases by the Field Authorities. These measures do help in the process of realisation of outstanding demands to the extent such demands get confirmed in appeal. However no separate statistics of actual realisation of demands in respect of such cases is maintained in order to speed up the process of vacation of stay granted by ITAT, it has been proposed in the Finance Bill 2001 that where , in an appeal filed by the assessee, the Appellate Tribunal passes an order granting stay, the Tribunal shall hear and decide such appeal within a period of one hundred and eighty days from the date of passing such order granting stay, falling within which the stay granted shall stand vacated on the expiry of the aforesaid period.”

REASON-WISE ANALYSIS OF TOTAL OUTSTANDING DEMAND

AS ON 31ST MARCH, 2000

1.	<u>Unrealisable Demand</u>	(Rs. in crores)
i)	Demands not fallen due	: 13349.52
ii)	Demands paid but pending Verification	: 1805.60
iii)	Demands stayed by Courts/Settlement Commission & ITAT	: 13565.02
2.	<u>Net Realisable Demand</u>	
i)	Demands stayed by Income-tax authorities	: 14237.74
ii)	Demands where recovery is difficult	: 6587.82
3.	Net Collectible Demand	: 3590.88
	Total outstanding demand	: 53136.58

The figures are provisional.

21. The Committee are deeply pained to observe that the Ministry have primarily relied on certain amendments that were introduced to the extant Income Tax Act to liquidate the outstanding tax demands which is increasing with passage of every year. Absence of concrete evidence to substantiate the achievements made since the adoption of these provisions and the non-availability of the figures pertaining to the gross outstandings upto January 2001 makes the contention of the Ministry despite the reduction of tax arrears demand to the tune of Rs. 14591.76 crore during 2000, a distant plausible proposition. They decline to accept the viewpoint of the Government that net collectible demand is only Rs. 3591 crores as the total outstanding demand includes the amount which is locked up /stayed by courts/Settlement Commission/ITAT/Income Tax Authorities. The Committee are of the view that if the burgeoning outstanding tax demands are not arrested and realised in the immediate future, the same would blunt the edge of the tax administration and throw the entire effort meant for revenue mobilisation out of gear.

To encourage voluntary tax compliance and reduce the complexity in the tax laws and the sequel of long drawn legal disputes which emanate out of the ambiguity involved in the orders passed by the assessing officers and thereby to avoid the huge tax demands ending up in appeals, the Committee recommend that the ongoing tax reform process to simplify the tax laws and rationalisation of tax structure should be pursued with greater vigour. They, therefore, while reiterating their original recommendation, desire the Ministry to concentrate more in getting the stays granted by the Courts, Settlement Commissions, Income Tax Authorities etc. vacated and thereby get the cases settled. At the same time it is equally important to maintain data pertaining to the number of cases pending before various Tribunals/Courts along-with the demands locked up therein and to monitor the process of pending cases. The Committee would like to be apprised of the steps and measures mooted to accelerate the realisation of outstanding tax demand and the achievements made along-with the amount actually realised as a result thereof.

C. Surveys, Seizures and Prosecutions under the Income Tax Act.

Recommendation (Sl. No. 5 Para Nos. 36 & 37)

22. The Committee had observed that though there was a hike in the number of warrants issued during 1998-99 and 1999-2000 compared to the year 1995-96, the amount accrued from the seizures effected during the said years were not in commensurate with the achievements made in 1995-96. The Committee had called for further explanation in regard to the downward trend in the amount accrued from such seizures.

23. Potential tax evasion had not been checked because of several factors including the lesser number of prosecutions launched over a period of time under the Income tax Act. This was reported to be because of the delay involved in the process of finalisation of appeals only after which the prosecution could be launched. Besides, on perusal of the given figures it was also found that there had been a high rate of acquittals under the Income tax Act and the conviction rate stood far too low to work as an effective deterrent for potential tax evasion. The Committee to ensure the high success rate, had therefore, recommended that greater attention should be paid for speeding up the process involving finalisation of appeals and towards exercising proper scrutiny before launching prosecutions.

24. The reply of the Government on the above reads as under :-

“Search and Seizure actions are conducted by the department on the basis of satisfaction that unaccounted assets and incriminating documents revealing undisclosed income may be found at the premises subjected to such action. As a result of search, if such unaccounted assets are found, these are seized for the purpose of making assessments and recovery of taxes. It is possible that the department may not come across such assets in all cases as contemplated. However, the incriminating documents found and seized are also scrutinised and the necessary investigations are carried out to arrive at the actual concealment of income in the cases of the group against which the searches are undertaken. The results of such actions are known only after the relevant block assessments are completed and the demands are raised by the department against the assesses in a group. Even the search may not result in seizure of unaccounted assets, concealment of substantial amount may be detected on completion of the block assessments subsequent to the searches. The quantum of seizure, by itself, may not be precise indicator of the results of search action.

The recommendations of the Committee that the process involving finalisation of penalty appeals should be speeded up, has been noted. All the CC/DG charges would be directed to take necessary action for speeding up the process of finalisation of penalty appeals. They would also be directed to exercise proper scrutiny of cases which would be decided for prosecution so that the success rate is enhanced. “

25. The Deptt. of Revenue while furnishing the break-up regarding the number of block assessments completed and the quantum of unaccounted wealth unearthed since 1997-98 has stated that :

“The results of the block assessments completed during the Financial Years 1997-98 to 1999-2000 are mentioned as in annexure ‘A’ (placed below). The summary of the results may be noted as under :

Financial Year	Total Seizure Effected	No. of block Asstts. Completed	Addl. Income brought to tax	Taxes realised so far
1997-98	306.84	5097	3905.73	758.21
1998-99	300.53	2562	1803.49	316.28
1999-2000	412.84	5458	4870.08	660.54

It is pertinent to mention here that majority of block assessments completed during this period relates to the searches conducted in the earlier years. However, it can be seen that the amount of additional income brought to tax is more than the seizures affected.”

26. Delving on the directions issued to speed up the process of finalisation of penalty appeals the ministry in their written note informed that :

“For enhancing the conviction rate, the CCsIT/DGsIT have been asked to exercise proper scrutiny of cases to be selected for launching of prosecution. They have also been asked to take necessary action for speeding up the finalisation of penalty appeals so that larger number of prosecutions can be launched. The impact of these directions will be felt after some time. A copy of the letter written to them is enclosed along- with the statistics of prosecutions launched and disposed of from Financial Year 1997-98 onwards.”

Central Board of Direct Taxes
O/o. the O.S.D. (Legal)
4th Floor, Super Bazar Bldg.
Connaught Circus, New Delhi

Dated: 1.3.2001

To

All Chief Commissioners of Income-tax & DGsIT (by name)

Sir/Madam,

Sub: Speeding up finalisation of appeals of penalty and need to make proper scrutiny to enhance the success rate of conviction for prosecutions under the Direct Tax Laws – Reg. –

A copy of reply given by the Govt. to the Recommendation contained in para no. 37 of the Seventh Report of the Standing Committee on Finance on Demands for Grants (2000-2001) of Ministry of Finance, Deptt. of Revenue, is as under :-

Recommendations :

“Potential tax-evasion has not been checked because of several factors including the lesser number of prosecutions launched over a period of time under the Income tax Act. This is reported to be on account of the delay involved in the process of finalisation of appeals only after which the prosecution can be launched. Besides, on perusal of the given figures it is also found that there has been a high rate of acquittals under the Income tax Act and the conviction rate stands far too low to work as an effective deterrent for potential tax evasion. The Committee, therefore, recommend that greater attention should be paid for speeding up the process involving finalisation of appeals and towards exercising proper scrutiny before launching prosecutions so that the success rate is high.”

Reply :

“The recommendations of the Committee that the process involving finalisation of penalty appeals should be speeded up, has been noted. All the CC/DG charges would be directed to take necessary action for speeding up the process of finalisation of penalty appeals. They would also be directed to exercise proper scrutiny of cases which would be decided for prosecution so that the success rate is enhanced.”

2. I am accordingly directed to request you to take necessary action for speeding up the process of finalisation of penalty appeals and also for exercising proper scrutiny of cases before deciding to launch prosecution so that success rate is enhanced.

3. Para 2 in Board's letter F.No. 285/160/90-IT(Inv.) dated 7.2.1991 had also emphasised on filing of prosecutions in really strong and sustainable cases only. A copy of that letter is also enclosed.

Yours faithfully,

Sd/-

(SURAT SINGH)

Dy. Director of Income Tax (Pros.)

Encl. As above.

Statement of Prosecution complaints launched and disposed of

F.Y.	Total No. of Prosecution proceedings pending as on beginning of the year	Launched during the year	No. of proceedings decided (details given next 3 columns)	No. of cases convicted	No. of cases compounded	No. of cases Acquitted including withdrawals	Pending at the end of the year
1	2	3	4= 5+6+7	5	6	7	8=2+3-4
1997-98	35349	801	1239	93	143	1003 (80.9%)	34911
1998-99	34911	184	668	77	184	407 (60.9%)	34427
1999-2000	34427	343	1607	14	128	1465 (91.1%)	33163
2000-2001- (upto 1.1.2001)	33163	197	590	11	216	363 (61.5%)	32770

Sd/-
(SURAT SINGH)
Dy. Director of Income Tax (Pros.)
2.3.2001

ANNEXURE A

(Rs. in crores)

DGTI Charge	No. of Block Assessments completed			Amount of additional income brought to tax			Tax Realised		
	1997-98	1998-99	1999-2000	1997-98	1998-99	1999-2000	1997-98	1998-99	1999-2000
Ahmedabad	75	137	120	313.25	126.14	111.11	11.61	87.82	2.86
Mumbai	138	78	393	307.64	450.9	951.11	152.64	22.9	58.46
East, Kolkata	199	59	266	802.86	12.80	226.67	14.46	3.54	4.33
North, Lucknow	75	47	51	26.52	65.92	62.27	32.13	19.03	68.78
Chennai	120	85	147	169.48	55.54	43.44	14.16	3.52	10.95
South, Bangalore	49	38	29	31.45	60.23	11.67	10.51	6.64	4.99
Delhi	203	61	133	295.55	46.69	585.98	46.43	6.63	6.77
Total	859	505	1139	1946.75	818.22	1992.25	281.94	150.08	157.14

CCIT Charge	No. of Block Assessments completed			Amount of additional income brought to tax			Tax Realised		
	1997-98	1998-99	1999-2000	1997-98	1998-99	1999-2000	1997-98	1998-99	1999-2000
1	231	31	48	5	63.88	7.02	8.24	9.30	10.31
Delhi	401	160	524	356.45	75.04	723.79	52.23	12.9	215.72
Kanpur	109	48	53	17.42	3.5	409.12	4.9	0.26	2.04

	2	3	4	5	6		8	9	10
Lucknow	108	27	66	8.62	47.99	5.59	1.60	0.38	1.87
Patna	81	44	128	7.74	3.88	18.03	1.98	1.40	4.94
Chandigarh	81	59	108	20.34	24.60	37.46	6.30	7.45	5.65
Bangalore	527	192	436	76.62	19.83	149.78	16.14	5.27	18.33
Cochin	108	63	95	28.63	54.29	22.07	10.72	7.69	9.66
Hyderabad	339	188	185	54.34	27.80	19.31	33.35	14.07	7.61
Chennai	661	243	178	166.00	34.43	36.16	83.18	24.31	22.51
Kolkata	168	98	250	36.27	8.2	51.41	1.4	2.6	4.4
Ahmedabad	176	126	231	238.18	62.28	92.66	22.58	14.28	21.55
Bhopal	166	171	150	15.87	38.46	22.02	2.51	5.64	8.45
Jaipur	91	89	227	113.10	37.40	60.18	4.85	5.17	3.69
Pune	706	216	781	108.07	26.81	97.38	30.61	6.62	40.99
Mumbai	347	214	725	587.79	488.32	1105.82	153.67	44.65	131.26
Orissa	81	70	41	6.13	4.91	8.72	1.11	1.40	1.21
Panchkula	88	49	41	117.41	27.44	18.33	49.14	12.11	3.52
Guwahati*									
Total	4238	2057	4219	1958.98	985.27	2877.44	476.35	165.8	503.84

*Figures not available.

