

40

STANDING COMMITTEE ON FINANCE

(THIRTEENTH LOK SABHA)

**MINISTRY OF FINANCE AND COMPANY AFFAIRS
(DEPARTMENT OF REVENUE)**

**DEMANDS FOR GRANTS
(2003-2004)**

FORTIETH REPORT



*Presented to Lok Sabha on 21 April, 2003
Laid in Rajya Sabha on 21 April, 2003*

**LOK SABHA SECRETARIAT
NEW DELHI**

April, 2003/ Chaitra, 1925 (Saka)

CONTENTS

COMPOSITION OF THE COMMITTEE

INTRODUCTION

REPORT

STATEMENT OF CONCLUSIONS/RECOMMENDATIONS

APPENDICES

MINUTES OF THE SITTINGS OF THE COMMITTEE HELD ON
25 MARCH AND 09 APRIL, 2003

COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2003

Shri. N. Janardhana Reddy – Chairman

MEMBERS

LOK SABHA

2. Shri Omar Abdullah
3. Shri Raashid Alvi
4. Shri Sudip Bandyopadhyay
5. Shri Surender Singh Barwala
6. Shri Ramesh Chennithala
7. Smt. Renuka Chowdhury
8. Dr. Daggubati Ramanaidu
9. Shri Kamal Nath
10. Shri Trilochan Kanungo
11. Shri Rattan Lal Kataria
12. Dr. C. Krishnan
13. Shri M.V.V.S. Murthi
14. Shri Sudarsana E.M. Natchiappan
15. Capt. Jai Narain Prasad Nishad
16. Shri Rupchand Pal
17. Shri Prabodh Panda
18. Shri Prakash Paranjpe
19. Shri Raj Narain Passi
20. Shri Sharad Pawar
21. Shri Pravin Rashtupal
22. Shri Ramsinh Rathwa
23. Shri Chada Suresh Reddy
24. Shri S. Jaipal Reddy
25. Shri Jyotiraditya Madhavrao Scindia
26. Shri T.M. Selvaganapathi
27. Shri Lakshman Seth
28. Shri Kirit Somaiya
29. Shri Kharbela Swain
30. Shri P.D. Elangovan**

RAJYA SABHA

31. Dr. Manmohan Singh
32. Dr. T. Subbarami Reddy
33. Shri Murli Deora
34. Shri Prithviraj Chavan
35. Shri S.S. Ahluwalia
36. Shri Swaraj Kaushal*
37. Shri M. Rajasekara Murthy
38. Dr. Biplab Dasgupta
39. Shri P. Prabhakar Reddy
40. Shri Amar Singh

41. Shri Prem Chand Gupta
42. Shri Palden Tsering Gyamtso
43. Shri Raj Kumar Dhoot
44. Shri Praful Patel
45. Shri Dinesh Trivedi

SECRETARIAT

- | | | | |
|----|------------------------|---|----------------------|
| 1. | Shri P.D.T. Achary | - | Additional Secretary |
| 2. | Dr. (Smt.) P.K. Sandhu | - | Joint Secretary |
| 3. | Shri R.K. Jain | - | Deputy Secretary |
| 4. | Shri S.B. Arora | - | Under Secretary |

* Nominated vice Sh. Mukhtar Abbas Naqvi w.e.f. 26.3.2003

** Nominated w.e.f. 07.04.2003

INTRODUCTION

I, the Chairman of the Standing Committee on Finance having been authorised by the Committee to submit the Report on their behalf, present this Fortieth Report on Demands for Grants (2003-2004) of the Ministry of Finance and Company Affairs (Department of Revenue).

2. The Demands for Grants of the Ministry of Finance and Company Affairs were laid on the Table of the House on 10 March, 2003. Under Rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha, the Standing Committee on Finance are required to consider the Demands for Grants of the Ministries/Departments under its jurisdiction and make Reports on the same to both the Houses of Parliament.

3. The Committee took oral evidence of the representatives of the Ministry of Finance and Company Affairs (Department of Revenue) at their sitting held on 25 March, 2003 in connection with examination of the Demands for Grants.

4. The Committee considered and adopted the Report at their sitting held on 09 April, 2003.

5. The Committee wish to express their thanks to the Officers of the Ministry of Finance and Company Affairs for co-operation extended by them in furnishing written replies and for placing their considered views and perceptions before the Committee.

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

NEW DELHI;
09 April, 2003
9 Chaitra, 1925 (SAKA)

N. JANARDHANA REDDY,
Chairman,
STANDING COMMITTEE ON FINANCE

REPORT

INTRODUCTORY

The report reviews the activities of the Ministry of Finance and Company Affairs during the year 2002-2003. The Ministry is responsible for the administration of the finances of the Central government. It is concerned with all economic and financial matters affecting the country as a whole, including mobilisation of resources for development. It regulates the expenditure of the Central Government, including the transfer of resources to States. This chapter gives a synoptic view of the important activities of the Ministry during the year 2002-2003. The Ministry comprises four Department namely:-

- I. Department of Economic Affairs;
- II. Department of Expenditure;
- III. Department of Revenue; and
- IV. Department of Company Affairs

Department of Revenue

The Department of Revenue exercises control in respect of revenue matters relating to Direct and Indirect Union Taxes. The Department is also entrusted with the administration and enforcement of regulatory measures provides in the enactments concerning Central Sales Tax, Stamp Duties and other relevant fiscal statutes. Control over production and disposal of opium and its products, is also vested in this Department.

The Department looks after the subjects assigned to it through the following attached/subordinate offices :-

1. Central Board of Excise and Customs;
2. Central Board of Direct Taxes;
3. Central Economic Intelligence Bureau;
4. Directorate of Enforcement;
5. Central Bureau of Narcotics;
6. Narcotics Control Bureau;
7. Chief Controller of Factories;
8. Appellate Tribunal for Forfeited Property;
9. Income Tax Settlement Commission;
10. Customs and Central Excise Settlement Commission;
11. Customs, Excise and Gold Control Appellate Tribunal;
12. Authority for Advance Rulings for Income Tax;
13. Authority for Advance Rulings for Customs and Central Excise;
14. National Committee for Promotion of Social and Economic Welfare; and

15. Competent Authorities appointed under Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976 and Narcotic Drugs and Psychotropic Substances Act, 1985.

The detailed Demands for Grants of the Ministry of Finance and Company Affairs was presented in Lok Sabha on March 10, 2003. The details of the demands of Department of Revenue are as under :-

(In thousands of Rupees)			
Demand No. 41: Deptt of Revenue	Revenue	Capital	Total
Voted:	3,98,13,00	13,59,00	4,11,72,00
Demand No. 42: Direct Taxes	Revenue	Capital	Total
Voted:	1,210,82,00	115,50,00	1,326,32,00
Demand No. 43: Indirect taxes	Revenue	Capital	Total
Voted:	11,35,50,00	26,51,000	14,00,60,00

In the present Report, the Committee have examined following issues :-

1. Revenue Collections
2. Tax-GDP Ratio
3. Tax Arrears
4. Widening of Tax Base
5. Permanent Account Number (PAN)
6. Directorate of Enforcement
7. Total-Customs, Central Excise and Gold (Control) Appellate Tribunal
8. Office Expenses
9. Investments
10. Rationalisation and simplification of tax regime

Demand No. 41
Department of Revenue

1. Revenue Collections

Shortfall in Revenue Collection

1. The Data pertaining to the estimates and actual collection of Income Tax, Corporation Tax, Central Excise, Customs duties and service tax since 1997-98 are detailed below in the following table :- (Rs. in crore)

Fin. Year	Budget Estimates		Revised Estimates		Actual Collections		Actual Collections %age gain/loss over RE		Total
	CT	IT	CT	IT	CT	IT	CT	IT	
1997-98	21860	21700	21360	18700	20016	17101	-6.29	-8.55	-6.21
1998-99	26550	20930	27050	21430	24529	20240	-9.32	-5.55	-6.82
1999-00	30850	26910	29915	26684	30692	25655	2.60	-3.86	-0.07
2000-2001	40040	31590	38721	35271	35696	31794	-7.81	-9.86	-8.79
2001-2002	44200	40600	39059	34438	36609	32004	-6.27	-7.07	-6.65
2002-2003 (upto Feb, 2003)	48616	42524	44700	37300	30357	27831	-32.09	-25.39	-29.04
	The figures for 2002-2003 are provisional								

Year-wise BE, RE and Actuals since 1997-98 for Customs, Excise and Service Tax

(Rs. in crore)

Heads		Year				
		1997-98	1998-99	1999-00	2000-01	2001-02
CUSTOMS						
1	BE	52550	48148	50369	53572	54822
2	RE	41000	42648	47800	49781	43170
3	Actuals	40537	41278	48334	47616	40097
4	Shortfall over BE	12013	6870	2035	5956	14725
5.	%age Shortfall over BE	22.9%	14.3%	4.0%	11.1%	26.9%
6	Shortfall over RE	463	1370	-534	2165	3073
7	%age Shortfall over RE	1.1%	3.2%	-1.1%	4.3%	7.1%
UNION EXCISE*						
1	BE	51915	57425	63565	70967	81448
2	RE	47464	52925	60731	70399	74222
3	Actuals	47837	52454	61747	68636	72419
4	Shortfall over BE	4078	4971	1818	2331	9029

5	%age Shortfall over BE	7.9%	8.7%	2.9%	3.3%	11.1%
6	Shortfall over RE	-373	471	-1016	1763	1803
7	%age Shortfall over RE	-0.8%	0.9%	-1.7%	2.5%	2.4%
SERVICE TAX						
1	BE	2150	1867	2300	2200	3600
2	RE	1500	1950	2000	2200	3600
3	Actuals	1586	1957	2128	2613	3302
4	Shortfall over BE	564	-90	172	-413	298
5	%age Shortfall over BE	26.2%	-4.8%	7.5%	-18.8%	8.3%
6	Shortfall over RE	-86	-7	-128	-413	298
7	%age Shortfall over RE	-5.7%	-0.4%	-6.4%	-18.8%	8.3%

w Exclusive of cess administered by other departments. Note: The above figures are as per departmental records.

2. The Department while elaborating the reasons for shortfall in revenue collection has stated as under :-

Direct Taxes

3. Shortfall from Revised Estimates have been in the range of 6-8%, which is reasonable in view of the fact that the Budget Estimates and the Revised Estimates are finalised quite early in the financial year and so certain amount of variation in the actual collections is unavoidable. Direct Tax collections depend upon a number of economic and non-economic factors including the growth of GDP, economic policies of the Government, international economic conditions, domestic and international political conditions, etc. Some of these factors are difficult to be predicted and so the actual collections remained short of the estimates of the Government in the years under reference.

4. As discussed above, shortfall of collections from the targets is sometimes beyond the control of the field units. A substantial portion of the taxes are paid voluntarily by the taxpayers and additional tax mobilisation efforts are not expected to result in very substantial amount of revenue. Accordingly, the responsibility of the Chief commissioners of Income Tax in the area of revenue mobilisation is limited. Therefore, strict administrative action may not be taken against the Chief Commissioners merely on the grounds of failure to achieve the targets. However, in cases where any act of omission or commission is found to have been committed by the Chief Commissioner or there has been repeated failure

to achieve the targets of revenue collection, suitable administrative actions are taken against the officer concerned.

