11

STANDING COMMITTEE ON FINANCE
(2014-15)

SIXTEENTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

DEMANDS FOR GRANTS
(2015-16)

ELEVENTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

April, 2015 / Vaisakha, 1937 (Saka)

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(2014-2015)

(SIXTEENTH LOK SABHA)

MINISTRY OF FINANCE
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DEMANDS FOR GRANTS

(2015-16)

Presented to Lok Sabha on 24 April, 2015

Laid in Rajya Sabha on 24 April, 2015

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

April, 2015/ Vaisakha, 1937 (Saka)

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Dr. M. Veerappa Moily - Chairperson

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3. Shri Venkatesh Babu T.G.
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SECRETARIAT

1.	Shri P.C. Koul	-	Director
2.	Shri Ramkumar Suryanarayanan	-	Additional Director
3.	Shri Kulmohan Singh Arora	-	Deputy Secretary

*** Nominated w.e.f. 24.02.2015 vide Bulletin Part - II dated 24.02.2015 against the vacancy caused due to induction of Shri Jayant Sinha, MP to the Union Council of Ministers w.e.f 09.11.2014.**

** **Nominated w.e.f. 08.01.2015 vide Bulletin Part - II dated 12.01.2015 against the vacancy caused by retirement of Shri Brajesh Pathak, MP from Rajya Sabha.**

INTRODUCTION

I, the Chairperson of the Committee on Finance, having been authorised by the Committee, present this Eleventh Report (Sixteenth Lok Sabha) on 'Demands for Grants (2015-16)' of the Ministry of Finance (Department of Revenue).

2. The Demands for Grants (2015-16) of the Ministry of Finance (Department of Revenue) were laid on the Table of the House on 13 March, 2015 under Rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha.

3. The Committee took oral evidence of the representatives of the Ministry of Finance (Department of Revenue) on 30 March, 2015. The Committee wish to express their thanks to the representatives of the Department of Revenue for appearing before the Committee and furnishing the material and information which the Committee desired in connection with the examination of the Demands for Grants (2015-16).

4. The Committee considered and adopted this Report at their Sitting held on 16 April, 2015.

5. For facility of reference, the Observations / Recommendations of the Committee have been printed in bold at the end of the Report.

New Delhi;
16 April, 2015
26 Chaitra, 1937 (Saka)

DR. M. VEERAPPA MOILY,
Chairperson,
Committee on Finance.

REPORT

PART – I

Background Analysis

I. INTRODUCTORY

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

1. 2 The Department of Revenue administers the following Acts: -

i. Income Tax Act, 1961;
ii. Wealth Tax Act, 1957;
iii. Expenditure Tax Act, 1987;
iv. Benami Transactions (Prohibition) Act, 1988;
v. Super Profits Act, 1963;
vi. Companies (Profits) Sur-tax Act, 1964;
vii. Compulsory Deposit (Income Tax Payers)
Scheme Act, 1974;
viii. Chapter VII of Finance (No.2) Act, 2004
(Relating to Levy of Securities Transactions Tax)
ix. Chapter VII of Finance Act 2005 (Relating to Banking Cash Transaction Tax)
x. Chapter V of Finance Act, 1994 (relating to Service Tax)
xi. Central Excise Act, 1944 and related matters;

xii. Customs Act, 1962 and related matters;

xiii. Medicinal and Toilet Preparations (Excise Duties) Act, 1955;

xiv. Central Sales Tax Act, 1956;

xv. Narcotic Drugs and Psychotropic Substances Act, 1985;

xvi. Prevention of Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act, 1988;

xvii. Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976;

xviii. Indian Stamp Act, 1899 (to the extent falling within jurisdiction of the Union);

xix. Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974; and,

xx. Prevention of Money Laundering Act, 2002.

1.3 The administration of the Acts mentioned at Sl. Nos. iii, v, vi and vii is limited to the cases pertaining to the period when these laws were in force. The Prevention of Money Laundering (Amendment) Bill, 2012 has been passed by both the Hoses of Parliament and the same has also received assent of the President.