27. The Committee are deeply anguished to observe that though in their action taken reply furnished to the Committee in September, 2000 itself the Department had stated that necessary directions to the Chief Commissioners of Income Tax / DGsIT for speeding up the process of finalisation of penalty appeals would be issued, however, the same could be issued only in March, 2001 i.e. after a lapse of five months. They also wish to point out that the number of prosecutions pending under the Income tax Act have reached alarming levels and continued to be the same year after year. This only highlights the apathetic attitude of the Department and their failure to initiate measures for expeditious disposal of these cases. In view of the above the Committee recommend that all out efforts should be made on priority basis to bring down the levels of pendency of prosecutions under the Income Tax Act. They also desire that the progress made in this direction may be apprised to this Committee at the earliest.

NEW DELHI;
April, 2001
... Chaitra, 1923(Saka)

(SHIVRAJ V. PATIL)
Chairman,
Standing Committee on Finance.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No. 3, Para No. 27)

The Committee note that the need to standardise the accounting procedure for the operation of the National Fund for Control of Drug Abuse which had emanated from the reference of C&AG to the Department of Revenue way back in 1994 is yet to be finalised. The Committee are not able to appreciate the reply given by the Department that efforts are being made to finalise the accounting procedure in consultation with CCA, CGA, Budget Division, Ministry of Law and C&AG. In view of the inordinate delay the Committee desire that the issue of finalising the accounting procedure should be resolved at the earliest.

Reply of the Government

A revised Accounting Procedure Rules in respect of the National Fund for Control of Drug Abuse has been prepared in consultation with the Budget Division of the Department of Economic Affairs in accordance with the observations of the office of C&AG. The same has been referred to Chief Controller of Accounts for vetting by the C&AG's office.

The Department of Revenue expects to finalise and modify the Accounting Procedure Rules for National Fund for the Control of Drug Abuse during the current year.

[Ministry of Finance (Department of Revenue—Parliament Cell),
F.No. H-11013/1/2000-Parl. dated 6 September, 2000]

In their updated written action taken replies the Department have stated as under:

"A revised Accounting Procedure Rules in respect of the National Fund for Control of Drug Abuse has been prepared in consultation with the Budget Division of the Department of Economic Affairs in accordance with the observations of the office of C&AG. The Chief Controller of Accounts has sent the proposal on 27.12.2000 to Controller General of Accounts. The CGA has forwarded the Draft Accounting Rules on 01.03.2001 to C&AG for vetting."

[Ministry of Finance (Department of Revenue—Parliament Cell),
F.No. H-11013/1/2000-Parl. dated 9 March, 2001]

Recommendation (Sl. No. 4, Para No. 30)

The Committee note that the budgetary provisions made under this head at RE stage have been underutilised during 1997-98 and 1998-99. The reasons given for gross under-utilisation to the tune of more than Rs. 2 crore in 1998-99 are of less expenditure incurred to meet the domestic travel expenses, foreign travel expenses, the provision set aside to purchase some vehicles and also the purchase of less number of Hot Air Ovens, Electric Balances, Aluminium trays etc. The Committee are of the view that the Department failed to accurately assess the needs under this head even at RE stage which are normally finalised during September/October every year. The Committee take note of the casual approach followed by the Department in formulating the Estimates under this head. They, therefore, recommend that henceforth closer scrutiny of the proposals should invariably be undertaken with regard to each and every proposal so that realistic estimates are projected under this head.

Reply of the Government

During the year 1998-1999 there was under utilisation of allocation made to the tune of more than Rs. 2 crores under the above mentioned major head. However the under utilisation of funds is not in one sub-head/head and in one charge. There are seven charges under the 'Narcotics Control' as mentioned below:

1. Narcotics Commissioner, Gwalior
2. Superintendence, Madhya Pradesh
3. Superintendence, Rajasthan
4. Superintendence, Uttar Pradesh
5. Other Opium Agencies & Establishment, Madhya Pradesh
6. Other Opium Agencies & Establishment, Rajasthan
7. Other Opium Agencies & Establishment, Uttar Pradesh

The main items where the allocated funds could not be utilised fully and the reasons therefor are as under:

- (i) Salaries: The main reason for under utilisation of funds under this sub-head is because the vacant posts of group C&D category could not be filled during this period. Also most of the officials did not avail LTC facility during this year as a result of which funds earmarked for this purpose could not be utilised.

- (ii) Domestic Travel Expenses: The main reason for under utilisation of funds under this sub-head is that most of the employees who were deputed for Test Measurement were out side their headquarters and they could not submit their T.A. claims within the stipulated time. Moreover most of the journeys were performed by the staff in the Government vehicles.
- (iii) Foreign Travel Expenses: The funds allocated under this sub-head could not be utilised to full extent because the expected foreign tours of some senior group 'A' officers in the end of the financial year could not be materialized for various reasons.
- (iv) Machinery & Equipment: It is submitted that the purchase of 'Hot Electric Oven & Electronic Balance' etc. was made for the first time on experimental basis. The approximate cost of these items could therefore not be estimated.
- (v) Purchase of Vehicles: The under-utilisation of funds under this item is mainly because the payment of claims were not received from the concerned parties in time.
- (vi) Rewards: The main reason for under-utilisation of funds under this sub-head is that the financial investigation could not be completed in time. This is a lengthy process in which the investigation officer has to trace out the moveable/ immovable properties of the accused and then collect and verify the documentary evidence of his properties. Since this is a necessary requirement for grant of 'Rewards' the funds under this head could not be utilised to the full extent.

" The Department have however been advised to project correct and realistic estimates in future, and undertake close scrutiny with regard to each and every proposal to ensure that realistic estimates are projected under this head.

[Ministry of Finance (Department of Revenue—Parliament Cell),
F.No. H-11013/1/2000-Parl. dated 6 September, 2000]

Recommendation (Sl. No. 6, Para Nos. 45, 46 and 47)

The Committee are unhappy to observe that the ongoing programme of Computerisation of Income Tax Operations appears to be having too many bottlenecks and are yet to be addressed fully even after a lapse of more than a decade since the inception of the programme. The funds allocated for the purpose of procuring the computer hardware and software are grossly underutilised since 1995-96 onwards and the underutilisation of budgeted resources has reached an alarming level of Rs. 28.35 crore during 1998-99. The reason adduced for non-utilisation of funds is that the proposals for purchase of hardware/software and other related equipment could not be finalised before the close of the financial year. This is not appreciated by the Committee.

It is also found that more than 29,000 employees of the Income Tax Department still need to be trained in computers. The teething problems of the software in accessing the data, processing the income tax returns and minimising the incidence of evasion through cross-checking the data, yet need to be resolved. The Committee are of the view that the proposal to extend the one-by-six scheme to 79 more cities would further intensify the urgency to accelerate the Computerisation of Income Tax Operations to a much greater extent. They are of the opinion that if the nagging problems of this key ingredient of the infrastructure for revenue collection are not tackled immediately, the same will have adverse revenue implications in the near future. They also feel that in order to bring in greater acceptance of the ongoing computerisation programme within the organisation, the training curriculum aiming at bringing about attitudinal change among the personnel also needs to be accelerated.

"In the light of above facts, the implementation of the Computerisation of Income Tax Operations calls for closer monitoring and strict adherence of the set targets. They, therefore, recommend that concrete measures should be taken to standardise the software and the yearly action plans should be reviewed at the level of Secretary, Revenue, at least once in each quarter with a view to achieving tangible results without any further loss of time.

Reply of the Government

The three Regional Computer Centres of Delhi, Mumbai & Chennai were made operational in January/February, 1995. National Computer Centre and 33 Computer Centres covering rest of the entire country have been fully functional since 1998. 7835 Personal Computers have been provided to officers down to the level of Income Tax Officer and in terminal banks. 3204 Personal Computers are already on the network and work of connecting additional 3378 Personal Computers has been taken up. Remaining Personal Computers will be put on network soon.

Out of nine application softwares envisaged for uniform use all over the country, eight have been developed and implemented. Only Tax Deduction at Source System (TDS) has been delayed as development of software was kept on hold, pending notification by the Government of the modified forms for Annual Returns of Tax Deduction at Source (TDS). Tax Deductors Account Number (TAN) module of Tax Deduction at Source (TDS) Software is already in use. The main Tax Deduction at Source Software is likely to be implemented by August, 2000. Eight application softwares are in use all over the country. Status of work being done is at Annexure. Availability of Assessment, Individual Running Ledger Account, Tax Deduction at Source and Third Party Information (through Central Information Branch (CIB) module of Enforcement System) data of atleast two years would enable proper matching and full benefits of computerisation. This is expected to be accomplished by March 2003.

As against the sum of Rs. 96.09 crores provided between 1995-96 and 1998-99, a sum of Rs. 76.97 crores have been utilised and only Rs. 19.12 crores remained unutilised. Out of this a sum of Rs. 18.29 crores could not be utilised during 1999-2000 as the Personal Computers ordered, on start of supplies, were found not to be meeting the specifications. As such, no payments were made. Supplies as per specifications were received and payments were made during 1999-2000.