5. During the oral evidence of the representatives of the Department of Revenue, Secretary (Revenue) while explaining the reasons for shortfall in direct taxes, stated as follows :-

“ As far as income tax and corporation tax are concerned, the decline was primarily in the year 2001-2002. Then, we tried to analyse the reasons of why performance under these two taxes has been poor during that particular period. The decline in the manufacturing sector, which started sometime in 2000-2001, is responsible for a substantial reduction in the corporation tax. In fact, the percentage growth in industry in 2001-2002 was only about 3.3 percent compared to 6.6 percent that was obtaining in 2000-2001. So, there is an almost 50 per cent reduction in manufacturing during 2001-2002. The exports registered a negative growth of almost one percent during the same period. The performance in the financial institutions in the same period 2001-2002 was also very poor. Coupled with this was the fact that the inflation was the lowest during that period. It was about 1.6 percent. A combination of all these factors was responsible for a very modest growth. In fact, there is hardly any growth in income tax and corporation tax during that particular period.”

Indirect Taxes

6. Budget Estimate (BE) has not been achieved in respect of customs and excise since 1997-98. The BE in respect of the Service Tax has also not been achieved except for the years 1998-99 and 2000-01 and in that year, the revenue collection from service tax has registered 4.8% and 18.8% growth over BE.

7. As regards the Revised Estimate (RE), same has also not been achieved except for the year 1999-00 in respect of customs. However, as far as excise is concerned, the RE is achieved during the years 1997-98 and 1999-00. The RE in respect of Service tax has been achieved during 1997-98 to 2001-2002 except for the year 2001-02.

8. Actual collection of revenue vis-à-vis the estimates/targets depends upon various factors. Revenue collection largely depends on industrial growth, volume of imports, inflation rate and fluctuation in the prices of commodities. It is not always feasible to identify any specific reason for shortfall in collection of revenue vis-à-vis targets. The estimates are based on certain parameters which, if not achieved in the economy, in turn may not result in achieving the estimates.

9. While explaining the reasons for shortfall in indirect taxes, the Secretary (Revenue) stated as follows during the oral evidence of the representatives of the Department of Revenue :-

“In fact, as far as customs duty is concerned, it is also generally felt that it is not going to be major source of revenue. In fact, the customs duty rates will have to be brought down over a period of time to be on par with East Asian countries. The idea is to facilitate free movement of goods. So, the revenue from customs duty may not be a major source of revenue in the years to come, but the excise duty and corporation tax and income tax have to be the major sources of revenue as far as the Government is concerned.

On the excise duty side, the revival of the manufacturing activity ultimately will determine the kind of excise revenues that we are going to get. Even excise duty rates are coming down, but if there is a revival of manufacturing activity, then, there is going to be an improvement in the revenues on the excise side. In the case of corporation tax also, it depends upon general performance of the economy and if there is an improvement, especially in the manufacturing and services sector which we have already seen in the current year compared to last year, these two taxes should be faring well.”

10. It is a matter of deep concern to the Committee that budget estimates were not being achieved in regard to the revenue collection of Income-tax, Corporation Tax, Central Excise and Customs duty. They observe that revised reduced projections made at RE stage could be achieved only in 1999-00 in respect of Corporation Tax, Customs and Central Excise whereas Service Tax projections made at RE stage could be achieved only in 1999-2000 and 2000-2001. In spite of that, the realisations were nowhere near the Budget Estimates. In their opinion, continuous shortfall in realisations is a grave matter which calls for drastic measures. The Committee are not in agreement with the view of the department that taxes are paid voluntarily by the tax payers and additional tax mobilisation efforts are not expected to result in very substantial amount of revenue and the responsibility of the Chief Commissioners of Income Tax in the area of revenue mobilisation is limited. They are of the view that such a serious matter is being taken by the Department casually and instead of making indepth analysis of the reasons of such shortfall despite putting additional efforts the targets have become elusive. The Committee note that the Government have come forward with slew of measures in this regard like

policy of minimising the exemptions, broadening the tax base and strengthening the tax administration with greater emphasis on audit. They feel if these measures are pursued with due seriousness, there is no reason why the projections made would not be achieved. The Committee may be apprised of the progress in this regard from time to time.

Demand No. 41
Department of Revenue

2. Tax – GDP Ratio

	1990-91	1995-96	1997-98	1998-99	1999-00	2000-01	2001-02\$	2002-03@ Budget Estimates
Tax revenue as percentage of Gross Domestic Product *								
Direct (a)	1.9	2.8	3.2	2.7	3.0	3.2	3.0	3.7
PIT	0.9	1.3	1.1	1.2	1.3	1.5	1.4	1.7
CIT	0.9	1.4	1.3	1.4	1.6	1.7	1.6	2.0
Indirect(b)	7.9	6.5	5.9	5.5	5.8	5.6	5.1	5.8
Customs	3.6	3.1	2.6	2.3	2.5	2.3	1.8	1.8
Excise	4.3	3.3	3.2	3.1	3.2	3.3	3.2	3.7
Total	10.1	9.4	9.1	8.3	8.9	9.0	8.1	9.6

PIT: Personal Income Tax

CIT : Corporation Tax

Note: (a) also includes taxes pertaining to expenditure, interest, wealth, gift, estate duty and VDIS for 1997-98 & 1998-99; (b) also includes service tax;

\$ Based on Provisional unaudited figures as per Controller General of Accounts.

* Refers to Gross Domestic Product at current market prices.

@ the ratios to GDP for 2002-03 (BE) are based on CSO's Advance Estimates released in February, 2003

11. It has been reported in the press that India's tax-GDP ratio is very low in comparison with not just the developed nations but many developing countries as well. It has also been reported that low to negligible tax contributions from both the agricultural and services sectors along-with number of exemptions are partly responsible for the relatively low tax-GDP ratio in India. It has also been brought to the notice of the Committee that low tax-GDP ratio was also due to fall in the indirect tax-GDP ratio. These information were brought to the notice of the Department of Revenue and its comments were sought. The Department in its written reply stated as under :-

(i) Direct Taxes :

12. The Government is aware that the tax-GDP rate in India is quite low. The Government also agrees that exemption of agricultural income from income tax is the most important reason for the low tax-GDP ratio. Moreover, the existence of a large number of exemptions and deductions makes the tax-GDP ratio further low.

13. The Income Tax Act is not merely a financial legislation. It rather has the character of a social legislation through which the growth of various sectors of the economy and the sections of the society is regulated by the Government. Accordingly, certain types of exemptions and deductions are necessary. However, the multiplicity of the exemptions and deductions have adverse effect on tax-collection and tax-administration. Accordingly, the Government has in last few years withdrawn certain exemptions and deductions or started phasing them out.

(ii) Indirect Taxes

14. It is clear that indirect tax/GDP ratio was 5.9 percent during 1997-98. This ratio was marginally declined to 5.5 percent in 1998-99 and further increase to 5.8 percent in 1999-00. Afterwards, it has gradually declined to 5.1 percent in 2001-02. The main reasons for fall/stagnancy in tax/GDP ratio in respect of indirect taxes are as under :-

- (i) There were gradual reforms in structural changes of duty rates since 1990-91 in both customs and central excise.
- (ii) The period from 1997-98 to 2001-02 witnessed deceleration in industrial growth compared to the previous years. Further the rate of inflation of manufactured goods remained very low.
- (iii) Excise revenue comes mainly from manufacturing sector that comprises of Non-SSI and SSI sectors. Increase in the SSI output does not result in proportionate increase in excise revenue because of the excise duty exemption available to SSI units. This was mainly due to the reasons that the turnover limit for full excise exemption for SSI units was raised from Rs. 30 lakhs to Rs. 50 lakhs in 1998-99 and again to Rs. one crore in 2000-01. In view of these changes, the increase in production in the SSI sector did not result in commensurate increase in excise revenue.

15. The Committee have also been informed that the Government has been bringing the policy of minimising exemptions, broadening tax base and strengthening the administration with great emphasis on audit. Multiplicity of tax rates is also being reduced.

16. The Committee note with grave concern that Tax-GDP ratio in India is very low when compared not only with developed countries but many developing countries as well. They feel that this distortion is largely due to the fact that large number of prospective tax-payers in the Country are yet to be tapped and brought under the tax net. Concerted efforts ought to be made by the Government in this regard.

**Demand No. 41
Department of Revenue**

3. Tax Arrears

(i) Cases with outstanding demand of Rs. 1 crore and above

17. The Directorate of Income Tax (Recovery) oversees, monitors, collates, compiles and reviews the positions of outstanding demand of Rs. 1 crore and above (Rs. 1 lac and above in film related cases). Cases with outstanding demand of Rs. 25 crore and above as on 31.12.2002 is 295 involving demand of Rs. 39631.68. The number of cases involving outstanding demand in the break-up of (i) Rs. 1 crore to 5 crore, (ii) Rs. 5 to 10 crore, (iii) Rs. 10 crore and above as on 30.9.2002 is as under :

(Rs. in crore)

S.No	Demand outstanding in crores	Total no. of Cases	Net Outstanding Demand
1.	1 crore to 5 crore	2277	4969.56
2.	5 crore to 10 crore	488	3468.83
3	10 crore and above	593	42652.21
	Total	3358	51090.60

18. When the Department was asked about the steps taken to collect the outstanding demand and the results achieved, the Department in its written communication stated as follows :-

“The collection of the outstanding demand is an ongoing process. The Income Tax Department is making every effort to recover the demands as per the machinery provided under chapter XVII and Schedule II of the Income Tax Act, 1961. The measures include, inter-alia, issuance of statutory notice u/s 220 (2), charging of interest and levy of penalty for non-payment of dues attachment of bank accounts and amounts owed by debtors, attachment and sale of moveable and immovable properties, arrest of the defaulter and his detention in prison, appointing a receiver for the management of the defaulter’s movable and immovable properties, etc.”

19. Department also informed the Committee that it writes-off such demands that have become irrecoverable beyond doubt.

20. The Recovery made by the Income Tax Department during the last three years is as under :

Year Ending	Amount (Rs. in crore
31.12.2002	3546.40
31.03.2002	3929.57
31.03.2001	4991.91

(ii) Cases pending in Appellate bodies

Direct Taxes

21. Details of cases pending before various appellate bodies and amount locked therein with respect to direct taxes are as under :

Arrears at the end of Financial Year	Supreme Court	High Court		ITAT		CIT (Appeals)	
	No. of Cases	No. of Cases		No. of Cases	Amount (Rs. Crore)	No. of Cases	Amount (Rs. Crore)
1998-1999	7939	47991	Amount locked up before High Court & Supreme court (Rs. Crore) 11819	110112	1094	214996	6485.53
1999-2000	9064	37256	1192	107400	13285	189601	10483.91
2000-2001	6882	29173	12239	84242	1886	171969	12385.90
2001-2002	4980	26678	2128	76346	7572	155861	25088.35

22. Department of Revenue in a written note submitted to the Committee has stated that the following steps have been taken to reduce litigation :-

- (a) To make it statutorily obligatory for the Income Tax Appellate Tribunals to decide such appeals, where stay has been granted within 180 days of the date on which the stay order was passed, failing which the stay so granted, shall automatically be vacated.
- (b) Amendment in the Income Tax Act to take away the powers of the Commissioners of Income Tax (Appeals) to set-aside a case or refer to back to the Assessing Officer for fresh orders. These steps are expected to expedite clear-cut decisions by the Commissioner (Appeal) on the appeals filed before them and to prevent misuse by the tax payers of stays granted by the Tribunals by delaying the final disposal of the appeals.
- (c) With effect from 1.10.1996 a new section 260A had been introduced into the Income Tax Act which provides for direct appeals to the High Court doing away with earlier system of filing reference applications before the Income Tax Appellate Tribunal.
- (d) To strengthen the judicial machinery in each Chief Commissionerate by setting up High Court Cells to monitor/Co-ordinate matter with the High Court. Similarly a Supreme Court Cell is functioning at Delhi to facilitate proper co-ordination between Judicial Wing of the Department and apex Court. Bunching of cases involving similar issues is also being done so that such cases could be heard and decided simultaneously.
- (e) Emphasis is being given on higher disposal by CIT Appeals. Monthly quota of 60 Units has been fixed. Weekly monitoring of disposals is being done by the Central Board of Direct Taxes. CCITs have been requested to personally monitor the performances of CIT (Appeals).
- (f) Monetary limit for filing of appeals before Tribunal has been raised from the earlier Rs. 25,000 of disputed tax to Rs. 1,00,000/-. Bunching of cases is being done in the High Courts and Supreme Court in order to ensure speedy disposal of cases.