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

i. Commissionerates/Directorates under Central Board of Excise and Customs;

ii. Commissionerates/Directorates under Central Board of Direct Taxes;

iii. Central Economic Intelligence Bureau;

iv. Directorate of Enforcement;

v. Central Bureau of Narcotics;

vi. Chief Controller of Factories;

vii. Appellate Tribunal for Forfeited Property;

viii. Income Tax Settlement Commission;

ix. Customs and Central Excise Settlement Commission;

x. Customs, Excise and Service Tax Appellate Tribunal;

xi. Authority for Advance Rulings for Income Tax;

xii. Authority for Advance Rulings for Customs and Central Excise;

xiii. National Committee for Promotion of Social and Economic Welfare; and

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

xv. Financial Intelligence Unit, India (FIU-IND);

xvi. Income Tax Ombudsman;

xvii. Appellate Tribunal under Prevention of Money Laundering Act; and

xviii. Adjudicating Authority under Prevention of Money Laundering Act.

II. BUDGETARY ALLOCATIONS AND UTILISATION

2.1 The detailed Demands for Grants (2015-16) of the Ministry of Finance were presented to Lok Sabha on 13 March, 2015. The details of the Revenue Section and Capital Section of the Demands for Department of Revenue, Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC) for the year 2015-16 are as follows :-

(Rs. in crore)

Sl. No.	No. and Name of Demand	Revenue voted	Capital voted	Total
1.	43 - Department of Revenue	16081.69	106.00	**16187.69**
2.	44 - Direct Taxes	4,832.36	576.20	**5,408.56**
3.	45 - Indirect Taxes	5,001.49	663.61	**5,665.10**

2.2. Summary of Budgetary Provisions under Demand Nos. 43, 44 and 45 for 2013-14, 2014-15 and 2015-16 is as under :

DEMAND NO. 43
DEPARTMENT OF REVENUE

Description	Actuals 2013-14			Budget Estimates 2014-15			Revised Estimates 2014-15			Budget Estimates 2015-16		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
Total-Revenue Section	**..**	**2607.11**	**2607.11**	**..**	**726.90**	**726.90**	**..**	**11759.92**	**11759.92**	**..**	**16081.69**	**16081.69**
Charged	..	26.45	26.45	..	0.02	0.02	..	**0.02**	**0.02**	..	0.02	0.02
Voted	..	2580.66	2580.66	..	726.88	726.88	..	11759.90	11759.90	..	16081.67	16081.67
Total-Capital Section	**..**	**13.01**	**13.01**	**..**	**106.01**	**106.01**	**..**	**50.87**	**50.87**	**..**	**106.00**	**106.00**
Charged	..	..	..	..	..	..	..	..	..	..	..	..
Voted	..	13.01	13.01	..	106.01	106.01	..	50.87	50.87	..	106.00	106.00
Total (Revenue & Capital)	**..**	**2620.12**	**2620.12**	**..**	**832.91**	**832.91**	**..**	**11810.79**	**11810.79**	**..**	**16187.69**	**16187.69**
Charged	..	**26.45**	**26.45**	..	**0.02**	**0.02**	..	**0.02**	**0.02**	..	**0.02**	**0.02**
Voted	..	2593.67	2593.67	..	832.89	832.89	..	11810.77	11810.77	..	16187.67	16187.67

Demand No. 43 - **Department of Revenue** :- Under Department of Revenue, major expenditure is towards CST Compensation to the State Governments/Union Territories, which is budgeted at Rs.15,028 crore. The VAT related expenditure is budgeted at Rs. 9.40 crore for 2015-16. The expenditure on Government Opium & Alkaloid Works is budgeted at Rs. 350.17 crore. The other non-Plan expenditure included in the Outcome Budget is expenditure related to setting up of Tax Information Exchange System (TINXSYS) and Special Purpose Vehicle for Goods and Services Tax Network (GSTN). Government decided to set up a Special Purpose Vehicle (SPV) for Goods and Service Tax Network (GSTN) to create enabling environment for smooth introduction of GST. It would provide IT infrastructure and services to various stakeholders, including the Centre and States. SPV has already been set up as a Section 25 Company. A budget provision of Rs.292 crore has been kept in 2015-16 for GSTN: SPV. Government Opium & Alkaloid Works at Ghazipur and Neemuch are processing raw opium for exports, manufacturing of opium alkaloids and other related functions. They realized revenue of Rs. 347.55 crore in 2013-14 against the RE of Rs. 316.47 crore. In 2014-15, they have realized a revenue of Rs. 208.80 crore (prov.) against the RE of Rs. 287.82 crore. The Government has approved construction of Rajaswa Bhawan at New Delhi at an estimated cost of Rs.485.16 crore. A provision of Rs.100 crore has been kept for the purpose in 2015-16.