Software for Assessment and Third Party Information (CIB system) have been developed, implemented and are in use. The only issue is to extend use of these systems all over the country. As a first step in this direction, the Central Board of Direct Taxes has asked all Chief Commissioners of Income-tax to get the checking of all salary returns done on computers using the assessment system. All arrear demands are to be carried forward on computers only for uploading into Individual Running Ledger Account System. Though Central Information Branch (CIB) System dealing with Third Party Information System is in use in Calcutta & Delhi, all DGIT (Inv.) have been asked to start fullfledged use of the system by 1.8.2000.

Tax Accounting System has stabilised all over the country and as many as 32 centres out of 36 centres are upto date in this area of work.

As regard training, so far, out of 52000 employees who are expected to work on computers, 27430 employees have been trained. Further, training of 12000 employees is to start shortly.

So far, 12 Computer Training rooms with facilities for simultaneous training of 240 persons have been made operational in various cities and at National Academy of Direct Taxes and Direct Taxes Regional Training Institutes.

120 departmental employees have been given four weeks' intensive training as Trainers, especially, in the area of application software. The services of these employees will be utilised for training of other employees in application software on on-going basis.

During later part of 1999, three seminars were organised at Bangalore & Delhi on Information Technology and Change Management for the Chief Commissioners and Director Generals of Income Tax as well as for the Addl. Director General of Income Tax & Commissioners of Income-tax in-charge of National Academy of Direct Taxes and Direct Taxes Regional Training Institutes. The National Academy of Direct Taxes has been asked to launch regular courses on change management with reference to Information Technology for officers & staff of the Department.

As pointed out earlier in reply to Para 45, nine standard application softwares were envisaged for uniform use all over the country. All application softwares except Tax Deduction at Source (TDS) System has been developed, tested and put to use. Tax Deduction at Source Software is likely to be put to use shortly.

Computerisation had been part of Annual Action Plan of the Central Board of Direct Taxes (CBDT) since 1998-99. This area of work will continue to be part of the Annual Action Plan of the CBDT in the current year as well. Quarterly review of the Annual Action Plan relating to computerisation at the level of Finance Secretary is being scheduled.

[Ministry of Finance (Department of Revenue-Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 6 September, 2000]

STATUS OF IMPLEMENTATION OF APPLICATION SOFTWARE

All the application systems, as part of the original plan, are based on regionally centralized data bases and processing with provision for input and output on decentralized basis. All the application systems, except the Judicial Reference System, are integrated with each other and require PCs of the users to be on network connected on LAN to their respective Local Building Server and on WAN to their respective RCC and NCC. The status of implementation of the application software is as under:—

(i) Initial PAN allotment System (IPAN)

This System has been in use in Delhi, Mumbai and Chennai since 1995 and in rest of the country from 1998. So far, as on 31.06.2000, 1.67 crore PANs have been allotted against 1.89 crore applications received. In most of the pending cases PAN could not be allotted due to core deficiencies in the applications for which applicants have been approached through letter and media publicity to remove the deficiencies in their applications to enable the Department to allot PAN in such pending cases.

(ii) Assessee Information System

Apart from being the hub system for linking all other application system, this is also an on-line system for allotment of PAN across the counter. So far, 7.31 lakh PANs have been issued all over the country using this system.

(iii) Tax Accounting System

This system was implemented in Delhi, Mumbai and Chennai in 1996 and at remaining centres in 1998. The system has stabilized and as many as 32 out of 36 centres are upto date in accounting the tax payments.

(iv) Manpower Management System

Manpower Management System is operational all over the country. So far, 28,633 employees out of 62,369 employees in the Department have been allotted Employee Number based on the biodata forms filled up by them. The implementation of other functionalities of the software such as transfer, posting, promotion etc. through the system will be done during the year.

(v) Payroll System

Payroll System has been installed all over the country and at present is being used by 15 Drawing and Disbursing Officers. It is proposed to extend implementation to all the DDOs in the current year.

(vi) Judicial Reference System

This system is in use all over the country by the users who have a PC. Data alongwith the retrieval software has been supplied on CDs to them and the quarterly updates are being provided.

(vii) Assessment Information System

This system has been installed at all the 36 centres. Checking of returns of salaried taxpayers has been taken up at 20 centres. It is proposed to process all salaried returns all over the country through this system in the current year.

(viii) Individual Running Ledger Account System

This system has also been installed at all the 36 centres. 20 centres are using all the functionalities of this system. In addition, arrear demand module of the system is in use all over the country. This involves transfer of arrear demand from paper registers to computers for eventual uploading into Individual Running Ledger Account System. So far, 1782 Assessing Officers have put their arrear on computers. In the current year all Assessing Officers have been directed by the Board to carry forward arrear demand only on computers.

(ix) Enforcement Information System

There are four modules in this system. All the four modules have been implemented at Delhi, Mumbai, Chennai and Calcutta. These systems are in use at Calcutta and Delhi. It is proposed to extend full-fledged implementation at all centres in the current year.

(x) Tax Deduction at Source Information System

The TAN module of TDS software is installed at 25 centres. Reformatting of old TAN into new format and on-line allotment of TAN is going on.

[Ministry of Finance (Department of Revenue-Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 6 September, 2000]

Recommendation (Sl. No. 7, Para No. 51)

The Committee note that the funds earmarked to meet the expenses of rent, rates and taxes and the money set aside to procure ready built office accommodation and residential flats have been grossly under-utilised since 1997-98. The poor utilisation under both the said heads reflects the indifferent attitude within the Department in resolving effectively the issue of rising recurring expenses under this head. In order to avoid locking of huge budgetary demands, the Committee desire that every effort should be made to utilize the amount within the financial year itself and steps should be taken to inculcate financial prudence within the Department for fixing realistic estimates.

Reply of the Government

Funds under 'Rent, Rates and Taxes' are provided to meet approved/committed liabilities in respect of hired accommodation. However, part of the allocated funds remained unutilised due to dispute regarding rent revision in respect of a few buildings.

As far as under-utilisation of funds for ready built office accommodation/residential flats are concerned, some of the proposals did not materialise during the respective financial year.

Keeping in view the observations of the Parliamentary Standing Committee on Finance, instructions have been issued to all Budgetary authorities under the Central Board of Direct Taxes to the effect that adequate care should be taken at the time of framing the Budget estimates to include only proposals which are likely to be finalised during the respective financial year. A copy of the instructions issued in this regard is enclosed.

[Ministry of Finance (Department of Revenue-Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 6 September, 2000]

F.No. 7/3/2000-IFU (B&A)
Government of India
Ministry of Finance
Department of Revenue
IFU (B&A)

New Delhi, dated 14.7.2000

To,

All Budgetary Authorities,
Under the Central Board of Direct Taxes

Sub:- Observation of Parliamentary Standing Committee on Finance-
regarding under-utilisation of Budgetary provisions under the
heads 'Rent, Rates and Taxes' and 'Acquisition of Office
Accommodation/Residential flats'.

Sir,

I am directed to say that the Parliamentary Standing Committee on Finance, while examining the Demands for Grants of Ministry of Finance for 2000-2001, has expressed concern over the under-utilisation of budgetary provisions made under the heads 'Rent, Rates and Taxes' and 'Acquisition of ready built office accommodation/residential flats' for last few years. In order to avoid locking of huge budgetary demands, the Committee has desired that every effort should be made to utilise the amount within the financial year itself and steps should be taken to inculcate financial prudence within the Department for fixing realistic estimates.

2. As the budgetary estimates are finalised keeping in view, *inter-alia*, the estimates proposed by the budgetary units, the under-utilisation of budgetary provisions is the result of over estimation of requirements projected by the budgetary units in their budget proposals. In some cases the provision included remained unutilised due to litigation and dispute regarding rent revision etc. This led to avoidable saving under the respective heads.

3. All the Budgetary authorities are, therefore, directed to ensure that at the time of framing the Budget estimates, each proposal should be examined very carefully and only those proposals should be included which are likely to be finalised during the respective financial year. Adequate care should also be taken to ensure that the allocated funds are utilised during the respective financial year.

Yours faithfully,

Sd/-
(R.K. GUPTAN)
DEPUTY FINANCIAL ADVISER (DT)
Tel: 3013269

Copy to:

1. J.S. (ADMIN.), CBDT. It is requested that while consolidating and finalising the estimates under the capital budget relating to 'Acquisition of Office Accommodation/Residential flats', the observations of the Parliamentary Standing Committee, as indicated above may be strictly adhered to. An effective monitoring system may be evolved within the CBDT, keeping in view the observations of the Parliamentary Standing Committee.
2. The Principal Chief Controller of Accounts, CBDT, New Delhi.

Sd/-
(R.K. GUPTAN)
DEPUTY FINANCIAL ADVISER (DT)

Recommendation (Sl. No. 8, Para Nos. 63 and 64)

The Committee are of the considered opinion that the provisions of Chapter XXC of the Income tax Act which empower the Central Government with the pre-emptive right to purchase immovable properties when there is a significant under-valuation of the immovable property to be sold with a view to evading tax, has not achieved its prime objective of curbing the proliferation of black money in the real estate transactions. The gross under utilisation of the funds allocated for meeting the expenditure while resorting to pre-emptive purchase of immovable property by the Central Government year after year since 1995-96 and the pendency of cases before the valuation cell for the last three years confirm the opinion of the Committee to a great extent.

The Committee desire that in order to ensure that the scheme of pre-emptive purchase of immovable property functions as an effective tool to control the proliferation of black money, efforts should be made to extend this scheme to other cities as well. Also the functioning of the valuation cell should further be streamlined with a view to reducing the pendency of the cases. The Committee expect that in future the Budgetary as well as Revised Estimates under this head would be projected more realistically.

Reply of the Government

Chapter XXC of the Income Tax Act which empowers the Central Government with the pre-emptive right to purchase immovable properties has been successful in achieving its prime objective of curbing the proliferation of black money in real estate transactions. There are concrete instances of cases where properties, which were purchased by the Appropriate Authorities and subsequently sold in public auctions, were bought by the original intended transferees at substantially higher prices than the declared apparent consideration, outbidding other auction purchasers. There is a clear implied admission in such transactions that the declared apparent consideration was substantially lower than what these transferees themselves assessed as the fair market value of such properties. Further, statistical data indicates that there has been a substantial rise in the Capital Gains receipts and the Stamp Duty realisations after the introduction of Chapter XXC.