23. Earlier, the Government in their Action Taken reply on the 28th Report of the Standing Committee on Finance have stated that the number of posts of Commissioners (Appeals) has been substantially increased for faster disposal of

appeals. In this regard, the Department of Revenue was asked to furnish the details of results achieved by increasing the number of posts of Commissioner (Appeals). The Department in a written note stated that about 82 posts of CIT (Appeals) have been created and these posts are commensurate with the existing work load. It has further stated that after re-structuring and additional creation of posts of CIT (A) the disposal of appeals has improved significantly as can be seen from the provisional figures available upto 31.1.2002, given below. As a result, the pendency of appeals has come down significantly and this year, for the first time, there is possibility of pending appeals (at an end of the year) coming down to below 1 lakh.

Details of disposal of Appeals by CIT (Appeals)

Financial year	Opening Balance	Appeals filed during the year	Appeals disposed of	Pendency
1998-1999	147663	151174	83841	214996
1999-2000	214996	82229	107624	189601
2000-2001	189601	80936	98568	171969
2001-2002	171969	63794	79902	155861
31 Dec. 2001	171969	10723	35115	147577
31 Jan 2002	171969	27538	46873	152634
31 Jan. 2003*	155861	36037	85997	105901

* Provisional

Indirect Taxes

25. Year-wise details of cases before various appellate bodies and amount locked therein with respect to central excise duties are given below :

Arrears at the end of Financial years	Supreme Court		High Court		CEGAT		Commissioner (A)	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
2001-2002	287	117.32	1561	403.16	7439	4474.7	22012	3026.8
2000-2001	326	209.8	1443	352.75	7287	3991.4	21564	2424.8
1999-2000	381	232.1	1764	412.99	7904	4204.5	18748	1921.2
1998-1999	399	494.78	2132	534.33	8379	3698.7	17106	1771.9
1997-1998	1909	NA	4733	NA	NA	NA	NA	NA

NA – Not Available

26. The break-up regarding outstanding amount of confirm demand of Customs duties pending before various appellate bodies is given below :

(Rs. in crore)

Arrears at the end of Financial years	Supreme Court		High Court		CEGAT		CC (A)	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1997-98	27	1.82	99	225.58	169	48.69	54	4.68
1998-99	35	9.07	97	60.01	118	60.97	56	7.03
1999-00	23	7.84	77	98.63	222	131.83	95	5.90
2000-01	23	7.63	69	70.20	185	227.07	278	31.31
2001-02	28	95.54	73	81.17	243	783.24	937	68.9
2002-2003 (up to January, 2003)	35	105.44	87	91.87	544	838.51	535	298.42

27. The Department of Revenue informed the Committee that it takes following steps to realise the outstanding amount :-

- By taking persuasive action in the first instance and if these are not yielding results, coercive and certificate action is also being restored to, if there is no embargo/stay from appellate forums/courts;
- Special measures are also being taken to get the stays vacated by filing urgent hearing petitions in Supreme Court, High Courts and Appellate Tribunal or for deciding the cases on priority basis.
- Board Members and senior supervisory officers in the field are specially monitoring each of these cases involving substantial revenue.
- In case the units are declared sick, the matter is referred to BIFR.

Disposal of cases for and against the Department

28. During the course of oral evidence of the representatives of the Department of Revenue, a view has been expressed that there are a number of pending cases relating to income tax, excise and customs in various appellate bodies because assesseees did not agree with the assessment made by the department officials. It is estimated that out of 100 cases which are in tribunals, about 93 percent cases are won by the individuals.

29. The Committee are shocked to learn that as on 30-12-2002 outstanding demands worth Rs. 51,090 crore were locked up in 3358 cases having outstanding demand of Rs. one crore and above. Out of this Rs. 42,652 crore was outstanding from 593 cases with outstanding demand of more than Rs. 10 crore and above. Another several thousand crores of rupees are locked up in thousands of other cases pending before various appellate bodies. However, the recoveries made by the Department have been far less and the outstanding demands have also been increasing. No serious attempt has been made by the Government to tackle this problem. The Committee express their deep anguish over this sorry state of affairs and desire that outstanding demand should be realised expeditiously. The cases pending before Supreme Court/High Courts need to be pursued and got decided expeditiously by filing early hearing applications wherever possible.

30. The Committee note that creation of 82 posts of commissioner of Income Tax (Appeals) [CIT(A)] has almost doubled the number of appeals disposed of during the period of one year starting from 31.1.2002. The Committee have been informed that a monthly quota of 60 units has been fixed for disposal by CIT (Appeals). The Committee feel that the monthly quota of appeals disposed of by CIT (A)/ C(A)/CC(A) should be reviewed and a suitable higher limit should be fixed.

31. The Committee note that more than 90% of the cases go against the Department which happens mainly due to inaccurate assessments made by assessing officers resulting in putting infructuous and unnecessary burden on the exchequer on account of wastage of manpower, money and time. The Committee recommend that suitable action should be taken against the assessing officers who are responsible for such a situation. The Committee desire that the information regarding number of cases disposed of by various appellate bodies, amount locked in and amount realised, during each of the last five years should be furnished to them for their consideration.

Demand No. 41
Department of Revenue

4. Widening of Tax Base

(i) One-by-Six Scheme

32. Legal initiative to widen the tax base came with the introduction of the proviso to Section 139(1) which required for the first time, the filing of tax returns based on certain economic criteria (two out of four economic criteria). These measures which were introduced w.e.f. 1.4.1997 were extended and expanded by Finance (No. 2) Act, 1998 w.e.f. 1.8.1998. These provisions are popularly known as the One-by-Six Scheme. The One-by-Six scheme requires furnishing of income tax returns by any person fulfilling any one of the prescribed six economic criteria.

33. The one-by-Six Scheme is at present (FY 2001-2002 onwards) applicable to 4989 urban areas having population of more than 5,000 as per the 1991 census.

34. Department of Revenue in a written communication regarding impact of One-by-Six Scheme in terms of revenue mobilisation have stated as follows :-

“It has been our experience that after the introduction of the one-by-Six Scheme, a large number of people have been motivated to file their tax returns. This has not only resulted in the widening of the tax net, but has also contributed to the increase in the direct tax collections as is evident from the following table :

S.No.	Financial Year	Number of new assesseees added during the FY (Figures in lakhs)	Total number of assesseees as on 31 st March of FY (Figures in lakhs)	No. of assesseees, out of Col. 3, filing returns under the One-by-Six Scheme (Figures in lakhs)	Total Tax collection in (Rupees in crore)
(1)	(2)	(3)	(4)	(5)	(6)
1.	1995-96	10.90	116.58	--	32,074
2.	1996-97	15.04	125.15	--	36,801
3.	1997-98	23.32	143.23	--	37,117
4.	1998-99	41.68	182.26	* not available	44,769
5.	1999-00	32.99	211.81	6.47	56,347
6.	2000-01	36.29	248.00	6.16	67,135
7.	2001-02	57.26	300.02	31.59	68,221

(* One-by-Six Scheme became operative w.e.f. 1st August, 1998)

35. However, with effect from 1st April, 2002 only cellular phone subscribers are covered under the One-by-Six Scheme as against all telephone subscribers who were earlier required to file their returns under the One-by-Six scheme. As such, subscription to a land-line telephone connection including cellular telephones which being a wireless in local loop telephone has been exempted from this scheme. In this regard it has been clarified by the Department of Revenue as follows :-

“In recent times, there has been a decrease in terms of percentage of new land-line connection. During the period April 2001-December 2001, 2.6 million new land-line connections had been given, the number of such new connections dropped to 1.9 million during the period April 2002-December 2002. On the other hand, number of new cell-phone connections provided during April 2001-December 2001 was 1.9 million. This has increased to 3.3 million during the period April 2002-December 2002. This decline in the number of new subscription was claimed to be partly due to the fact that land-line connection was one of the economic criteria under One-by Six Scheme. In view of the above, it was decided to exclude land-line connection from the list of criteria under One-by-Six Scheme and substitute it with cellular phone which is mostly subscribed by persons of relatively higher income levels in urban/semi-urban locations.”

Other efforts made by the Income Tax Department to widen the tax base

36. Apart from the One-by-Six scheme, the Government has also initiated several other measures to widen the tax base. Some of these are :-

- (i) Compulsory quoting of Permanent Account Number (PAN) in certain high value transactions.
- (ii) Carrying out selective surveys and searches.
- (iii) Extending the applicability of TDS provisions to cover various financial activities.
- (iv) Efforts to educate the tax payers by holding camps and seminars in different areas.
- (v) Compulsory filing of tax returns by companies (w.e.f. 1.4.2001).

37. Department of Revenue has stated that the above measures also led to a substantial increase in revenue collections. However, the department have stated that no separate data is maintained regarding the revenue accrued on account of such new assesseees brought under the tax net.

38. In regard to widening of tax base, a representative of the Department of Revenue during his deposition before the Committee stated as under :-

“We have been consistently making efforts to widen the tax base. The number of taxpayers which stood at about 90 lakhs at the end of the year 1991, now stands at 3.14 crores. There are other efforts put in by the Department that can be attributed to 1/6 scheme. The idea is just to identify the tax base and to bring them into Income Tax fold, namely, the taxpayers who are in the informal sector, the prospective taxpayers who are on the threshold of paying Income Tax. Of course, there have been some other measures to facilitate, as I said to bring about the culture of compliance, to improve the environment of taxpayers, doing away with the requirement of obtaining Income tax clearance certificate to those Indian citizens who are going abroad, and those who are entering into contracts. Certainly, search and seizure provision has been made simpler to do away with the scope for harassment.”

(ii) Deepening of Tax base

39. In regard to a query to deepen tax base the Department of Revenue in a written communication furnished the following information :-

- (i) The number of individual assesseees having income more than Rs. 10 lakhs during the last two years are as follows :-

FY 2000-2001	54,805
FY 2001-2002	62,027

- (ii) The number of individual assesseees having income more than Rs. 2 lakhs but less than Rs. 10 lakhs during the last two years are as follows :-

FY 2000-2001	8,43,514
FY 2001-2002	12,43,335

- (iii) As regards further steps, the Department is presently under computerisation. Once the Department is fully computerised, a databank will be created from the information received from various quarters (including PAN databank) and then it will be possible to easily identify assesseees falling in particular income categories. Moreover, the process of rationalisation and simplification of the Direct Tax Laws has had positive results. It is expected that further simplification and rationalisation of the Direct Tax regime will promote voluntary compliance, improve revenue collections and also help in identifying new assesseees.