DEMAND NO. 44
DIRECT TAXES

Description	Actuals 2013-14			Budget Estimates 2014-15			Revised Estimates 2014-15			Budget Estimates 2015-16		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
Total-Revenue Section	**..**	**3635.28**	**3635.28**	**..**	**4342.89**	**4342.89**	**..**	**4178.97**	**4178.97**	**..**	**4832.36**	**4832.36**
Charged	..	..	..	..	..	..	..	..	..	..	..	..
Voted	..	3635.28	3635.28	..	4342.89	4342.89	..	4178.97	4178.97	..	4832.36	4832.36
Total-Capital Section	**..**	**446.00**	**446.00**	**..**	**752.00**	**752.00**	**..**	**150.00**	**150.00**	**..**	**576.20**	**576.20**
Charged	..	..	..	..	..	..	..	..	..	..	..	..
Voted	..	446.00	446.00	..	752.00	752.00	..	150.00	150.00	..	576.20	576.20
Total (Revenue & Capital)	**..**	**4081.28**	**4081.28**	**..**	**5094.89**	**5094.89**	**..**	**4328.97**	**4328.97**	**..**	**5408.56**	**5408.56**
Charged	..	..	..	..	..	..	..	..	..	..	..	..
Voted	..	4081.28	4081.28	..	5094.89	5094.89	..	4328.97	4328.97	..	5408.56	5408.56

Demand No. 44 - **Direct Taxes -** An outlay of Rs. 525.00 crore has been provided in Budget, Estimates 2015-16 under 'Information Technology' to be spent, inter-alia, on following major programmes/schemes: Perspective Plan for Phase -III of Comprehensive Computerization Programme in the Income Tax Department. System Integration - All India Tax network - Hiring of Data Centers - Physical Storage of arrear Pan forms of period 2003-09. - Scanning of arrear Pan forms of period 2003-09, Tax Information Network (TIN), Taxpayers Services, Aaykar Sampark Kendras, E-filing of ITRs, E-Payment of taxes, On-line tracking of refunds, Refund Banker, Centralised processing Cell (CPC) TDS - (Both paper based & e-filed) Centralized Processing Centre (CPC) Bangalore, Data Warehouse and Business Intelligence (DW&B) Solution Compliance Management (CPC), New ITD Application. An outlay of Rs. 323.72 crore has been provided under Capital, Section in BE 2015-16 for purchase/construction of office accommodation at various places including Upgradation of Ayakar Bhawan, Basheerbagh, Hyderabad, Construction of office building at Bangalore and Renovation of Takshila Hostel and new Lawn Tennis Court at NADT, Nagpur. An outlay of Rs. 250.48 crore has been provided under Capital, section in BE 2015-16 for construction of 6 type -VI quarters at Chandigarh;, Construction of residential complex along with community hall, guest house etc. at Hadapsar, Pune; Renovation of staff quarters at Krishna Nagar, Pune; Construction of Residential quarters at Chennai and Type-V & Vl quarters at Telibandha. The initiatives and measures undertaken by the Department, has focused on simplification of tax laws & procedures, better facilities to taxpayers and minimizing the human interface between the taxpayers and the officials. These, inter alia, include facilities for online preparation & filing of Income Tax Returns, centralized processing of returns, Refund Banker scheme which includes direct credit of refunds to taxpayer's account through ECS, e-payment of taxes, on line tracking of refunds, Tax Returns Preparer scheme (TRPS), setting up of 272 Aaykar Sewa Kendras for single window Tax Payer Services, Aaykar Sampark Kendras (One National Call Centre and four Regional call centres) etc. Also a "Sevottam" scheme with the view to bring in excellence in public service delivery based on a newly rewritten Citizens' Charter, has been initiated. The actual expenditure in 2013-14 under this grant was Rs. 4,081.28 crore against the Revised Estimates of Rs. 4,179.54 crore which shows an utilization of 98.99%. In FY 2014-15, actual expenditure till December 31, 2014 (provisional) stands at Rs. 3,195.65 crore against the Revised Estimates of Rs. 4,326.97 crore which shows an utilization of 73.85%.