The Committee has commented that gross under utilisation of funds allocated for the purposes of pre-emptive purchase of immovable properties since 1995-96, and the pendency of cases before the Valuation Cell, indicate that Chapter XXC has not been able to achieve its prime objective. However, the under utilisation of funds allocated for the purposes of pre-emptive purchase of immovable properties infact indicates that there has been a significant drop in the pre-emptive purchase of properties by the Appropriate Authorities. This drop clearly shows that there has been a significant reduction in the under valuation of properties which is a direct fallout of the effective implementation of Chapter XXC. It may also be stated that this drop in pre-emptive purchase is the fall out of:—

- (i) significant drop in the number of real estate transactions because of a crash in the real estate market, and the consequent;
- (ii) reduction in the value of the transactions bringing them below the monetary limits at which Chapter XXC is applicable;

As regards the pendency of cases before the Valuation Cell, it cannot be said that such a pendency is a pointer that Chapter XXC has not been able to achieve its objectives. Infact the pendency of cases before the Valuation Cell is a reflection of the efficiency of the Valuation Cell and has no bearing whatsoever on the effectiveness or otherwise of Chapter XXC.

The Committee's recommendation that the scheme of pre-emptive purchase of immovable properties (Chapter XXC of the Income Tax Act) should be extended to the other cities also is fully acceptable.

The Committee's recommendation that the functioning of the Valuation Cell should be further streamlined with a view to reduce the pendency of the cases has been noted and accepted for compliance.

The Committee's recommendation that the Budgetary as well as Revised Estimates under this head should be projected more realistically in the future has also been noted and accepted for compliance.

[Ministry of Finance (Department of Revenue-Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 6 September, 2000]

Recommendation (Sl. No. 9, Para Nos. 72, 73 and 74)

The Committee are deeply concerned to observe that despite the sincere efforts made by the Department and the Coast Guard, the contraband is still finding its way into the country. They are of the considered view that in order to check the smuggling of contraband into the country, in addition to the removal of various restrictions on imports/exports, rationalisation and reduction of customs duties on sensitive items, the Government should conduct a review of the men and material provided to the enforcement agencies particularly the Directorate of Revenue Intelligence (DRI), preventive commissionerates and customs formations stationed at various places. This is particularly essential in the light of growing international trade, passenger traffic and sophisticated methods adopted by the smugglers. Provision of trained manpower and modern equipment may go a long way in evolving a fool proof mechanism to detect the smuggling and other related crimes.

On perusal of the data regarding the number of persons arrested, prosecuted, convicted and acquitted under the Customs Act, the Committee find that the average conviction rate is as low as 37%. In order to effect speedy disposal of the cases the Committee feel that there is an imperative need to set up more special courts.

The Committee, on perusal of the seizure figures of major narcotic drugs and psychotropic substances, feel that though a small part of the Narcotics is being consumed within the country and a major part of the same goes through the Indian route, it is still a matter of grave concern. The Committee desire that in addition to the measures taken to sensitize the enforcement agencies regarding the growing menace of the narcotics trade, the Government should closely monitor the operation of Narcotics Control Bureau, Central Bureau of Narcotics and the enforcement agencies such as ITBP, BSF, CBI etc. to restrict the illicit trafficking of the narcotic drugs and psychotropic substances into the country and through the Indian route to other countries. The operations of seizures should be taken with greater vigour and no scope for impunity should be left as far as the drug mafias/lords are concerned.

Reply of the Government

The Government has conducted a review of the deployment of staff posted in the enforcement agencies working under the Customs department particularly the Directorate of Revenue Intelligence (DRI), Customs Preventive Commissionerates and other Customs formations engaged in Anti-smuggling activities. A cadre restructuring proposal proposing augmentation of strength of the Directorate of Revenue Intelligence (DRI) and other customs formations, arrived at after taking into consideration the requirements of the enforcement agencies, is under active consideration of the Government.

As regards the provision of modern equipments to the field formations, the Government is aware of the need for provision of modern anti-smuggling equipments to combat smuggling. The Directorate of Preventive Operations under the Department of Revenue, Central Board of Excise & Customs reviews the position of deployment of various anti-smuggling equipments in all the Customs Preventive formations including the Directorate of Revenue Intelligence, all over the country, on a regular basis and initiates proposals for acquisition of the anti-smuggling equipments such as Baggage X-ray machines, Binoculars, Metal detectors, searchlights etc., for the approval of the Ministry. At present, 105 Baggage X-ray Machines, 1016 Hand-Held Metal Detectors (HHMDs), 87 Door Frame metal detectors, 642 hand-held searchlights, 406 Binoculars and 517 Night vision Binoculars are deployed in various Customs & Central Excise formations all over the country, including at sensitive places such as International Airports, Land Custom Stations, ICDs. Further orders for acquisition of another 43 Baggage X-ray Machines have already been issued and the same are likely to be installed very shortly. The department has also recently acquired 4 Narcotics-cum-Explosive Detectors (IONSCANS) used for detection of narcotics/explosives and the same have been installed at four major International Airports at Delhi, Mumbai, Chennai and Calcutta. The department is also considering the acquisition of Truck/ Container Scanning System. Further 121 Customs boats/vessels including 69 Customs Patrol Tenders are deployed in the maritime Commissionerates for harbour-patrolling & surveillance in the sea-area. Besides above, all the field formations of the Customs Department engaged in Anti-smuggling/Anti-evasion activities have been provided with sufficient number of vehicles for patrolling/surveillance in the areas sensitive from the smuggling/evasion point of view.

The Central Government, after considering the recommendations of the Field Formations and the Enforcement Agencies, shall take up very shortly suitable proposals with the concerned State Governments for the setting up of courts in addition to the existing number of Designated Courts/Special Courts for Economic Offences, in order to speed up the process of trial in complaints filed under the Customs Act, 1962.

The recommendations/observations made by the Parliamentary Standing Committee on Finance in their 7th Report of the Standing Committee on Finance—Examination of Demands for Grants (2000-2001) of Ministry of Finance (Department of Revenue) and concerning the illicit traffic in Narcotic Drugs and Psychotropic Substance on p.60-61 of the said report, has been brought to the notice of Heads of CBI, NCB, Enforcement Directorate, BSF, ITBP, Coast Guards, DRI and CBN so as to ensure effective monitoring, at their level, of drug related enforcement work done by their agency. They have also been requested to send a monthly report on such monitoring to the Department of Revenue.

[Ministry of Finance (Department of Revenue—Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 6 September, 2000]

CHAPTER III

RECOMMENDATION/OBSERVATION WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLY

Recommendation (Sl. No. 10, Para No. 78)

The Committee note that the funds earmarked to meet the expenditure under the head 'Rent, Rates & Taxes' at RE stage have remained underutilised since 1995-96. The Committee also observe that though the Department has so far invested a total of Rs. 25.27 crore to procure ready built office premises at various places, they have not yet assessed the overall impact of these investments on the recurring expenditure under the head 'Rent, Rates & Taxes.' The Committee are of the view that there is a pressing need to evince greater interest in projecting realistic estimates. They therefore desire that the Department should ensure that thorough scrutiny of the demands are invariably done at the preliminary stage under this head so that realistic estimates are made and the budgetary exercise becomes more meaningful.

Reply of the Government

As per the reports received from various Customs (Preventive) Commissionerates, the funds under this head remained under-utilised on account of various factors like non-receipt of rent bills from house owners, non-finalisation of proposals for revision of rent etc. The observations of the Committee in this regard have been communicated to the concerned Commissioners and they have also been advised to thoroughly scrutinize their requirements before making demand for funds to the Ministry under this head, so that Budget Estimate can be framed more realistically.

As regards investment of Rs. 25.27 crores for procuring ready built office premises, it may be mentioned that no major effect on requirement under 'Rent, Rates and Taxes' has been reported by these Commissionerates, so far.

[Ministry of Finance (Department of Revenue—Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 6 September, 2000]

Responding to a query regarding the savings, if any, recorded under the head Rent, Rates and Taxes due to the investments of Rs. 25.27 crore made to procure ready built office premises, the Department of Revenue have stated as under:—

“The investment of Rs. 25.27 crores to procure ready built office premises has not resulted in any significant savings under the head Rent, Rates and Taxes. This is on account of the fact, that this investment has been made, primarily for providing accommodation for the newly created offices of Customs and Central Excise Commissionerates. Most of the existing offices of these Commissionerates are however, still functioning from their erstwhile premises. As rents of these buildings are required to be revised periodically in terms of contracts with landlords, there is hardly any scope for savings under the head Rent, Rates and Taxes. It may further be mentioned that even where these offices are accommodated in Government owned buildings, Municipal Taxes are required to be paid from the provisions under this head. Since these taxes are being regularly revised upward by the various Municipal Authorities the scope for savings under this head gets further reduced.”

[Ministry of Finance (Department of Revenue—Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 9 March, 2001]

CHAPTER IV

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

Recommendation (Sl. No. 1, Para Nos. 11 and 12)

The Committee are concerned to note that the ratio of Gross tax to GDP is still hovering at 9.2% despite the efforts by the Government *inter-alia* to widen the tax base, phasing out concessions and creation of smaller Commissionerates for effective tax administration. They feel that the persistent shortfall of actual tax collections of Corporation tax, Income tax and Union Custom Duties *vis-a-vis* their respective BEs and REs in 1997-98 and 1998-99 and the shortfall over BE of Excise duties since 1995-96 call for a more sincere endeavour on the part of the Ministry to project realistic Budgetary Estimates. They are of the view that the slippages in the revenue collections of direct & indirect taxes which have occurred recently in Bhopal and Mumbai Commissionerates respectively, are causes of concern. They are also of the view that the maintenance of the income statistics of the new assesseees slab-wise and the revenue accrued thereon is of critical importance and the same should be available with a view to ascertaining the additional revenue generated by introduction of one by six scheme.

In the light of above facts, the Committee expect that the Ministry of Finance, henceforth, shall make concerted efforts to project realistic estimates both at the Budget as well as Revised Estimate stage after taking into consideration economic scenario both in the domestic and international arena. They also desire that the pace of ongoing computerisation of tax operations may be speeded up to make the maintenance of income statistics of the assesseees slab-wise feasible, which in the long run would be a prime input for fixing realistic Budgetary Estimates. The Committee also recommend that the targets fixed at Commissionerate levels are required to be closely monitored for the desired expected results.

Reply of the Government

(i) Direct Taxes

Sincere concerted efforts are being made to project realistic Budget Estimates and Revised Estimates taking into consideration the prevailing economic scenario apart from other relevant factors so that there is no significant variation in actual collections with reference to BE/RE. As far as Financial Year 1999-2000 is concerned, it is anticipated that figures of Revised Estimates are likely to be achieved.

There is no shortfall in actual collections of direct taxes *vis-a-vis* the targets given during Financial Year 1999-2000 so far as Mumbai region is concerned. However, close, periodic and strict monitoring of collections is being carried out in respect of each CCIT region to get the desired expected results. A statement showing collection of Corporation Tax/Income Tax *vis-a-vis* targets given to all the Chief Commissioners region is enclosed as Annexure I.