40. When it was enquired whether the Ministry of Finance think that only 54805 (2000-01) assesseees, whose annual income is above rupees 10 lakh, are there in a country of more than one billion population, Department of Revenue in a written communication stated that the Union Government had constituted a Task Force on

Direct Taxes under the Chairmanship of Dr. V.L. Kelkar. In its recommendation the Committee has stated that the underlying philosophy of the report is to substantially alter the economics of tax evasion. The emphasis on taxpayer service through extensive use of information technology will enable the Department to promote voluntary compliance amongst the general class of taxpayers and identify the hard core tax evaders. Similarly, the cost of non-compliance is intended to be increased substantially by establishing the Tax Information Network (TIN) which will enhance the probability of identification of tax evaders as well as help in the detection of income evaded. It will also substantially improve the quality of information against the tax evaders and enable successful prosecution. The Kelkar Committee has also dealt with the deficiencies of the present block assessment policy and dubbed it as an “Amnesty Scheme” for tax evaders detected as a result of search. In line with the recommendation, the Finance Bill, 2003 has sought to replace the current Block Assessment procedure with more deterrent provisions by inserting Section 153A, B & C in order to levy interest and penalty and prosecute persons found guilty of tax evasion.

41. Further, the Department has taken several measures like Rule 114 B of Income Tax Rules which makes it compulsory on the part of the assessee to quote Permanent Account Number (PAN) for specific transactions and also makes it obligatory to file annual information return declaring specified transactions. All these measures are intended to equip the Department better to combat the menace of black money and tax evaders.

42. There was a proposal in the Income Tax Department for setting up and matching of databases of high value financial transactions with information in the return. Department of Revenue was asked whether any data bank of high value financial transactions has since been created.

43. The Department of Revenue in its reply stated as follows :-

“The creation of data bank of high value financial transaction requires independent mechanism for regular receipt of the relevant information and its computerisation/processing. Kelkar Committee recommended that submission of annual information return may be prescribed for receipt of information relating to high value financial transactions. Necessary amendment to the Income Tax Act has been proposed in Finance Bill 2003 by way of introduction of Section 285 B A. Further, a proposal for upgradation of the RCC and NCC server for processing of voluminous data relating to such transaction is a part of the

perspective plan for phase III of computerisation which is awaiting implementation.”

(iii) **Service Tax**

44. Service Tax was introduced in year 1994-95 when the tax was levied on 3 services. The scope of this levy has been enlarged since then and presently 51 services are subject to Service Tax. In the Finance Bill, 2003-04, 7 more services have been brought under the tax net, while scope of 3 services has been widened.

45. Govt. in their action taken reply submitted to the committee in the 25th Report on Demands for Grants (2002-2003) regarding the feasibility of bringing lawyers, doctors and such other professionals rendering services within the services tax net had stated that the recommendations had been noted for further action. When they were asked about the steps that have been/are being taken in this regard and the time within which these professionals could be brought under the service tax net, the department of Revenue in its written reply stated that considering the fact that service sector is highly de-centralised the Government have adopted a cautious and selective approach in respect of widening the service tax net. The ultimate objective of the schemes is to cover comprehensively all the professional services including those of lawyers and doctors, within the scope of service tax. At this stage it is not possible to furnish any time frame in this regard.

46. In reply to a query on collection of service tax, the department of Revenue have stated that for the year 2002-2003 the Budget Estimate for collection through Service Tax was Rs. 6026/- crores. This projection was made vis-a-vis the Budget proposals to impose Service tax on 10 new services. Subsequently imposition of Service Tax on Life Insurance services was withdrawn. Estimated revenue shortfall on account of this withdrawal of service on life insurance services is approximately Rs. 1400/- crores. Revised estimate for the year 2002-2003 have been fixed at Rs. 5000/- crores.

Recommendations of the Expert Group on Service Tax

47. An Expert Group was set up on Service Tax which made some useful recommendations in regard to better administration of service tax and voluntary tax compliance. The action taken by the Government on the recommendations of the above expert group, as submitted by the Department of Revenue, is as under :-

Recommendation :-

48. The tax on services should be eventually integrated with Central Excise duties on goods to evolve into a comprehensive CENVAT on goods and services by 2003-2004. [A similar recommendation has also been made by the task force on indirect taxes (Kelkar Committee)].

Government's reply :-

49. Accepted in principle, but the full-scale implementation would need more time. In the Finance Bill, 2003-2004 enabling provision has been made to integrate CENVAT on goods and the service tax paid on input with respect to final payment of the service tax. But the Service Tax rate has to be restructured with the CENVAT on goods at 16%. This would take more time.

Recommendation :-

50. A separate self contained enactment on service tax should be legislated to administer the Service Tax.

Government's reply :-

51. Accepted in principle but road map for full-fledged implementation is being worked out. Preparation of a separate, self-contained enactment is in progress.

52. In this regard, Secretary (Revenue) during the oral evidence informed the Committee as follows :-

“As regards why the Service Tax Legislation has not been brought before Parliament, I would submit that it requires a Constitutional amendment. And, the constitutional amendment is before the Parliament. Once it is passed, then it will be ratified by the States and then we will bring in the Service Tax Legislation. We are ready with the Service Tax Legislation. We will discuss it with the States first because they are the interested parties. We would like to first discuss with them and then come back to Parliament.”

Recommendations :-

53. In order to facilitate voluntary tax compliance and to cut down tax payer inconveniences the Service Tax should be administered as the first e-tax of the country with online web based connectivity with assesses.

Government's reply :-

54. Accepted Process has already been initiated for filing of Service tax return ST-3 with on line web based connectivity with Assesses. The software has been developed by the NIC and is being implemented through DG (Systems) for select services from April, 2003.

Non-deposition of Service tax collected from customers

55. During the oral evidence when it was pointed out that service tax is being collected in Mumbai by cable operators and others but they are not depositing the same into the Government Account. Replying to the above, a representative of the Department of Revenue stated as under :-

“It is true the hon'ble Member has also mentioned to me that there has been a lot of evasion by the cable operators. We have since tried to take it up. What we have provided now in the Service Tax Act, to tighten up this position and take care of the situation which he has mentioned. We have introduced the Central Excise Law for this purpose which means that anybody who charges any amount by way of Service Tax has necessarily got to deposit with the Central Government from the date he should have deposited it with us. In a normal case interest will have to be paid but in this case we are going for prosecution.”

56. The Committee are perturbed to note that there were only 62,027 assesseees, having income of more than Rs. 10 lakhs during 2001-2002. Similarly, there were 12,43,335 individual assesseees with income more than Rs. 2 lakhs during 2001-2002 in the country. In this regard, the Task Force on Direct Taxes headed by V.L. Kelkar made certain recommendations such as establishment of Tax Information Network (TIN) which will enhance the probability of identification of tax evaders and help in the detection of income evaded, submission of annual information return relating to high value financial transactions. The Committee note that Government has accepted these recommendations and feel that these recommendations are of paramount importance and should be implemented forthwith. They also recommend that upgradation work of the Regional Computer Centre and National Computer Centre servers of the Income tax department for processing of voluminous data

relating to high value transactions should be taken-up immediately on priority basis.

57. The Committee note that the Expert Group set up on Service Tax and the Task Force on indirect taxes have made some useful recommendations in regard to better administration of service tax and voluntary tax compliance such as a separate self-contained Act on service tax, eventual integration of tax on services with the Central Excise duties, administration of service tax as first e-tax of the country, collection of service tax in a comprehensive manner with the exclusion of few services. The Committee expect the Government to expedite implementation of these proposals immediately and submit action taken thereon to the Committee. In regard to administration of Service Tax as first e-tax of the Country the Committee have been informed that filing of service tax return ST-3 with online web based connectivity with assesseees is going to be implemented for select services from April, 2003. The Committee recommend that this facility should be extended to all services under the Service Tax net within a definite period of time.

Demand No. 41
Department of Revenue

5. Permanent Account Number (PAN)

58. To arrest tax evasion, quoting of PAN in all high value transactions, acquiring of movable and immovable properties acquires significance.

(i) Allotment of PAN

Particulars of allotment of PAN over the last three years.

Year	Total Application pending at the beginning of the year	Applications received during the year	Core-field deficiency cases including Duplicate PAN	Valid PAN applications for allotment Col I + Col2 + Col3	PAN allotted during the year	Valid Applications pending at the end of the year	Total Application pending at the end of the year (Col 3 + Col 6)
1999-2000	5856456	1566577	1408924	6014109	5066981	947128	2356052
2000-2001	2356052	1727875	1384272	2699655	2300218	399437	1783709
2001-2002	1783709	2847610	1302795	3328524	2678764	649760	1952555
2002-2003 (upto 28.2.2003)	1952555	4869378	1245330	5576603	5317914	258689	1504019

59. Department of Revenue in a written communication stated that the main targets relating to allotment of PAN were that pending applications without core deficiencies will be cleared by a cut off date; fresh allotment of PAN on all new valid applications will be made within 10 working days and PAN grievance redressal fortnight will be organised in every computer centre. These targets were achieved except in respect of cases where PAN was allotted on the basis of returns and it was not possible to print PAN cards in the absence of photographs.

60. The position relating to allotment of PAN and issue of intimation letters and cards is as under :

Year	Total PANs allotted	Intimation letters sent	No. of PAN cards issued
2000-01	2300218	3386104	2694070
2001-02	2678764	2535194	2273111
2002-03	5344604	6195420	5443945

61. The main reason for pendency of PAN cards as reported by the department is that in a number of cases where PAN applications were not filed by the existing assesseees, PAN were allotted on the basis of their return of income but in the absence of photographs PAN cards could not be issued.

(ii) Outsourcing of PAN allotment

62. A decision has been taken by the government to out source the activities relating to receipt of PAN applications, data entry, printing and dispatch of PAN cards. The new mechanism is expected to be implemented from 1st July, 2003.

63. During the oral evidence, when it was asked what was the rationale for outsourcing the allotment of PAN, a representative of the Department of Revenue replied as follows :-

“this outsourcing has been done only to enable the Department to concentrate on the core activities. Here, I would like to say that the outsourcing is to be done only if the Department, at some stage, finds that the work cannot be handled fully by the in-house: for example, this allotment of PAN cards. At the moment, we are quite comfortably placed in the sense that 97 per cent of the valid applications have been disposed of. We may possibly expect a growth in the number of tax-payers. We have decided that PAN will be allotted within ten days of receipt of the application. Maybe, at times, it may become necessary for us to outsource it.”

(iii) Online allotment of PAN

64. Department of Revenue in a written note stated that online allotment of PAN can be made by the Assessing Officer in 60 cities which have come on the network. The number of PAN allotted through AIS in 2001-02 and 2002-03 are as under :

Year	No. of PAN allotted through AIS
2001-2002	1192439
2002-2003	4809154

(iv) Core deficiency cases

65. Following steps are taken for attending to the cases of core deficiencies :

- (i) Letters are issued to the applicants for removing the deficiencies;
- (ii) The names of such applicants are placed on web sites in certain regions; and
- (iii) PAN Grievance Redressal Fortnights were held.