DEMAND NO. 45
INDIRECT TAXES

Description	Actuals 2013-14			Budget Estimates 2014-15			Revised Estimates 2014-15			Budget Estimates 2015-16		
	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total	Plan	Non-Plan	Total
Total-Revenue Section	**..**	**3731.57**	**3731.57**	**..**	**4884.52**	**4884.52**	**..**	**4321.00**	**4321.00**	**..**	**5001.49**	**5001.49**
Charged	..	0.19	0.19	..	0.50	0.50	..	0.50	0.50	..	0.50	0.50
Voted	..	3731.38	3731.38	..	4884.02	4884.02	..	4320.50	4320.50	..	5000.99	5000.99
Total-Capital Section	**..**	**22.30**	**22.30**	**..**	**271.31**	**271.31**	**..**	**150.00**	**150.00**	**..**	**663.61**	**663.61**
Charged	..	..	..	..	..	..	..	..	..	..	..	..
Voted	..	22.30	22.30	..	271.31	271.31	..	150.00	150.00	..	663.61	663.61
Total (Revenue & Capital)	**..**	**3753.87**	**3753.87**	**..**	**5155.83**	**5155.83**	**..**	**4471.00**	**4471.00**	**..**	**5665.10**	**5665.10**
Charged	..	0.19	0.19	..	0.50	0.50	..	0.50	0.50	..	0.50	0.50
Voted	..	3753.68	3753.68	..	5155.33	5155.33	..	4470.50	4470.50	..	5664.60	5664.60

Demand No. 45-Indirect Taxes - This Demand relates to the establishment of field formations under the Central Board of Excise and Customs, formulation of policy relating to levy and collection of Customs and Excise Duties, Service Tax, prevention of smuggling and evasion of duties. Key activities are mentioned below:- A project to consolidate CBEC's IT infrastructure at a cost of Rs. 598.97 crore was approved by the CCEA in 2007. It comprised of 7 components such as Wide Area Network (WAN, Local Area Network, linking all the offices, seaports, airports, container depots etc., setting up of data warehouse (EDW), Automation of Central Excise and Service Tax (ACES), System Integration (SI), setting up Risk Management System for easy clearance of imports etc. was taken up. Contracts for the implementation of various components of Project were awarded to the selected vendors through an open tender. All the activities under the IT consolidation project have been implemented and are in support/maintenance phase. The project has been extended upto 2016 with augmented IT infrastructure and technical support at a total cost of about Rs.170 crore. The Risk Management system (RMS) is operational in all, major Customs Ports/Airports covering more than 95% of India's international trade. A new upgraded version of RMS Import Module is operation at 89 locations. RMS Export Module is also in operation at 89 locations. Procurement of 7 more Container Scanners (3 Mobile, Gamma Ray Scanners and 4 Fixed X-ray Scanners) for facilitating cargo clearance is underway. Mobile and Fixed Scanners are expected to be commissioned in 2014-15. 109 Marine Vessels for strengthening anti-smuggling operations in the territorial waters have been procured. A total provision of Rs. 263.61 crore has been made for the year 2015-16. Rs. 27.42 crore, Rs. 99.88 crore, Rs. 78.64 crore, Rs. 33.20 crore, Rs. 46.52 crore, Rs. 5.45 crore and Rs.14.80 crore have been spent for the years 2007-08, 2008-09 , 2009-10, 2010-11, 2011-12, 2012-13 and 2013-14 respectively under these schemes. During 2014-15, Rs.6.04 crore have been spent up to December, 2014. Single Window Service for Large Tax Payers paying excise, duty, income tax/corporate tax and service tax has been set up at Bengaluru, Chennai, Mumbai and Delhi. Any person or company who has paid income tax/corporate tax of more than Rs.10 crore or excise duty of Rs. 5 crore or service tax of Rs. 5 crore during any previous year can opt to function as large taxpayer by giving consent to the concerned Large Taxpayer Unit. In pursuance to Department of Expenditure's guidelines/instructions on expenditure management permitting revenue generating departments to prepare scheme to utilize 1% of incremental revenue to encourage greater efforts at garnering revenue, enhancing organizational efficiency, infrastructure and wherewithal, CBEC has sanctioned/allocated Rs.191.42 crore for various purposes such as Capacity building/improvement of infrastructure in Central Excise and Customs Ranges, hiring of vehicles for increasing organizational efficiency and outdoor preventive activities etc.