(ii) Indirect Taxes

The first action point relates to fixing of Budget Estimates on a realistic basis. The Budget Estimates for the current financial year have already been finalised. The Budget Estimates for customs receipts take into account the finance available for imports, the projected exchange rate, the trends in prices of major commodities such as Petroleum products and other relevant factors. Similarly, in the case of central excise receipts, the projected growth in the manufacturing sector, inflation rate for manufactured goods, the trends in production of major industrial sectors and other relevant parameters are considered. The projections of revenue receipts have been made on realistic basis, since it is based on the data available. While finalising the Revised Estimates, the actual trends in revenue growth, the trends in international and domestic prices, the patterns of imports and domestic production and all other relevant parameters would be taken into account so that the estimates are as accurate as possible.

The second action point relates to slippage in revenue collection and close monitoring of revenue targets at the Commissionerate level. For fixing the targets for the Commissionerates, we have asked the Chief Commissioners to indicate their assessment and projections of revenue receipt taking into account the relevant factors such as the changes in pattern of production and prices of major commodities, creation or expansion of production capacities and demand and supply position. All these inputs will be utilised while fixing the commissionerate level targets and monitoring the same.

(iii) Computerisation of income tax statistics

Computerisation application systems have been developed which maintain details of returns of income filed and taxes paid by all the assesseees including new assesseees. The system also keeps track of new assesseees brought on the registers of the Department either voluntarily or as a result of action taken by Central Information Branch including notices issued to and return filed by persons covered by the one by-six scheme.

The system provides statistics on income slab-wise break-up of returns filed by existing as well as new assesseees and the taxes paid by them according to the category and slab of income.

Once all notices to persons covered by the one by six scheme are issued through the system all returns of income filed by assesseees are processed on computers, it will be possible to generate statistics on slab-wise income of the new assesseees and revenue accrued therefrom.

The Computerised Tax Accounting System, which is now fully implemented and stabilised all over the country, provides details of taxes collected Assessing Officer-wise, Additional/Joint Commissioner's Range-wise, Commissioner of Income-tax Charge-wise as well as Chief Commissioner of Income-tax Region-wise. This will be made use of by the Department in monitoring collection of taxes *vis-a-vis* the budget fixed for various levels of officer."

Supplementing on the issue pertaining to the slippage in the collection of Excise duty in Mumbai, the Ministry of Finance in their written reply have stated that:—

"It is submitted that the matter mainly relates to collection of revenue and its monitoring. Necessary communication has been issued to the Chief Commissioner of Central Excise, Mumbai to tighten his preventive operations/activities."

[Ministry of Finance (Department of Revenue—Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 6 September, 2000]

Despite the deep concern expressed by this Committee regarding the near stagnant ratio of Gross tax to GDP, the Ministry of Finance (Department of Revenue) in their action taken reply had not detailed out the course of action to augment the ratio of gross tax to GDP. When further asked about the policy measures initiated/proposed to be initiated to bring in greater buoyancy in the said ratio, the Department have stated as below:—

"Direct Taxes

In respect of Central Board of Direct Taxes, the reply is as under:

The ratio of Direct Tax collections with reference to GDP for the years 1990-91 to 1999-2000 has been tabulated and is enclosed as Annexure 'A'. As may be seen, there has been generally a growth in the ratio of Direct Tax collections to GDP over the years. Over the last 10 years, the Direct Taxes have increased by 425.52% from Rs. 11028.94 crores to Rs. 57958.97 crores. During this period the Direct Tax percentage of GDP increased from 1.94% to 2.96%. As a proportion of total tax revenue also, the Direct Taxes have generally increased over these years.

The major thrust areas to augment the Direct Tax-GDP Ratio being pursued over the last few years by way of legislative and administrative measures relate to "Widening of Tax Base" and "Voluntary Tax Compliance" coupled with stability of moderate tax rates. So far as widening of tax base is concerned, the modified 1/6 scheme which was introduced in the Finance Act, 1998 and was operative in 133 cities last year has been proposed to be extended to all the urban areas in the country as per the Finance Bill, 2001. Moreover, the ambit of TDS provisions has also been progressively enlarged to tap the potential tax payers. As regards encouraging tax compliance, measures taken in this regard include:—

- (i) continued simplification of tax laws, procedures and various statutory/non-statutory forms.
- (ii) Changing attitude towards tax payments-implementation of Samman Scheme for top tax payers to recognize the contribution of the tax payers towards the nation.
- (iii) Phase-wise computerisation of various activities of the Income Tax Department.
- (iv) Strengthening of administrative machinery for monitoring of revenue collection.

Thus, on account of the above, Direct Tax-GDP Ratio has shown consistent growth over the years despite a number of exemptions and deductions still available in the Act.

In respect of Central Board of Excise and Customs, the reply is as under:

To bring in buoyancy in the collection of revenue and to contain fall in tax GDP ratio, all possible measures are being adopted in a phased manner. However, continuing economic constraints, slow down of growth in the economy, decline in the price of imports, unstable oil prices etc. are affecting all the intended measures to augment the revenue.

Measures adopted are indicated as under:

- (i) Tax rates have been rationalized for better and effective tax administration and also for inducing greater tax compliance. A structure based on rationalized rates would also reduce considerably scope for loopholes and leakages.

- (ii) MRP based assessment has been extended to more commodities.
- (iii) Government has decided, as a policy, to remove exemptions in Excise and Customs duties. In the Budget 2001-2002 Excise duties have been introduced on select item @ 4% without CENVAT credit to bring more commodities in the tax net. Within four years the rate will be gradually increased to 16%. It has been decided that more and more items will be brought into the tax net. Also Excise duty of 16% has been imposed on branded readymade garments.
- (iv) Tax base of service tax has been widened by bringing in many new services, which will be effective from 1st July, 2001. It will be the Government's policy to expand the base to more services.
- (v) During the financial year 2001-2002, efforts have been initiated to raise the revenue by more than rupees 5000 crores in the area of indirect taxes."

[Ministry of Finance (Department of Revenue—Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 9 March, 2001]

Statement showing the total tax revenue as a percentage of Gross Domestic Product at current prices* as given in the Economic Survey 2000-2001 (page 45) is as under:

	1990-91	1995-96	1996-97	1997-98	1998-99	1999-2000@	2000-2001
Gross Tax Revenue	10.1	9.4	9.4	9.1	8.2	8.8	9.2

@ Based on Provisional unaudited tax figures as per Controller General of Accounts.

* The ratios to GDP at current prices for 2000-2001 are based in CSO's Advance Estimates.

Responding to a query regarding the feasibility to generate statistics on slab-wise income of the new assesseees covered under one by six scheme and the time schedules fixed, if any, to achieve the same, the Department in their written communication have stated as below:—

"Any person having taxable income is required to submit his return of income under Section 139(1) of the Income Tax Act. However, under the proviso to the Section, if somebody's income

is not taxable but, that person gets covered by any of the criteria laid down in one by six scheme, for example, he has travelled abroad or he owns a car, he is required to file a return of income under one by six scheme. Thus, strictly speaking, under one by six scheme no return is to come which is taxable. This being the legal position there is no proposal to fix a time schedule to bifurcate the new assessee arising out of one by six scheme income slab-wise and also there is no scope for working out the revenue received out of such returns of income. There may be, however, certain cases where a person is covered by one by six scheme and whose return is taxable. In respect of such cases, the Department's reply is that the process of computerisation is in full swing. Presently, salary returns are being processed on computers. Gradually, all returns will be processed on computers. It is possible to categorize such returns of income slab-wise and the revenue accrued thereon. However, this will be done in a gradual manner as the computerisation progresses.

This is not to say that one by six scheme is not a successful scheme. In fact, the information collected under one by six scheme has created a psychological atmosphere whereby potential tax payers now realize that they cannot remain out of the tax net for long. In effect, the level of voluntary compliance has gone up after the introduction of one by six scheme. The drive to collect information under one by six scheme and our attempt at verification of these information has gone a long way in widening the tax base.

However, all potential tax payers who fall in the tax net file their returns of income under the regular provisions of the Act. Very few persons are filing return of income in Form No. 2C. The point which emerges out of this is that most of the persons who file their return of income are filing a return of taxable income. This point becomes clear with the help of following chart wherein the total number of new assessee added and out of that total number of persons filing return in Form No. 2C is indicated:

Financial Year	Total number of new assessee added	Total number of persons filing return in Form No. 2C out of Col. 2
(1)	(2)	(3)
1999-2000	33.07 lakhs	6.47 lakhs
2000—upto 31.1.2001	23.11 lakhs	2.30 lakhs

Thus, one by six scheme has helped in widening the tax base."

Reacting to the viewpoint on the feasibility to dovetail the income statistics generated slab-wise with the Tax Accountancy System so as to monitor revenue collection *vis-a-vis* the targets fixed for various levels of officers, the Department have informed that:

"The Finance Minister in his budget speech has indicated that by March 31, 2002, the Income Tax Department will be fully computerised. In view of this, the process of computerisation in the Department is in full swing.

Presently, salary returns are being processed on computers. Gradually, all returns will be processed on computers. In respect of returns processed on computers, the income slab-wise bifurcation of assesseees coupled with information available in the Tax Accounting System will provide statistics on Assessing Officer wise revenue collection which can be utilised for monitoring performance *vis-a-vis* the revenue collection target fixed. Once all returns are processed through computers, statistics on revenue collected from persons under different slabs of income would be available. Once all systems are fully implemented, the system would help in evaluating performance of various levels of officers as well as in respect of revenue collection from various income levels of tax payers."