66. The Committee are concerned to note that despite tall claims made by the Income Tax Department, more than 2.5 lakhs valid PAN applications and 12 lakhs core-deficiency cases are pending with the department for allotment of PAN. The Committee recommend that special camps should be organised throughout the Country to have one-to-one meeting with the assesseees to resolve core-deficiencies and to allot PAN to valid applicants within 10 days from the date of filing the application.

**Demand No. 41
Department of Revenue
Major Head : 2047
Minor Head : 00.1.101
Detailed Head : 01**

6. Directorate of Enforcement

67. The Directorate of Enforcement under the Department of Revenue in the Ministry of Finance is the apex organisation in the area of investigation of foreign exchange violations. The Directorate is mainly concerned with enforcement of the provisions of Foreign Exchange Management Act, 1999 (FEMA). FEMA replaced Foreign Exchange Regulation Act, 1973 w.e.f. 1.6.2000.

Difference between FERA and FEMA

68. FERA was enacted to consolidate and conserve foreign exchange resources of the country and proper utilisation thereof, whereas FEMA has been enacted to facilitate external trade and payment and to promote orderly development of foreign exchange market in India.

69. FERA was a criminal Act. The FEMA is a civil law by nature and procedure outlined therein for carrying out search action and consequential investigations are more akin with those envisaged under Income Tax Act. A major difference is that the powers of pre-investigative detention/arrest do not subsist in FEMA. The other difference is that the power to investigate cases stands now vested only with officers of the level of Assistant Director and above (Group 'A' level).

70. In the new law, the provision for penalty and compounding of offences have been incorporated which was not available under FERA, 1973.

Pending cases under FERA

71. FEMA, 1999 provided for a two years sun-set period from 1.6.2000 to 31.3.2002 for finalisation of investigations and cognizance of offences/contraventions covers under FERA, 1973.

72. The Directorate of Enforcement informed the Committee that it has liquidated the Pendency of all FERA cases before the expiry of sun-set period. Only Criminal prosecutions filed on or prior to 31.5.2002 for FERA cases are presently continuing so far as the old law i.e. FERA, 1973 is concerned. The details of cases investigated, prosecution launched and adjudication proceedings initiated as above are given below :-

Prosecutions launched Under FERA, 1973 under Section 56

Year	Pending cases brought forward	Prosecutions launched	Prosecutions disposed	No. of prosecutions pending
2000	1247	80	56	1268
2001	1268	124	73	1319
2002	1319	991 (upto 31.5.2002)	95	2215

Prosecutions launched under FERA, 1973 Under Section 57

Year	Pending cases brought forward	Prosecutions launched	Prosecutions disposed	No. of prosecutions pending
2000	721	15	36	700
2001	700	583	115	1168
2002	1168	2237	117	3288

73. Department of Revenue have stated that the above prosecution cases are sub-judice before various courts of law and all out efforts are being made to pursue the same for their expeditious disposal.

Cases adjudicated under FERA, 1973

Year	Pending cases brought forward	Show cause notices issued	Cases adjudicated	cases pending
2000	4586	2268	2087	4767
2001	4767	4909	1625	8051
2002	8051	7789	1991	13489

74. Department of Revenue has informed that in all the above cases, the adjudication process which was initiated before 31.5.2002 is being expedited to maximise the disposal. The appointment of additional adjudicators for the purpose is under the active consideration of the Government.

75. During the oral evidence of the representatives of the Department of Revenue, in regard to a query of the Committee on position of the Pending FERA cases, the Secretary (Revenue) stated as under :-

“ Sir, so far as FERA is concerned, prosecutions have been launched since they pertain to that time and they are being pursued. Many adjudication officers are being appointed to see that these cases are disposed of as quickly as possible.”

76. Penalties imposed under FERA, 1973

(Rs. in lakh)

Year	Pending penalties brought forward	Penalties imposed	Penalties realised	Penalties pending
2000	56316.63	31841.30	1545.59	86612.34
2001	86612.34	49121.05	1183.50	134549.89
2002	134549.89	33421.98	619.05	169352.82

77. The Department of Revenue have informed that all possible steps have been taken to realise the above penalty. Various legal actions under section 70(1) (iii) and section 57 of Foreign Exchange Regulation Act, 1973 in all cases

where the parties did not deposit the penalties within the stipulated period, were taken before 31.5.2002.

Investigations Under FEMA, 1999

Year	Pending cases brought forward	Investigation initiated	No. of cases disposed	No. of cases pending
2000	-	197	14	183
2001	183	1978	971	1190
2002	1190	5120	1983	4327

78. The Foreign Exchange Management Act, 1999 came into force on 1.6.2000 and the pending cases are being investigated as per provisions of the Act.

Penalties Imposed under FEMA, 1999

(Rs. in lakhs)

Year	Pending penalties brought forward	Penalties imposed	Penalties realised	Penalties pending
2000	-	0.50	0.50	-
2001	-	18.78	12.33	6.45
2002	6.45	76.29	19.34	63.40

Regular steps are being taken to realise the above penalties.

Cases adjudicated under FEMA, 1999

Year	Pending cases brought forward	Show cause notices issued	Cases adjudicated	cases pending
2000	-	03	01	02
2001	02	254	44	212
2002	212	252	115	349

Adjudicating officers have been advised to expedite the pending proceedings.

79. The Committee are deeply concerned to find that the pace of disposal of prosecution cases under FERA, 1973 is very slow and as many as 5443 prosecutions cases under Sections 56 and 57, 13489 adjudication cases, penalties worth Rs. 169352 lakhs are still pending under Foreign Exchange Regulation Act (FERA), 1973 which has already been repealed. They are pained to observe that sun-set period of 2 years was provided under FERA to decide the pending cases but Department has failed to take effective steps in this regard. Expressing their dissatisfaction over this sorry state of affairs the Committee recommend that concerted efforts should be made to get all the pending cases disposed of in a specified period. For this purpose, practicability of establishing special courts should be worked out.

80. The Committee find that though FEMA came into force w.e.f. 1.6.2000 yet in a short span of one and half year i.e. by the end of 2002, 4327 investigation cases and 349 adjudication cases piled up under it. The Committee feel that the pace of disposal of cases is relatively slow and they are of the view that serious efforts should be made by the Enforcement Directorate to speed up the process of adjudication. The Committee therefore, expect the Government to take suitable expeditious steps so as to dispose of all the pending cases in a time bound manner.

**Demand No. 41
Deptt. of Revenue
Major Head : 2047
Minor Head : 00.108**

7. Total – Customs, Central Excise and Gold (Control) Appellate Tribunal

81. Under this head, the expenditure under the minor head viz. Salary, Wages, Overtime Allowance, Domestic Travel Expenses, Office Expenses, Rent, Rates and Taxes Etc. are included.

(Non Plan)
(Rs. in 000's)

Year	Budget Estimates	Revised Estimates	Actuals
1996-1997	2,09,49	2,30,49	2,31,18
1997-1998	2,42,76	3,06,87	3,07,84
1998-1999	3,33,28	4,21,12	4,02,18
1999-2000	3,60,24	4,01,87	3,99,40
2000-2001	4,43,16	5,04,67	4,42,52
2001-2002	5,39,63	4,67,30	4,58,35
2002-2003	4,75,30	7,26,46	
2003-2004	7,04,00		

82. Perusal of the above figures show that there is constant increase in Budget allocation under this head since 1996-97. Similarly actual expenditure also show an upward trend during the same period.

83. Department of Revenue in their reply to demands for Grants of 2002-2003 furnished following figures relating to pendency of cases before CEGAT :-

Year	Opening Balance	Inst.	Disposal	Closing Balance
1996	50372	8981	17073	42213
1997	42213	11327	19343	34197
1998	34197	16702	16189	34710
1999	34710	13816	15542	32984
2000	32984	12594	15353	28447

2001	28447	13648	12520	29575
------	-------	-------	-------	-------

84. Perusal of the above figures shows that while expenditure on CEGAT had increased by about 100% during the period 1996-97 to 2001-2002, the number of cases disposed by CEGAT came down from 17073 in 1996 to 12520 in 2001 (a decline of 36%). The Department of Revenue was asked the reasons for the same. The Department in its written reply stated that on account of implementation of the recommendations of the Fifth Central Pay Commission, additional funds were allocated under the head of Salary, Domestic Travel Expenses, Overtime Allowance etc. Further, the increase in the expenditure in CEGAT has been on account of Petrol, Paper and Telephones. One of the major expenses of the Tribunal which is charged to Office Expenses is the cost incurred on purchase of paper. It has further been stated that every judgement of the Tribunal is required to be sent to at least 20 recipients, most of whom are various law journals which publish the judgement of the Tribunal for wider dissemination among the public.

85. Department of Revenue has also informed that in addition to above, the major increase in allocation for CEGAT is in RE 2002-2003. The principal reason for this increase on account of the new premises taken over by CEGAT for accommodating 2 additional benches plus two existing benches at new office in Mumbai. The rent payable for the new premises is about Rs. 131 lakh (approx). In addition funds were sanctioned for constructing 5 courts and providing other facilities to render the new premises suitable for occupation by the four benches at Mumbai. While the rent will be recurring expenditure, the rest of the expenditure will be a one time cost.

86. In regard to increase in pendency of cases, Department of Revenue clarified as follows :-

“In so far as the increase in pendency is concerned, there is no doubt that there has been an increase in the closing balance of the cases pending before the CEGAT in 2002-2003. In the previous years, especially in 1996-97, the institution of cases was quite low and the disposal was very high. From 1996 onwards, there has been increase in the institution of cases and the disposal upto 2000 has been much more than the institution which is why the closing balance of pending cases had come down to 28447 by the end of 2000. However, from 2000 upto 31.10.2002, the closing balance of pending cases has gone up by about 2000. This is largely on account of number of vacancies of Members in the Tribunal. There is one vacancy of Member (Technical) in the Eastern Regional Bench of CEGAT

for more than a year. Besides, one post of Member (Judicial) in Delhi has been lying vacant for the same period. In 2002, 3 more retirements have taken place, out of which only vacancy has been filled up and at present, there are 3 posts of Member (Technical) lying vacant and one post of Member (Judicial). The pendency of cases in CEGAT is closely monitored and in fact to expedite the disposal of cases, the President, CEGAT has constituted Circuit Benches and these Benches have heard the cases in Vadodara, Hyderabad, Cochin and Pune. The constitution of Circuit Benches has not only lead to quicker disposal of cases, but also facilitated the litigants in these cities since their time and money is saved on account of the cases being heard in their respective cities.”

87. Further it has also been conveyed to the Committee that CEGAT does not maintain the figures in regard to the amount of duty involved.

88. It is a matter of deep concern to the Committee that expenditure on CEGAT had gone up by about 100% whereas the number of cases disposed of by it came down by about 36% in 2001-2002 as compared to 1996-97. Vacant posts of Members has been cited as a reason for the increase in pendency. The Committee fail to understand as to why for a considerable long period these posts were allowed to lie vacant. The Committee urge upon the Government to take expeditious steps to fill up the vacancies. The Committee note with satisfaction that CEGAT had constituted Circuit Benches in a few cities for quick disposal of cases. They expect that similar benches would be constituted in other parts of the Country for the early disposal of cases in those areas.

**Demand No. 41
Deptt. of Revenue
Major Head : 2052
Minor Head : 00.090
Detailed Head : 11.00.13**

8. Office Expenses

89. All expenses for running of an office, such as, purchase and maintenance of furniture, purchase and maintenance of office machinery and equipment, purchase of stationery, to meet the expenditure on postage, payment of telephone bills, electricity

and water charges, printing of forms, purchase and maintenance of staff cars and POL expenses are covered under this head.

(Non Plan)			
YEAR	BUDGET ESTIMATES	REVISED ESTIMATES	ACTUALS
1995-96	6,23,94,000	5,67,49,000	5,80,12,000
1996-97	6,78,61,000	7,90,38,000	6,88,78,000
1997-98	7,06,17,000	6,77,34,000	6,78,54,000
1998-99	7,33,47,000	7,01,18,000	7,14,83,000
1999-2000	7,75,77,000	7,53,77,000	8,31,40,000
2000-2001	7,68,55,000	7,03,50,000	8,39,13,000
2001-2002	8,82,88,000 / 6,49,88,000	5,95,40,000	8,83,38,000
2002-2003	6,69,50,000	6,87,20,000	
2003-2004	6,63,00,000		

90. While responding to a query on this detailed head (i.e. 11.00.13) regarding BE and RE, during the examination of Demands for Grants (2002-2003) the Department had inter-alia stated that the provisions under this head at the BE stage for the year 2001-2002 were raised to Rs. 8,82,88,000 (As stated earlier on transfer of Narcotics Control Bureau to the Ministry of Home Affairs, the provision made for Narcotics Control Bureau was deleted and the remaining amount comes to Rs. 6,49,88,000). However, taking into consideration, the economy and austerity instructions issued by the Department of Expenditure, the provision was reduced to Rs. 5,95,40,000 at the stage of RE 2001-2002. But perusal of the Demands for Grants, 2002-2003 shows that actuals for 2001-2002 was Rs. 8,83,38,000.

91. In this regard, the Department of Revenue was asked to specify the reasons for huge difference between RE and actuals of 2001-2002, the department in a written note submitted that as per the instructions, at the time of finalisation of the Budget Estimates for the year 2002-2003, since it was decided to transfer the NCB to Ministry of Home Affairs, the provisions relating to NCB were deleted in the BE 2001-2002 and RE 2001-2002, but since the NCB was not actually transferred during 2001-2002, the actual expenditure was booked in the above head of the Department of Revenue. It has further been stated that the additional expenditure has been incurred in the year 2001-2002 due to computerisation of the Department, such as, PAO 2000 and to provide modern equipments like Fax

Machines, photocopier machines and other infrastructural facilities. In addition to above, cost escalation of the items and to meet other contingent expenditure, the actual expenditure has exceeded the provisions made in RE 2001-2002.

92. During the examination of Demands for Grants (2002-2003) the Committee were informed by the Ministry of Finance that the Departments will be strictly asked to follow the economy and the austerity instructions of the Department of Expenditure but the actuals shown above are always more than BE and RE except during the year 1996-97. Department of Revenue was asked to explain its position and in its written reply the department stated as follows :-

“The economy instructions issued by the Department of Expenditure have been brought to the notice of Budgetary Heads. However, due to computerisation of the Department such as, PAO 2000 and cost escalation of the items and to meet other contingent expenditure, funds were overutilised.

In order to inculcate austerity and economy into the system, the Budgetary Units will again be told to strictly follow the austerity and economy instructions in future so as to contain the rise in expenditure under this head.”

93. The Committee are deeply concerned to note that actual expenditure under this head is always higher than both the budgetary and revised estimates. They note that the austerity and economy instructions have been issued by Department of Expenditure from time to time but have continuously been ignored which has resulted variations between RE and Actuals. The entire budgetary exercise thus goes haywire.

94. The Committee were further informed that additional expenditure incurred in 2001-2002 was on account of computerisation of the Department and to provide modern equipment like fax machines, photocopier machines and other infrastructural facilities. In the opinion of the Committee the expenditure on such items should have been envisaged at BE and RE stages but no efforts seem to have been made by the Government in this regard. They, therefore, desire that Department should take action in anticipation and present realistic figures as far as possible.

**Demand No. 41
Deptt. of Revenue
Major Head: 4216
Minor Head : 01.114
Detailed Head : 01.00.54**

9. Investments

95. Under this Head, the provision is made for purchase of ready built flats for the employees of the Department.

(Non Plan)			
Year	BUDGET ESTIMATES	REVISED ESTIMATES	Actuals
2000-2001	5,00,00,000	2,50,00,000	--
2001-2002	5,00,00,000	1,00,00,000	--
2002-2003	5,00,00,000	5,00,00,000	
2003-2004	5,00,00,000		

96. Perusal of the above figures show that budget and revised estimates were made year after year for purchase of ready built flats but remained unutilised. Department of Revenue was asked to furnish the reasons for the same. Department in its written reply stated that the proposal for purchase of residential flats from Karnataka Housing Board for the employees of the Enforcement Directorate at Bangalore has been finalised and an initial payment of Rs. 1.10 crore have been made during the current financial year i.e. 2002-2003.

97. The Committee are perturbed to note that budgetary provisions for the purchase of residential flats at Bangalore were made continuously since 2000-01 only to be surrendered at the end of respective financial years. It was only in the year 2002-2003 that the proposal was finalised and an initial amount of Rs. 1.10 crore had been paid. The Committee do not appreciate this casual approach while undertaking budgetary exercise. In their view the Department should have visualised as to when the proposal was likely to be finalised and accordingly provisions should have been made.

98. The Committee now expect that due care will be taken while making allocations in future.

Demand No. 41
Department of Revenue

10. Rationalisation and simplification of tax regime

99. Rationalisation and simplification of tax regime is an ongoing process so as to widen tax base and enhance revenue collection. While presenting the first batch of supplementary demands for grants to Parliament in July, 2002, the Finance Minister had proposed setting up of two task forces to recommend measures for simplification and rationalisation of direct and indirect taxes. Accordingly, two task forces were set up in September, 2002 under the Chairmanship of Dr. Vijay L. Kelkar, Adviser to Minister of Finance and Company Affairs. The Task Force submitted their final reports to the Government in December, 2002. These Task Forces have made important recommendations on toning up tax administration to put in place a system that is simple, effective and at par, if not better, than international standards. The main recommendations on direct taxes relate to raising of exemption limit of personal income tax, rationalisation of exemptions, abolition of concessional treatment to long-term capital gains, abolition of wealth tax, etc. In respect of indirect taxes, the main recommendations relate to widening of the tax base, removal of exemptions, expansion in the coverage of service tax, etc.

100. During the oral evidence of the representatives of the Department of Revenue, in regard to measures taken to rationalise and simplify the tax regime, the Secretary (Revenue) stated as under :-

“On the Revenue side, what has been done is basically to continue the policy that has been started some time ago to rationalise the taxes, minimise the number of rates, minimise the exemptions, and also to re-orient the Department to make the Department a facilitator rather than merely a regulator. A great deal of emphasis has been laid on the reorientation of the Department to see that the tax-payers have the facility to pay taxes without any hassle, whether it is in the direct taxes or in the indirect taxes. So far as the indirect taxes are concerned, in the case of Excise, we have brought down the rates substantially to about 3 levels, that is, 8 per cent, and 24 per cent. In the case of Customs Duty, we have increased it from 5 per cent to 25 per cent. There are 5 rates that we have other than for agricultural and dairy products. In the case of direct taxes, the slabs have remained as they were announced in 1996. Some small changes have been made to give some relief to some selected categories of people, whether it is the salaried class people or the senior citizens. In the case of the corporation tax, the accent was only to see that some selected sectors get a thrust during the course

of this Budget. Wherever we have given concessions in the direct taxes for a particular sector, we also tried to see whether there should be some kind of a rationalisation in indirect taxes so that the sector grows. So, the general philosophy which has already been propounded some time ago has been continued in the current Budget.”

101. When it was pointed out that excise and customs notifications issued this year were very long and more complicated and than last year and contained a large number of exemptions and asked to provide the details of exemptions and the various rates of duties, a representative of the Department of Revenue stated as under :-

“Sir, the hon'ble Member raised a point about the customs duty slabs. There are nearly 19 slabs there. As the Finance Minister had said on the floor of Parliament that we have reduced the peak rate of tax from 30 to 25 but there are hosts of other goods of the agricultural nature, of the dairy nature, which are at a very high rates of duty including edible oil. He particularly referred to the rate of 166 per cent. This is a bound rate for liquors under the WTO regime for 2003. So, from 181 per cent which was last year, we had to come down to 166 per cent. We are not on making any concession. Whatever is our international obligation, we are keeping it to that.

Sir, it is essential to have these rates in the overall national interest. We cannot go down below to a certain number of rates because it cramps our negotiators fighting the India's case. The general approach of these developed countries has been that we would start in negotiations from not the bound rate but at the applied rate, and we have been, so far by and large, successful in saying “no, we start these negotiations from the bound rate.’ Therefore, we have to keep these rates as it is, and then come to applied rates by notification. That is why we have this whole lot of long notification to issue where we will have these applied rates which is smaller than the tariff rate because our tariff has to reflect that bound rate. Otherwise, it will be harmful to our negotiating interests.... What I am trying to say is that we have actually four to five operable. But in order to guard the interest of the country we have got to have the Parliament's sanction of a certain level of taxation which we can operate depending on what the need is. Therefore, there is necessity to issue a long notification giving the exact effective rates.... Sir, about the excise rates, the hon'ble Member said that there are 272 entries. Unfortunately or fortunately, I should say that in our scheme of taxation, we have got still a large amount of exemptions continuing. One of the principal exemption is the small-scale industry exemption. Then, there are some end-use exemptions. We are in this rationalisation of taxation trying to see that they are, as far as possible, rationalised and this can ultimately be rationalised by lowering the rates of duties.”