[Ministry of Finance (Department of Revenue—Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 9 March, 2001]

ANNEXURE

INCOME TAX (BUDGET)
CENTRAL BOARD OF DIRECT TAXES

(Rupees in crores)

CCIT Regions	Corporation Tax			Income Tax			(CT&IT)		
	Target for 1999-2000	Collections for 1999-2000	% Inc./ decrease over target	Target for 1999-2000		% Inc./ decrease over target	Target for 1999- 2000	Collections for 1999- 2000	% Inc./ decrease over target
1	2	3	4	5	6	7	8	9	10
Ahmedabad	868.00	802.03	-7.60	1935.00	1576.11	-18.55	2803.00	2378.14	-15.16
Bangalore	999.00	1038.64	3.97	1815.00	1793.25	-1.20	2814.00	2831.89	0.64
Bhopal	1037.00	729.64	-29.64	732.00	557.12	-23.89	1769.00	1286.76	-27.26
Mumbai	13582.00	13373.71	-1.53	6455.00	6675.36	3.41	20037.00	20049.07	0.06
Calcutta	1501.00	1256.7	-16.28	1445.00	1374.99	-4.84	2946.00	2631.69	-10.67
Cochin	347.00	282.16	-18.69	636.00	505.94	-20.45	983.00	788.10	-19.83
Hyderabad	741.00	692.51	-6.54	1091.00	1087.8	-0.29	1832.00	1780.31	-2.82

	2	3	4	5	6	7	8	9	10
Jaipur	256.00	185.22	-27.65	587.00	526.13	-10.37	843.00	711.35	-15.62
Chennai	1721.00	1639.58	-4.73	2321.00	2015.15	-13.18	4042.00	3654.73	-9.58
Delhi	6164.00	5795.46	-5.98	4377.00	3334.85	-23.81	10541.00	9130.31	-13.18
Chandigarh	490.00	490.43	0.09	1326.00	1299.65	-1.99	1816.00	1790.08	-1.43
Kanpur	1382.00	2757.82	99.55	656.00	613.09	-6.54	2038.00	3370.91	65.40
Lucknow	125.00	89.02	-28.78	557.00	554.07	-0.53	682.00	643.09	-5.71
Pune	972.00	825.49	-15.07	2020.00	1729.74	-14.37	2992.00	2555.23	-14.60
Patna	665.00	723.23	8.76	957.00	814.89	-14.85	1622.00	1538.12	-5.17
Total	30850.00	30681.64	-0.55	26910.00	24458.14	-9.11	57760.00	55139.78	-4.54
CTDS (Upto Feb.)	0.00	15.23		0.00	838.31			853.54	
G. Total	30850.00	30696.87	-0.50	26910.00	25296.45	-6.00	57760.00	55993.32	-3.06
	29915 (RE)	30696.87	2.61	26684 (RE)	25296.45	-5.20	56599.00	55993.32	-1.07

[Ministry of Finance (Department of Revenue—Parliament Cell) F.No. H-11013/1/2000-Parl.
dated 6 September, 2000]

DIRECT TAX-GDP RATIO

Fin. Year	GDP (Rs. in crores)	Direct Taxes Collns. (Rs. in crores)	Ratio in %
1990-91	568809	11028.94	1.94
1991-92	653304	15342.36	2.35
1992-93	748554	18097.29	2.42
1993-94	859220	20298.24	2.36
1994-95	1012770	26970.88	2.66
1995-96	1188012	33559.28	2.82
1996-97	1368208	38895.08	2.84
1997-98	1522441	48280.4	#3.17
1998-99	1758276	46600.07	2.65
1999-2000	1956997	57958.97	2.96

Includes VDIS collection of Rs. 9554 crores.

[Ministry of Finance (Department of Revenue—Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 9 March, 2001]

Comments of the Committee

Please refer Para No. 14 of Chapter I.

Recommendation (Sl. No. 2, Para Nos. 22 and 23)

The Committee are deeply concerned to note that the outstanding tax demand/arrears of direct taxes and excise duties have reached an astronomical figure of more than Rs. 52000 crore. It is also found that a major portion of the arrears are locked up in the cases pending in various appellate bodies within the Department, Tribunal, High Courts and the Supreme Court. The Committee also observe that steps taken/initiated to liquidate the pending cases before various Tribunals/Courts have not resulted into any marked progress. Thousands of cases involving crores of confirmed tax demands are still pending for years.

The Committee strongly feel that concerted measures must be taken for efficacious recovery of such a huge amount which is locked up.

The Committee therefore recommend that setting up two additional benches of the Income Tax Settlement Commission and the proposal to shift two benches of Customs, Excise and Gold (Control) Appellate Tribunal (CEGAT) from Delhi to Mumbai may be taken up expeditiously. It is also of a paramount importance that concerted efforts should be made for the disposal of pending cases expeditiously. For closely monitoring the progress of the cases, it is but essential that the data pertaining to the number of cases pending before various Tribunals/Court and the demand locked therein should be maintained. The Committee expects that necessary steps in this regard shall be taken urgently by the Ministry. They also desire that necessary structural/systematic reform in consultation with Ministry of Law should be carried out without further delay.

Reply of the Government

Direct Taxes

The total outstanding demands for Corporation Tax/Income Tax as on 31.03.2000 is Rs. 53,137 crores. The reason-wise analysis of the total outstanding demand on 31.03.2000 is given in Annexure-I. As may be seen, the total outstanding demands includes Rs. 27,803 crores which have been stayed by Courts, Settlement Commission, ITAT and various Income Tax authorities. Further Rs. 13,350 crores of demands have not fallen due as on 31.03.200. The net collectible demand is Rs. 3591 crores only. However, the reduction of total outstanding demands is topmost priority item of work for the Government.

Indirect Taxes

In this regard, it is stated that Board had last year during Chief Commissioners' Conference, identified liquidation of cases involving arrears of revenue, as a special area for specific attention by field officers. Steps have been taken for monitoring the progress of recovery by monthly technical reports which gives progress in various key result areas. DG, Inspection gives analysis to Board in this regard.

The Board has also been monitoring by writing to the Commissioners and Chief Commissioners on the need to quickly liquidating of arrears of revenue—specially arrears pending against persuasive and certificate action. Progress of court cases (cases pending before Supreme Court and High Courts) are also being regularly monitored by Legal Cell and Chief Commissioners specially asked to monitor and report progress in each case involving more than one crore revenue. Chief Commissioners have also been advised to monitor specially cases with higher stakes pending with CEGAT and move miscellaneous applications for priority listing. They are also advised to monitor disposal of pending cases before appellate.

Considering the Committee's observations and certain recent directions by MOS (R) for regular monitoring of each critical area of pendency, further instructions have also been issued to all field formations so that liquidation of arrears of revenue gets high priority.

As suggested by the Standing Committee, the appeals structure in the Customs, Excise & Gold (Control) Appellate Tribunal has been analysed and based on the pendency at various places, a proposal to shift two benches to Mumbai and one bench to Bangalore is under examination. Whenever the question of law is involved, Law Ministry will be consulted, as suggested by the Committee.

ANNEXURE I

REASON-WISE ANALYSIS OF TOTAL OUTSTANDING DEMAND AS ON 31ST MARCH, 2000

	(Rs. in crores)
1. <i>Unrealisable Demand</i>	
(i) Demands not fallen due	13349.52
(ii) Demands paid but pending verification	1805.60
(iii) Demands stayed by Courts/ Settlement Commission & ITAT	13565.02
2. <i>Net Realisable Demand</i>	
(i) Demands stayed by Income-tax Authorities	14237.74
(ii) Demands where recovery is difficult	6587.82
3. <i>Net Collectible Demand</i>	3590.88
Total outstanding demand	53136.58

The figures are provisional

[Ministry of Finance (Department of Revenue—Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 6 September, 2000]

The Ministry of Finance (Department of Revenue) while replying on the issue of setting up of the benches of Income Tax Settlement Commission have *inter-alia* stated as under:—

“As regards Settlement Commission (IT/WT) a proposal for setting up of two benches—one at Delhi and the other at Ahmedabad—is being taken up.”

[Ministry of Finance (Department of Revenue—Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 6 September, 2000]

On the issue of simplification of tax procedures, the Central Board of Direct Taxes (CBDT) in a written note separately submitted to the Committee has *inter-alia* stated as under:—

“A continuing process of simplification and rationalisation of tax procedures is under way:

- Simplified forms for returns of income, particularly in the cases of small income tax payers, have been introduced, *e.g.* non-corporate tax payers, other than certain trusts, can now file their returns in a simple one-page Form 2D, known as the ‘Sarat’ form. Further simplification and rationalisation is being examined in detail by a Committee which will submit its report by end of July, 2000.

An acknowledgement of the filing of the return of income is now considered to be an acceptance by the tax department of the income/loss declared. It is only in about 2% of the cases that the returns are taken up for further scrutiny.

Measures have been taken to reduce the time involved in disposal of appeals by prescribing advisory time limits for such disposals by the Commissioner (Appeals) and the Income Tax Appellate Tribunal.

Provisions have been enacted for reducing the quantum of litigation. Fees have been prescribed for filing appeals before the Commissioner and enhancement of the appeal fee in case of appeals before the Tribunal has been effected in order to discourage frivolous appeals.

Provision has been made for filing appeals directly to the High Court without waiting for the Appellate Tribunal to refer the matter to the Court.

The scope of the Authority for Advance Rulings has been widened to include determination of issues arising out of transactions undertaken or proposed to be undertaken by residents with non-residents.

No approval of tax authorities is required for voluntary retirement schemes framed as per the prescribed guidelines.”

In the written note submitted to the Committee in response to a query regarding the measures proposed to simplify the tax laws and rationalise tax structure in order to liquidate the outstanding tax demands, the Department have stated as under:

"Several measures have been taken through Finance (No. 2) Act, 1998, Finance Act, 1999 and Finance Act, 2000 to reduce the pendency of cases before Commissioner (Appeals), ITAT and High Court. These are as under:

Finance (No. 2) Act, 1998 amended section 249 of the Income Tax Act to provide that Appeals filed by the assessee before the Commissioner (Appeals) shall be accompanied by a fee ranging from two hundred and fifty rupees to one thousand rupees depending on the quantum of total income and also amended section 253 relating to appeals filed before the Appellate Tribunal to enhance the existing scale of fees and to provide that appeals filed before the Appellate Tribunal shall be accompanied by a fee ranging from five hundred rupees to ten thousand rupees, depending on the quantum of total income.

- (i) Finance (No. 2) Act, 1998 inserted section 260A in the Income-tax Act, to provide that an appeal against the order of the Tribunal can be filed directly to the High Court only if the High Court is satisfied that the case involves a substantial question of law.
- (ii) Finance Act, 1999 amended section 250 to provide that where it is possible, the Commissioner (Appeals) may hear and decide every appeal within a period of one year from the end of the financial year in which the appeal is filed. Further section 254 was amended by the same Act to provide that the Appellate Tribunal, where it is possible, may hear and decide every appeal within a period of four years from the end of the financial year in which the appeal is filed by the assessee.
- (iii) Finance Act, 2000 extended the advisory time-limit of four years provided in section 254 to include appeals filed by the Commissioner before the Appellate Tribunal. It also amended the meaning of advance ruling and applicant in section 245N relating to Advance Rulings to enlarge the scope of such advance rulings to cases of residents entering into transactions with non-residents.

- (iv) Further, Finance Bill, 2001 proposes to amend section 254 of the Income-tax Act to provide that where, in an appeal filed by the assessee, the Appellate Tribunal passes an order granting stay, the Tribunal shall hear and decide such appeal within a period of six months from the date of passing such order granting stay, failing which the stay granted shall stand vacated on the expiry of the aforesaid period.