102. The Department of Revenue in their written note submitted to the Committee informed that the following measures are proposed to be taken by the Government for the rationalisation and simplification of direct and indirect tax regimes during 2003-2004 :-

(i) Direct Taxes

Sl. No.	Section	Provision
1.	6(6)	Proposed that a person would be “not ordinarily resident” in India in any previous year if such person is an individual who has been a non-resident in India in nine out of the ten previous years preceding that year, or has during the seven previous years preceding that year been in India for a period of seven hundred and twenty-nine days or less; or is a Hindu undivided Family whose manager has been a non-resident in India in nine out of the ten previous year preceding that year, or has during the seven previous years preceding that year been in India for a period of seven hundred and twenty nine days or less.
2.	31 (i)	Proposed that expenditure incurred on cost of repairs and current repairs shall not include any expenditure in the nature of capital expenditure.
3.	36(1)(iii)	Proposed that no deduction be allowed in respect of any interest paid for capital borrowed for acquisition of new asset, for extension of existing business or profession for the period beginning from the day on which capital was borrowed for the acquisition of the asset till the date on which such asset was first put to use.
4.	36(1)(xii)	Proposed to provide that any expenditure (not being capital expenditure) incurred by a corporation or a body corporate, constituted or established by a central, state or provincial Act for the objects and purposes authorised by the Act shall be allowed as a deduction in computing the income under the head “profits and gains of business or profession”.
5.	43(3)	Proposed to provide the exclusion of the assets “buildings or furniture and fittings” from the definition of “plan”.
6.	43B	Proposed that in case of deduction of payment made by the assessee as an employer by way of contribution to any provident fund or superannuation fund or any other fund for the welfare of the employees shall be allowed in computing the income of the year in which such sum is actually paid.
7.	43B	Proposed that the deduction under clause (e) of the section for the interest on any loan or advances from a scheduled bank (as against interest on any term loan from a scheduled

		bank earlier) in accordance with the terms and conditions governing such loan or advance shall be allowed as a deduction in computing the income of the previous year in which the sum is actually paid.
8.	45(5)	Proposed that where the compensation or consideration received is subsequently reduced by any court, tribunal or other authority, the capital gain of that year shall be re-computed accordingly.
9.	80L/80M	Deductions u/s 80L and 80M in respect of dividends proposed to be discontinued as dividends received from domestic company on or after 1 st April, 2003 are proposed to be exempt from income-tax. It is also proposed to exempt from income-tax, income from units received by a unit holder from the administrator of the specified undertaking as defined in the Unit Trust of India (Transfer of Undertaking and Repeal) Act, 2002 or a mutual fund or the specified company on or after 1 st April, 2003.
10.	88(2A)	Proposed to provide that the deduction in respect of the sums paid or deposited as premium under an insurance policy shall be available only on so much of the premium or other payment on an insurance policy as is not in excess of 20% of the actual sum assured.
11.	153A, 153B, 153C	New procedure proposed for assessment of search cases.
12.	197	Proposed to include within the scope of the said section payments of any sum to contractors and sub-contractors referred to in section 194C, any income by way of commission, or etc., on sale of lottery tickets referred to in section 194G and payment of any sum by way of fees for professional or technical services referred to in section 194 J.
13.	234D	Proposed new section to provide for charging of interest on excess refund granted at the time of summary assessment u/s 143(1).
14.	269T	Proposed that the provisions of the section shall not apply in case of repayment of any loan or deposit taken or accepted from Government, any banking company, post office savings bank or co-operative bank, any corporation established by central, state or provincial Act, any Government company, such other institutions etc., which the Central Government may notify.
15.	275(1)(a)	Proposed that where any assessment or other order is under appeal to Commissioner (Appeals), the penalty order shall be passed within one year before the end of the financial year in which the order of the Commissioner (Appeals) is received by

		the Chief Commissioner or Commissioner.
16.	285BA	Proposed that any assessee who enters into any financial transaction during the year, will furnish an annual information return in the manner and form as may be prescribed in respect of such financial transactions.

(ii) Indirect Taxes

103. In the central excise side, a 3-tier duty excise structure of 8%, 16% and 24% has been brought into effect except for petroleum products, tobacco products and textiles. Other measures announced in the budget include a package for the textiles sector with an intention to remove distortions, to encourage fresh investment in the sector, to reduce cost and make the textile sector internationally competitive. The said package includes lowering of central excise duties on yarns and fibres coupled with removal of exemptions and the completion of the CENVAT chain. Trade facilitation measures such as allowing payment of excise duty at the end of the month instead of at the end of each fortnight, date of presentation of the cheque to be taken as the date of payment of excise duty, allowing deduction of transportation cost beyond the place of removal from the assessable value on an equalised basis, etc. have also been announced in the budget 2003-2004. The additional excise duty on High Speed Diesel Oil and Petrol has been raised by 50 paise per litre. The service tax rate is being raised from 5% to 8% and the levy of service tax is being extended to 10 more services.

104. The peak rate of customs duty has been reduced from 30% to 25%. Other changes include reduction in customs duty on specified life saving drugs from 25% to 5% reduction in customs duty on specified rehabilitation aids for the handicapped to 5%, on serially numbered gold bullion and gold coins (except gold in tola bars) from Rs. 250 to Rs. 100 per 10 gms., and on specified textile machinery and their parts and on specified equipment for high voltage transmission projects from 25% to 5%. Details are available in the Finance Bill and also the Memorandum Explaining the provisions in the Finance Bill, 2003.

Interface of tax payers with tax men

105. When the Department of Revenue was asked to specify the steps taken to avoid interface of tax payers with taxmen during each of the last five years, the Department in a written reply stated as follows :-

(1) Budget 1998-99:

- i) Adjustment of loss from house property allowed against income from salary for the purpose of determining the tax deductible from salary.
- ii) Limitation of time provided for revision of orders by Commissioner of Income-tax under section 264 of the Income-tax Act.

(2) Budget 1999-2002:

The provisions contained in sections 143(1) or 143(1A) or 143(1B) modified so as to do away with prima-facie adjustments, additional tax and issue of intimation in all the cases. Filing of the return of income by itself completes the process of assessment because it limited the role of adjustments to raising of demand and issue of refund on the basis of the return filed. The provisions relating to rectification under section 154 of the Income-tax Act were accordingly amended.

(3) Budget 2000-2001 :

Though no significant measures were taken in this regard, several amendments proposed in the Finance Bill, 2000 aim at simplification of tax laws which result in reduced interaction with the taxman.

(4) Budget 2001-2002 :

- i) Requirement of a Clearance Certificate under section 230A for registration at the time of transfer of immovable property dispensed with so as to remove the hassle of the tax payers.
- ii) Time limits for issue of refunds, reassessment, rectification and re-opening of assessments reduced.
- iii) Power to withhold refunds under section 241 of the Income-tax Act, 1961 withdrawn.
- iv) Power of the Commissioner (Appeals) to set aside the assessment withdrawn.

(5) Budget 2002-2003 :

- i) Chapter XX-C dealing with the scheme of pre-emptive purchase of immovable properties abolished.
- ii) Bulk filing of returns on computer readable medium introduced for salaried tax-payers so as to expedite refunds.

106. Widening of tax base and enhancement of revenue collection would to a large extent depend on the rationalisation and simplification of tax regime. The Committee feel that rationalisation and simplification of taxes should be a continuous process. They take note of the measures proposed to be taken by the Department in 2003-2004 but realise that a lot has to be done in this regard. A plethora of exemptions in the existing laws adds to the confusion. The Committee feel that tax regime should be such that it would require minimum help from outsiders such as advocates and chartered accountants. Hence, the Committee recommend in this regard that an expert group comprising tax experts and economists should be formed under the Department of Revenue to study, analyse and recommend various reforms in tax regime.

107. As regards computerisation of various activities in the Department, the Committee hope that these will be completed shortly. This will go a long way in minimising the interface between tax payers and taxman. Hence, they want that computerisation should be completed at the earliest and progress in this regard may be reported to the Committee from time to time.

NEW DELHI;
09 April, 2003
19 Chaitra, 1925 (SAKA)

N. JANARDHANA REDDY,
Chairman,
STANDING COMMITTEE ON FINANCE

**STATEMENT OF CONCLUSIONS/RECOMMENDATIONS OF THE STANDING
COMMITTEE ON FINANCE IN THE FORTIETH REPORT (2003-2004)**

Sl. No.	Para No.	Recommendations/Conclusions
1.	10	It is a matter of deep concern to the Committee that budget estimates were not being achieved in regard to the revenue collection of Income-tax, Corporation Tax, Central Excise and Customs duty. They observe that revised reduced projections made at RE stage could be achieved only in 1999-00 in respect of Corporation Tax, Customs and Central Excise whereas Service Tax projections made at RE stage could be achieved only in 1999-2000 and 2000-2001. In spite of that, the realisations were nowhere near the Budget Estimates. In their opinion, continuous shortfall in realisations is a grave matter which calls for drastic measures. The Committee are not in agreement with the view of the department that taxes are paid voluntarily by the tax payers and additional tax mobilisation efforts are not expected to result in very substantial amount of revenue and the responsibility of the Chief Commissioners of Income Tax in the area of revenue mobilisation is limited. They are of the view that such a serious matter is being taken by the Department casually and instead of making indepth analysis of the reasons of such shortfall despite putting additional efforts the targets have become elusive. The Committee note that the Government have come forward with slew of measures in this regard like policy of minimising the exemptions, broadening the tax base and strengthening the tax administration with greater emphasis on audit. They feel if these measures are pursued with due seriousness, there is no reason why the projections made would not be achieved. The Committee may be apprised of the progress in this regard from time to time.
2.	16	The Committee note with grave concern that Tax-GDP ratio in India is very low when compared not only with developed countries but many developing countries as well. They feel that this distortion is largely due to the fact that large number of prospective tax-payers in the Country are yet to be tapped and brought under the tax net. Concerted efforts ought to be made by the Government in this regard.
3.	29,30 & 31	The Committee are shocked to learn that as on 30-12-2002 outstanding demands worth Rs. 51,090 crore were locked up in 3358 cases having outstanding demand of Rs. one crore and above. Out of this Rs. 42,652 crore was outstanding from 593 cases with outstanding demand of more than Rs. 10 crore and above. Another several thousand crores of rupees are locked up in thousands of other cases pending before various appellate bodies. However, the recoveries made by the Department have been far less and the outstanding demands have also been increasing. No serious attempt has been made by the Government to tackle this problem. The Committee express their deep anguish over this sorry state of affairs and desire that outstanding demand should be realised expeditiously. The cases pending before Supreme Court/High Courts need to be pursued and

got decided expeditiously by filing early hearing applications wherever possible.

The Committee note that creation of 82 posts of commissioner of Income Tax (Appeals) [CIT(A)] has almost doubled the number of appeals disposed of during the period of one year starting from 31.1.2002. The Committee have been informed that a monthly quota of 60 units has been fixed for disposal by CIT (Appeals). The Committee feel that the monthly quota of appeals disposed of by CIT (A)/ C(A)/CC(A) should be reviewed and a suitable higher limit should be fixed.

The Committee note that more than 90% of the cases go against the Department which happens mainly due to inaccurate assessments made by assessing officers resulting in putting infructuous and unnecessary burden on the exchequer on account of wastage of manpower, money and time. The Committee recommend that suitable action should be taken against the assessing officers who are responsible for such a situation. The Committee desire that the information regarding number of cases disposed of by various appellate bodies, amount locked in and amount realised, during each of the last five years should be furnished to them for their consideration.

4. 56 & 57

The Committee are perturbed to note that there were only 62,027 assessees, having income of more than Rs. 10 lakhs during 2001-2002. Similarly, there were 12,43,335 individual assessees with income more than Rs. 2 lakhs during 2001-2002 in the country. In this regard, the Task Force on Direct Taxes headed by V.L. Kelkar made certain recommendations such as establishment of Tax Information Network (TIN) which will enhance the probability of identification of tax evaders and help in the detection of income evaded, submission of annual information return relating to high value financial transactions. The Committee note that Government has accepted these recommendations and feel that these recommendations are of paramount importance and should be implemented forthwith. They also recommend that upgradation work of the Regional Computer Centre and National Computer Centre servers of the Income tax department for processing of voluminous data relating to high value transactions should be taken-up immediately on priority basis.

The Committee note that the Expert Group set up on Service Tax and the Task Force on indirect taxes have made some useful recommendations in regard to better administration of service tax and voluntary tax compliance such as a separate self-contained Act on service tax, eventual integration of tax on services with the Central Excise duties, administration of service tax as first e-tax of the country, collection of service tax in a comprehensive manner with the exclusion of few services. The Committee expect the Government to expedite implementation of these proposals immediately and submit action taken thereon to the Committee. In regard to administration of Service Tax as first e-tax of the Country the Committee have been informed that filing of service tax return ST-3 with online web based connectivity with assessees is going to be implemented for select services from

April, 2003. The Committee recommend that this facility should be extended to all services under the Service Tax net within a definite period of time.

5. 66 The Committee are concerned to note that despite tall claims made by the Income Tax Department, more than 2.5 lakhs valid PAN applications and 12 lakhs core-deficiency cases are pending with the department for allotment of PAN. The Committee recommend that special camps should be organised throughout the Country to have one-to-one meeting with the assesseees to resolve core-deficiencies and to allot PAN to valid applicants within 10 days from the date of filing the application.
6. 79 & 80 The Committee are deeply concerned to find that the pace of disposal of prosecution cases under FERA, 1973 is very slow and as many as 5443 prosecutions cases under Sections 56 and 57, 13489 adjudication cases, penalties worth Rs. 169352 lakhs are still pending under Foreign Exchange Regulation Act (FERA), 1973 which has already been repealed. They are pained to observe that sun-set period of 2 years was provided under FERA to decide the pending cases but Department has failed to take effective steps in this regard. Expressing their dissatisfaction over this sorry state of affairs the Committee recommend that concerted efforts should be made to get all the pending cases disposed of in a specified period. For this purpose, practicability of establishing special courts should be worked out.

 The Committee find that though FEMA came into force w.e.f. 1.6.2000 yet in a short span of one and half year i.e. by the end of 2002, 4327 investigation cases and 349 adjudication cases piled up under it. The Committee feel that the pace of disposal of cases is relatively slow and they are of the view that serious efforts should be made by the Enforcement Directorate to speed up the process of adjudication. The Committee therefore, expect the Government to take suitable expeditious steps so as to dispose of all the pending cases in a time bound manner.
7. 88 It is a matter of deep concern to the Committee that expenditure on CEGAT had gone up by about 100% whereas the number of cases disposed of by it came down by about 36% in 2001-2002 as compared to 1996-97. Vacant posts of Members has been cited as a reason for the increase in pendency. The Committee fail to understand as to why for a considerable long period these posts were allowed to lie vacant. The Committee urge upon the Government to take expeditious steps to fill up the vacancies. The Committee note with satisfaction that CEGAT had constituted Circuit Benches in a few cities for quick disposal of cases. They expect that similar benches would be constituted in other parts of the Country for the early disposal of cases in those areas.
8. 93 & 94 The Committee are deeply concerned to note that actual expenditure under this head is always higher than both the budgetary

and revised estimates. They note that the austerity and economy instructions have been issued by Department of Expenditure from time to time but have continuously been ignored which has resulted variations between RE and Actuals. The entire budgetary exercise thus goes haywire.

The Committee were further informed that additional expenditure incurred in 2001-2002 was on account of computerisation of the Department and to provide modern equipment like fax machines, photocopier machines and other infrastructural facilities. In the opinion of the Committee the expenditure on such items should have been envisaged at BE and RE stages but no efforts seem to have been made by the Government in this regard. They, therefore, desire that Department should take action in anticipation and present realistic figures as far as possible.

9. 97

The Committee are perturbed to note that budgetary provisions for the purchase of residential flats at Bangalore were made continuously since 2000-01 only to be surrendered at the end of respective financial years. It was only in the year 2002-2003 that the proposal was finalised and an initial amount of Rs. 1.10 crore had been paid. The Committee do not appreciate this casual approach while undertaking budgetary exercise. In their view the Department should have visualised as to when the proposal was likely to be finalised and accordingly provisions should have been made.

The Committee now expect that due care will be taken while making allocations in future.

10. 106 & 107

Widening of tax base and enhancement of revenue collection would to a large extent depend on the rationalisation and simplification of tax regime. The Committee feel that rationalisation and simplification of taxes should be a continuous process. They take note of the measures proposed to be taken by the Department in 2003-2004 but realise that a lot has to be done in this regard. A plethora of exemptions in the existing laws adds to the confusion. The Committee feel that tax regime should be such that it would require minimum help from outsiders such as advocates and chartered accountants. Hence, the Committee recommend in this regard that an expert group comprising tax experts and economists should be formed under the Department of Revenue to study, analyse and recommend various reforms in tax regime.

As regards computerisation of various activities in the Department, the Committee hope that these will be completed shortly. This will go a long way in minimising the interface between tax payers and taxman. Hence, they want that computerisation should be completed at the earliest and progress in this regard may be reported to the Committee from time to time.

MINUTES OF THE EIGHTH SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Tuesday, 25 March, 2003 from 1100 to 1430 hours and 1500 to 1630 hours to hold the oral evidence of the representatives of Department of Revenue and Department of Company Affairs, respectively.

PRESENT

Shri. N. Janardhana Reddy – Chairman

MEMBERS

LOK SABHA

2. Shri Raashid Alvi
3. Shri Ramesh Chennithala
4. Shri Trilochan Kanungo
5. Shri Rattan Lal Kataria
6. Dr. C. Krishnan
7. Shri M.V.V.S. Murthi
8. Shri Sudarsana E.M. Natchiappan
9. Capt. Jai Narain Prasad Nishad
10. Shri Rupchand Pal
11. Shri Prabodh Panda
12. Shri Prakash Paranjpe
13. Shri Raj Narain Passi
14. Shri Pravin Rashtrapal
15. Shri Ramsinh Rathwa
16. Shri Chada Suresh Reddy
17. Shri T.M. Selvaganapathi
18. Shri Lakshman Seth
19. Shri Kirit Somaiya
20. Shri Kharabela Swain

RAJYA SABHA

21. Dr. Manmohan Singh
22. Dr. T. Subbarami Reddy
23. Shri Prithviraj Chavan
24. Shri S.S. Ahluwalia
25. Shri M. Rajasekara Murthy
26. Dr. Biplab Dasgupta
27. Shri Amar Singh
28. Shri Palden Tsering Gyamtso

SECRETARIAT

- | | | | |
|----|--------------------|---|----------------------|
| 1. | Shri P.D.T. Achary | - | Additional Secretary |
| 2. | Shri R.K. Jain | - | Deputy Secretary |
| 3. | Shri S.B. Arora | - | Under Secretary |

WITNESSES

Part I

Department of Revenue

At 1100 hours

1. Shri C.S. Rao, Revenue Secretary
2. Shri M.K. Zutshi, Chairman CBEC
3. Shri P.K. Sarma, Chairman CBDT
4. Shri M.K. Singh, DG & Special Secretary (NCB)
5. Shri Anupam Dasgupta, Additional Secretary (Revenue)
6. Shri A.K. Singh, Member (CX) CBEC
7. Shri Mahendra Prasad, Member (L&J) CBEC
8. Shri S.K. Mishra, Member (Customs) CBEC
9. Dr. U.K. Sen, Member (Personnel) CBEC
10. Shri M.G. Venugopalan, Member (Anti smuggling and Service Tax) CBEC
11. Smt. Vijay Zutshi, DGICCE, CBEC
12. Shri A.S. Sidhu, DGCEI, CBEC
13. Shri J.N. Nigam, DG (Audit), CBEC
14. Shri Dalbir Singh, DG (Systems), CBEC
15. Shri Siddharth Kak, DG (Vigilance), CBEC
16. Shri R.N. Das, Director of Enforcement
17. Shri B. Swarup, Member (IT & Inv.) CBDT
18. Shri P.L. Singh, Member (P & R) CBDT
19. Shri Pradip Saxena, Member (J&L) CBDT
20. Shri Prashant Mehta, Joint Secretary (Revenue)
21. Shri P.J. Vincent, Financial Adviser (Finance)
22. Shri S.S. Bajpai, Special Director of Enforcement
23. Shri Saurabh Chandra, Joint Secretary (Admn), CBEC
24. Shri Gautam Ray, Joint Secretary (TRU), CBEC
25. Shri Lakhinder Singh, Joint Secretary (Legal), CBEC
26. Shri P.C. Jha, Joint Secretary (Customs), CBEC
27. Shri S.S. Renjhen, Joint Secretary (DBK), CBEC
28. Shri M.D. Singh, ADG (Vigilance), CBEC
29. Shri K.K. Sharma, ADG (DRI) CBEC
30. Shri G.C. Srivastava, Joint Secretary (FT & TR) CBDT
31. Shri A.J. Majumdar, Joint Secretary (TPL I) CBDT
32. Shri D.P. Sengupta, Joint Secretary (TPL II) CBDT
33. Smt. S. Srivastava, Joint Secretary (Admn) CBDT
34. Shri A.P. Kala, DDG & JS (NCB)
35. Shri Rajiv Walia, DDG & JS (NCB)

2. At the outset, the Chairman welcomed the representatives of Ministry of Finance & Company Affairs (Department of Revenue) to the sitting of the Committee and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

3. The Committee then took oral evidence of the representatives of Ministry of Finance & Company Affairs (Deptt. of Revenue) on Demands for

Grants (2003-2004) of the Ministry of Finance & Company Affairs (Deptt. of Revenue) and other related matters.

4. The Chairman requested the representatives of Ministry of Finance & Company Affairs (Deptt. of Revenue) to furnish notes on certain points raised by the Members to which replies were not readily available with them during the discussion.

5. The evidence was concluded.

6. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

Part II

Department of Company Affairs

at 1500 hours

XX	XX	XX	XX
XX	XX	XX	XX

(The Committee then adjourned)

MINUTES OF THE TENTH SITTING OF STANDING COMMITTEE ON FINANCE

The Committee sat on Wednesday, 09 April, 2003 from 1500 to 1550 hours.

PRESENT

Shri. N. Janardhana Reddy – Chairman

MEMBERS

LOK SABHA

2. Shri Ramesh Chennithala
3. Shri Trilochan Kanungo
4. Shri Rattan Lal Kataria
5. Shri Sudarsana E.M. Natchiappan
6. Shri Rupchand Pal
7. Shri Prabodh Panda
8. Shri Ramsinh Rathwa
9. Shri T.M. Selvaganapathi
10. Shri Lakshman Seth
11. Shri Kirit Somaiya
12. Shri Kharbela Swain

RAJYA SABHA

13. Dr. Manmohan Singh
14. Shri Prithviraj Chavan
15. Shri Swaraj Kaushal
16. Shri Praful Patel
17. Shri Dinesh Trivedi

SECRETARIAT

- | | | |
|---------------------------|---|----------------------|
| 1. Shri P.D.T. Achary | - | Additional Secretary |
| 2. Dr. (Smt.) P.K. Sandhu | - | Joint Secretary |
| 3. Shri R.K. Jain | - | Deputy Secretary |
| 4. Shri S.B. Arora | - | Under Secretary |

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee. The Chairman also welcomed Shri Swaraj Kaushal on his nomination as a member of the Committee.

3. The Committee first took up for consideration the draft report on the Demands for Grants (2003-2004) of Ministry of Finance & Company Affairs (Department of Revenue) and decided to delete the entire item No. 11 – Tax-

breaks (Para Nos. 108-117). The Committee then adopted the draft report on Department of Revenue.

- | | | | | |
|----|----------|----------|----------|-----------|
| 4. | XX
XX | XX
XX | XX
XX | XX.
XX |
| 5. | XX
XX | XX
XX | XX
XX | XX
XX |
| 6. | XX
XX | XX
XX | XX
XX | XX
XX |
| 7. | XX
XX | XX
XX | XX
XX | XX
XX |
| 8. | XX
XX | XX
XX | XX
XX | XX
XX |

9. The Committee authorised the Chairman to finalise the Reports in the light of modifications as also to make verbal and other consequential changes arising out of the factual verification and present the same to both the Houses of Parliament.

The Committee then adjourned.