Rationalisation and simplification of tax laws has been an on-going process. Recently, measures were taken through Finance Act, 2000 to rationalise certain income-tax provisions so as to simplify them and reduce the scope for litigation. Some of the measures taken were:

- (a) Phasing out of tax concessions in respect of foreign exchange earnings—Sections 10A, 10B, 80HBB, 80HHBA, 80HHC, 80HHE, 80HHF, 80R, 80RR and 80RRR. Ten year tax holiday available under sections 10A and 10B for units set up in Free Trade Zones and Software Technology Parks or as Export Oriented Units, is to be withdrawn in a phased manner over a ten year period. Thus companies that have been set up in 1999-2000 will get concessions for ten years, those set up in 2000-2001 for nine years and so on till the end of ten year period *i.e.*, FY 2009-2010. The benefits in other sections are also to be phased out over a five year period.
- (b) Minimum Alternative Tax (MAT) is now to be charged at 7.5% of book profits by all companies without any exception, barring export profits during the phasing out period.
- (c) Provisions relating to corporate restructuring were rationalised to provide that:—
 - Assets to be retained by amalgamated company for the specified period would be only the fixed assets.
 - Value of assets would be the book value.

‘Net Worth’ in case of slump sale would mean assets minus liabilities.

Further, proposals have been made in the Finance Bill, 2001, which seek to clarify certain issues which had been giving rise, or could lead to litigation. These include:

- (i) Making it mandatory to claim depreciation in computing business profits;

- (ii) Providing for rules to compute non-agricultural income from rubber and coffee plantations;
- (iii) Making income from onsite services eligible for deductions as export profits;
- (iv) Providing clear definition of 'industrial undertaking' for purposes of set off of losses in cases of amalgamations;
- (v) Amending the definition of 'royalty';
- (vi) Clarifying that income from transfer of units of UTI and mutual funds is not exempt except in case of redemption."

Supplementing on the issue of liquidating the tax arrears and the measures undertaken to vacate the stays granted by the Courts, Settlement Commission and IT Authorities, the Department have stated that:

"The Government is seriously concerned about the tax arrears and is making all out efforts to recover these tax dues. However, before the process of recovery is initiated, the Statutory Provisions of the Income Tax Act have to be followed. This process starts after the demand falls due after 30 days of the service of the Demand Notice. Thereafter, action is taken by Assessing Officer in respect of unstayed demand by attaching bank accounts, charging interest, levying penalty etc. In difficult cases, matter is referred to Tax Recovery Officer who takes various coercive measures as per the Act like attachment and sale of defaulter's movable and immovable properties, arrest of defaulter and his detention in prison, appointment of Receiver for the management of the defaulter's movable and immovable properties. The recovery action taken by the Assessing Officers and TROs is closely monitored by the higher Income-tax authorities.

Further, dossier cases having outstanding demand of Rs. 10 lakhs and above are monitored by higher authorities on a regular periodic basis and necessary instructions are issued for taking various coercive measures for effecting the recovery of demand.

In view of the above measures, the above reduction/collection made out of arrear demand (as on 31/3/2000) so far up to January 2001 is Rs. 14591.76 crores.

The stay granted by Income tax Authorities are continuously reviewed. Such stay is normally granted in respect of part of the demands till the disposal of appeals by CIT (Appeal). Therefore on passing of appellate orders, the stay is vacated accordingly. In many cases where demand is outstanding, applications are filed before the Settlement Commission. No collection is possible in such cases except as per directions of the Settlement Commission. As regards stay granted by ITAT, Courts etc., the efforts are invariable made for out-of-turn hearing of these cases by the Field Authorities. These measures do help in the process of realisation of outstanding demands to the extent such demands get confirmed in appeal. However no separate statistics of actual realisation of demands in respect of such cases is maintained in order to speed up the process of vacation of stay granted by ITAT, it has been proposed in the Finance Bill 2001 that where, in an appeal filed by the assessee, the Appellate Tribunal passes an order granting stay, the Tribunal shall hear and decide such appeal within a period of one hundred and eighty days from the date of passing such order granting stay, failing which the stay granted shall stand vacated on the expiry of the foresaid period."

[Ministry of Finance (Department of Revenue—Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 9 March, 2001]

Comments of Committee

Please refer Para No. 21 of Chapter I

Recommendation (Sl. No. 5, Para Nos. 36 & 37)

The Committee observe that though there was a hike in the number of warrants issued during 1998-99 and 1999-2000 compared to the year 1995-96, the amount accrued from the seizures effected during the said years have not been commensurate with the achievements made in 1995-96. The downward trend in the amount accrued from such seizures calls for further explanation. The Committee would like to be enlightened on this account.

Potential tax-evasion has not been checked because of several factors including the lesser number of prosecutions launched over a period of time under the Income Tax Act. This is reported to be on account of the delay involved in the process of finalisation of appeals only after which the prosecution can be launched. Besides, on perusal of the given figures it is also found that there has been a high rate of acquittals under the Income Tax Act and the conviction rate stands far too low to work as an effective deterrent for potential tax evasion. The Committee, therefore, recommend that greater attention should be paid for speeding up the process involving finalisation of appeals and towards exercising proper scrutiny before launching prosecutions so that the success rate is high.

Reply of the Government

Search and Seizure actions are conducted by the department on the basis of satisfaction that unaccounted assets and incriminating documents revealing undisclosed income may be found at the premises subjected to such action. As a result of search, if such unaccounted assets are found, these are seized for the purpose of making assessments and recovery of taxes. It is possible that the department may not come across such assets in all cases as contemplated. However, the incriminating documents found and seized are also scrutinised and the necessary investigations are carried out to arrive at the actual concealment of income in the cases of the group against which the searches are undertaken. The results of such actions are known only after the relevant block assessments are completed and the demands are raised by the department against the assesseees in a group. Even the search may not result in seizure of unaccounted assets, concealment of substantial amount may be detected on completion of the block assessments subsequent to the searches. The quantum of seizure, by itself, may not be precise indicator of the results of search action.

The recommendations of the Committee that the process involving finalisation of penalty appeals should be speeded up, has been noted. All the CC/DG charges would be directed to take necessary action for speeding up the process of finalisation of penalty appeals. They would also be directed to exercise proper scrutiny of cases which would be decided for prosecution so that the success rate is enhanced.

[Ministry of Finance (Department of Revenue—Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 6 September, 2000]

The Department of Revenue while furnishing the break-up regarding the number of block assessments completed and the quantum of unaccounted wealth unearthed since 1997-98 have stated that:

"The results of the block assessments completed during the Financial Years 1997-98 to 1999-2000 are mentioned as in Annexure 'A' (placed below). The summary of the results may be noted as under:—

Financial Year	Total Seizure Effected	No. of block Asssts. Completed	Addl. Income brought to tax (Rs. in crores)	Taxes realised so far (Rs. in crores)
1997-98	306.84	5097	3905.73	758.21
1998-99	300.53	2562	1803.49	316.28
1999-2000	412.84	5458	4870.08	660.54

It is pertinent to mention here that majority of block assessments completed during this period relates to the searches conducted in the earlier years. However, it can be seen that the amount of additional income brought to tax is more than the seizures affected."

Delving on the directions issued to speed up the process of finalisation of penalty appeals the Ministry in their written note informed that:

"For enhancing the conviction rate, the CCsIT/DGsIT have been asked to exercise proper scrutiny of cases to be selected for launching of prosecution. They have also been asked to take necessary action for speeding up the finalisation of penalty appeals so that larger number of prosecutions can be launched. The impact of these directions will be felt after some time. A copy of the letter written to them is enclosed along-with the statistics of prosecutions launched and disposed of from Financial Year 1997-98 onwards."

[Ministry of Finance (Department of Revenue—Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 9 March, 2001]

Comments of the Committee

Please refer Para No. 27 of Chapter I.

Central Board of Direct Taxes
O/o the O.S.D. (Legal)
4th Floor, Super Bazar Building
Connaught Circus, New Delhi

Dated: 1.3.2001

To

All Chief Commissioners of Income-tax & DGsIT (by name)

Sir/Madam,

Sub: Speeding up finalisation of appeals of penalty and need to make proper scrutiny to enhance the success rate of conviction for prosecutions under the Direct Tax Laws—Reg.—

A copy of reply given by the Government to the Recommendation contained in para no. 37 of the Seventh Report of the Standing Committee on Finance on Demands for Grants (2000-2001) of Ministry of Finance, Department of Revenue, is as under:—

Recommendation:

"Potential tax-evasion has not been checked because of several factors including the lesser number of prosecutions launched over a period of time under the Income tax Act. This is reported to be on account of the delay involved in the process of finalisation of appeals only after which the prosecution can be launched. Besides, on perusal of the given figures it is also found that there has been a high rate of acquittals under the Income Tax Act and the conviction rate stands far too low to work as an effective deterrent for potential tax evasion. The Committee, therefore, recommend that greater attention should be paid for speeding up the process involving finalisation of appeals and towards exercising proper scrutiny before launching prosecutions so that the success rate is high."

Reply:

"The recommendations of the Committee that the process involving finalisation of penalty appeals should be speeded up, has been noted. All the CC/DG charges would be directed to take necessary action for speeding up the process of finalisation of penalty appeals. They would also be directed to exercise proper scrutiny of cases which would be decided for prosecution so that the success rate is enhanced."

2. I am accordingly directed to request you to take necessary action for speeding up the process of finalisation of penalty appeals and also for exercising proper scrutiny of cases before deciding to launch prosecution so that success rate is enhanced.

3. Para 2 in Board's letter F. No. 285/160/90-IT (Inv.) dated 7.2.1991 had also emphasised on filing of prosecutions in really strong and sustainable cases only. A copy of that letter is also enclosed.

Yours faithfully,

Sd/-
(SURAT SINGH)
Dy. Director of Income Tax (Pros.)

Encls. As above

[Ministry of Finance (Department of Revenue—Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 9 March, 2001]

**STATEMENT OF PROSECUTION* COMPLAINTS
LAUNCHED AND DISPOSED OF**

F.Y.	Total No. of Prosecution proceedings as on beginning of the year	Launched during the year	No. of proceedings decided (details given next 3 columns)	No. of cases convicted	No. of cases compounded	No. of cases Acquitted including withdrawals	Pending at the end of the year
1	2	3	4=5+6+7	5	6	7	8=2+3-4
1997-98	35349	801	1239	93	143	1003 (80.9%)	34911
1998-99	34911	184	668	77	184	407 (60.9%)	34427
1999-2000	34427	343	1607	14	128	1465 (91.1%)	33163
2000-2001 (upto 1.1.2001)	33163	197	590	11	216	363 (61.5%)	32770

Sd/-
(SURAT SINGH)
Dy. Director of Income Tax (Pros.)
2.3.2001

[Ministry of Finance (Department of Revenue—Parliament Cell)
F.No. H-11013/1/2000-Parl. dated 9 March, 2001]

ANNEXURE A

(Rs. in crores)

DGIT Charge	No. of Block Assessments completed			Amount of additional income brought to tax			Tax Realised		
	1997-98	1998-99	1999-2000	1997-98	1998-99	1999-2000	1997-98	1998-99	1999-2000
Ahmedabad	75	137	120	313.25	126.14	111.11	11.61	87.82	2.86
Mumbai	138	78	393	307.64	450.9	951.11	152.64	22.9	58.46
East, Kolkata	199	59	266	802.86	12.80	226.67	14.46	3.54	4.33
North, Lucknow	75	47	51	26.52	65.92	62.27	32.13	19.03	68.78
Chennai	120	85	147	169.48	55.54	43.44	14.16	3.52	10.95
South, Bangalore	49	38	29	31.45	60.23	11.67	10.51	6.64	4.99
Delhi	203	61	133	295.55	46.69	585.98	46.43	6.63	6.77
Total	859	505	1139	1946.75	818.22	1992.25	281.94	150.08	157.14

CCIT Charge	No. of Block Assessments completed			Amount of additional income brought to tax			Tax Realised		
	1997-98	1998-99	1999-2000	1997-98	1998-99	1999-2000	1997-98	1998-99	1999-2000
1	2	3	4	5	6	7	8	9	10
Delhi	401	160	524	356.45	75.04	723.79	52.23	12.9	215.72
Kanpur	109	48	53	17.42	3.5	409.12	4.9	0.26	2.04

1	2	3	4	5	6	7	8	9	10	
Lucknow	108	27	66	8.62	47.99	5.59	1.60	0.38	1.87	
Patna	81	44	128	7.74	3.88	18.03	1.98	1.40	4.94	
Chandigarh	81	59	108	20.34	24.60	37.46	6.30	7.45	5.65	
Bangalore	527	192	436	76.62	19.83	149.78	16.14	5.27	18.33	
Cochin	108	63	95	28.63	54.29	22.07	10.72	7.69	9.66	
Hyderabad	339	188	185	54.34	27.80	19.31	33.35	14.07	7.61	
Chennai	661	243	178	166.00	34.43	36.16	83.18	24.31	22.51	
Kolkata	168	98	250	36.27	8.2	51.41	1.4	2.6	4.4	
Ahmedabad	176	126	231	238.18	62.28	92.66	22.58	14.28	21.55	8
Bhopal	166	171	150	15.87	38.46	22.02	2.51	5.64	8.45	
Jaipur	91	89	227	113.10	37.40	60.18	4.85	5.17	3.69	
Pune	706	216	781	108.07	26.81	97.38	30.61	6.62	40.99	
Mumbai	347	214	725	587.79	488.32	1105.82	153.67	44.65	131.26	
Orissa	81	70	41	6.13	4.91	8.72	1.11	1.40	1.21	
Panchkula	88	49	41	117.41	27.44	18.33	49.14	12.11	3.52	
Guwahati*										
Total	4238	2057	4219	1958.98	985.27	2877.44	476.35	165.8	503.84	

Figures not available.

[Ministry of Finance (Department of Revenue—Parliament Cell) F.No. H-11013/1/2000-Parl. dated 9 March, 2001]

CHAPTER V

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

—NIL—

NEW DELHI;
11 April, 2001
21 Chaitra, 1923 (Saka)

SHIVRAJ V. PATIL
Chairman,
Standing Committee on Finance.

MINUTES OF THE FOURTH SITTING OF STANDING
COMMITTEE ON FINANCE

The Committee sat on Monday, 12 March, 2001 from 1500 to 1645 hours.

PRESENT

Shri Shivraj V. Patil — *Chairman*

MEMBERS

Lok Sabha

2. Smt. Renuka Chowdhury
3. Shri Rattan Lal Kataria
4. Shri Rupchand Pal
5. Shri M. Padmanabham
6. Dr. Sanjay Paswan
7. Shri Varkala Radhakrishnan
8. Shri Pravin Rashtrapal
9. Shri C.N. Singh
10. Shri Kharabela Swain

Rajya Sabha

11. Shri S.S. Ahluwalia
12. Shri Krishna Kumar Birla
13. Dr. Biplab Dasgupta
14. Shri Suresh A. Keshwani
15. Shri Narendra Mohan
16. Shri P. Prabhakar Reddy
17. Shri Amar Singh

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu
2. Shri P.K. Grover
3. Shri S.B. Arora

Joint Secretary
Deputy Secretary
Under Secretary

WITNESSES

I. Ministry of Finance

(i) Department of Economic Affairs

1. Shri Ajit Kumar — Finance Secretary
2. Shri Devi Dayal - - Special Secretary (Banking)
3. Shri P.K. Banerji - - Special Secretary (Ins. & EF)
4. Shri D. Swarup - - Joint Secretary (Budget)
5. Shri N.R. Rayalu - - Financial Adviser (Finance)
6. Shri Navin Kumar - - Joint Secretary (Admn. and C&C)
7. Dr. Jaimini Bhagwati - - Joint Secretary (CM&ECB)
8. Shri U.K. Sinha - - Joint Secretary (Banking)
9. Shri Sekhar Aggarwal - - Joint Secretary (Banking)
10. Shri Ajit M. Sharan - - Joint Secretary (Insurance)

(ii) Department of Expenditure

1. Shri C.M. Vasudev - Secretary (Expenditure)
2. Shri A.M. Sehgal - C&A
3. Shri M. Venkateswaran - Additional Secretary
4. Smt. Usha Mathur - Joint Secretary (Pers.)

(iii) Department of Revenue

1. Dr. S. Narayan - Revenue Secretary
2. Dr. G.C. Srivastava - Additional Secretary (Administration)
3. Shri B.P. Verma Chairman, CBEC
4. Shri R.K. Pathania Member (Investigation) CBDT
5. Shri Raj Narain Member (Investigation) CBDT
6. Shri A.N. Prasad Joint Secretary (TPL I) CBDT
7. Shri R.R. Singh DIT (Systems) CBDT
8. Shri Sukumar Shankar Member (Budget)
9. Shri Prashant Mehta Joint Secretary (NCB & Admn.)
10. Shri T.R. Rustagi Joint Secretary (TRU)

II. Reserve Bank of India (RBI)

- | | | |
|-------------------------|---|---|
| Shri Jagdish Capoor | — | Deputy Governor |
| 2. Shri A.V. Sardesai | — | CGM-in-Charge, RPCD |
| 3. Shri C.R. Muradharan | — | CGM, DBOD |
| 4. Shri C. Krishnan | — | CGM, DCH, RBI |
| Shri V.K. Jain | | General Manager, Currency
Note Press, Nashik |

III. NABARD

Shri Y.C. Nanda Chairman

2. In absence of the Chairman, the Committee chose Shri Suresh A. Keshwari to act as Chairman for the sitting under Rule 258(3) of the Rules of Procedure and Conduct of Business in Lok Sabha. The acting Chairman then welcomed the representatives of the Ministry of Finance, Reserve Bank of India and NABARD to the sitting and invited their attention to the provisions of Direction 55 of the Directions by the Speaker.

3. The Committee then took oral evidence of representatives of Ministry of Finance to seek further clarifications on the written replies furnished by them on the recommendations contained in their Sixth and Seventh reports on Demands for Grants (2000-2001) of Ministry of Finance (i) Departments of Economic Affairs & Expenditure and (ii) Department of Revenue, respectively.

4. During the course of the evidence, Hon'ble Chairman joined the Committee and presided over the sitting.

5. The evidence was concluded.

6. A verbatim record of the proceedings has been kept.

The Committee then adjourned.

MINUTES OF THE FIFTH SITTING OF STANDING
COMMITTEE ON FINANCE

The Committee sat on Monday, 19 March, 2001 from 1500 to 1700 hours.

PRESENT

Shri Shivraj V. Patil — *Chairman*

MEMBERS

Lok Sabha

2. Shri Ajoy Chakraborty
3. Smt. Renuka Chowdhury
4. Shri G. Putta Swamy Gowda
5. Shri Rupchand Pal
6. Dr. Sanjay Paswan
7. Shri Annasaheb M.K. Patil
8. Shri Varkala Radhakrishnan
9. Shri T.M. Selvaganpathi
10. Shri C.N. Singh
11. Shri Kirit Somaiya
12. Shri Kharabela Swain

Rajya Sabha

13. Shri S.S. Ahluwalia
14. Dr. Biplab Dasgupta
15. Shri Suresh A. Keshwani
16. Dr. Manmohan Singh
17. Shri Narendra Mohan
18. Shri P. Prabhakar Reddy

SECRETARIAT

- | | | |
|---------------------------|---|-------------------------|
| 1. Dr. (Smt.) P.K. Sandhu | — | <i>Joint Secretary</i> |
| 2. Shri P.K. Grover | — | <i>Deputy Secretary</i> |
| 3. Shri S.B. Arora | — | <i>Under Secretary</i> |

2. At the outset, the Chairman welcomed the Members. Thereupon the Committee took up for consideration the revised draft action taken reports on the recommendations contained in the Fifth, Sixth and Seventh Reports of the Committee on Demands for Grants (2000-2001) of Ministries of Planning and Finance (Departments of Economic Affairs, Expenditure and Revenue).

3.	**	**	**
	**	**	**

4. The draft Reports on action taken on Sixth and Seventh Reports were adopted with amendments/modifications as shown in the Annexure.

The Committee then adjourned.

AMENDMENTS/MODIFICATIONS IN THE DRAFT ACTION
TAKEN REPORT ON SIXTH REPORT

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AMENDMENTS/MODIFICATIONS IN THE DRAFT ACTION
TAKEN REPORT ON SEVENTH REPORT

Page	Para	Line	Amendment/Modification	
10	14	8	<i>After</i>	"renewed commitment."
			<i>Add</i>	"If necessary a Committee may be appointed by the Government to achieve this end"

APPENDIX

[Vide Para 3 of the Introduction]

Analysis of the Action Taken by Government on the Recommendations contained in the Seventh Report of the Standing Committee on Finance (Thirteenth Lok Sabha) on Demands for Grants (2000-2001) of the Ministry of Finance (Department of Revenue)

	Total	% of Total
(i) Total number of Recommendations	10	
(ii) Recommendations/Observations which have been accepted by the Government (Vide Recommendations at Sl. Nos. 3, 4, 6, 7, 8 and 9)	6	60.00
(iii) Recommendation/Observation which the Committee do not desire to pursue in view of the Government's reply (Vide Recommendations at Sl. No. 10)	1	
(iv) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee (Vide Recommendations at Sl. Nos. 1,2 and 5)	3	30.00
(v) Recommendation/Observation in respect of which final reply of the Government is still awaited (Nil)	0	