III. Under utilisation of allocated funds

With a view to anaylse the financial performance of the Department, the Committee desire to know about the surrender of funds in respect of Demands Nos. 43, 44 and 45 for the last three years. The Department of Revenue in their written reply furnished the following information in this context :

Demand No.43

(Rs. in crore)

Year	Amount Surrendered	Remarks
2011-12	8096.39	This mainly includes Rs.7827.42 crore under CST Compensation to the States, Rs.184.18 crore under VAT Compensation to States and Rs.103.64 crore under Grants to States for VAT related expenditure.
2012-13	366.17	This mainly includes Rs.300 crore under CST Compensation to the States, Rs.11.33 crore under Grants to States for VAT Compensation, Rs.15.93 crore under VAT related expenditure, Rs.14.23 crore under Income Tax Overseas Units, Rs.8.58 crore under Enforcement Directorate and Rs.4.13 crore under Tax Information Exchange System.
2013-14	7611.91	This mainly includes Rs.7369.49 crore under CST Compensation to the States, Rs.87 crore under construction of Rajaswa Bhawan, Rs.97.22 crore under GSTN:SPV and Rs.10 crore under Grants to States for VAT related expenditure.

Demand No.44

(Rs. in crore)

Year	Amount Surrendered	Remarks
2011-12	644.86	The saving was due to non-finalization/non-clearance of some proposals for purchase of properties.
2012-13	375.97	The saving was due to postponing the payment of Rs.300 crore to MCD pertaining to Civic Centre and due to less scope for expenditure and non-finalization of some proposals for purchase/construction of residential properties.
2013-14	238.89	The saving was due to less number of medical claims, foreign visits, training programmes and less purchase of computers etc. There were also savings due to non-finalization of some proposals for purchase of properties and less acquisition of immovable properties.

Demand No.45

(Rs. in crore)

Year	Amount Surrendered	Remarks
2011-12	95.81	The saving was due to (i) non-fulfillment of the contractual obligations by the boat suppliers, delay in finalization of the agreement for purchase of four X-Ray container scanners; and (ii) non-settlement of issue of stamp duty to MCD and the conversion of leasehold to freehold in case of purchase of office building of NBCC Plaza, Saket, UTI building at Mumbai and non-finalization of the proposal for purchase of office accommodation at Guwahati and purchase of other residential accommodation.
2012-13	111.06	The saving was mainly due to (i) non-finalization of the technical specifications of boats by the boat supplier and delay in import of 18 Gamma ray scanners and two X-ray scanners; and (ii) non-finalization of issues regarding payment of stamp duty on registration and conversion of leasehold to freehold and non-materialization of proposal of office accommodation/ residential accommodation.
2013-14	146.57	The saving was due to (i) non-payment of different category of vessels and non-procurement of spare parts; and (ii) non-commissioning of projects of container scanner by March 2014.

On being asked about the steps taken or proposed for improvement in the utilisation of funds, the Department in their written reply stated that as regards Demand No.43, it is stated that most of the surrenders in the previous years were on account of non-utilization of the provision meant for Compensation to the States for phasing out of CST/introduction of VAT. The large amount was surrendered as no decision could be taken about providing CST Compensation to the States beyond 2010-11 and VAT Compensation claims of all the States were settled. As the matter for providing CST Compensation to the States for the period beyond 2010-11 was still under consideration of the Government, only a token provision of Rs.0.01 crore was kept in BE 2014-15, to avoid large surrender of funds at the close of the financial year. Further, to avoid recurrence of such instances in future, it has been decided to include only such provision in the Demand as is likely to be fully utilized. As regards surrender of funds Demand Nos. 44 & 45, it is submitted that the same were primarily under the 'Capital Section' on account of various reasons as informed to the Standing Committee on Finance. It is stated that all the proposals of procurement of properties require coordination with different authorities i.e. land owing agencies, PWD, State Government, Municipal authorities etc. Therefore, some of such proposal did not materialize or get delayed. The funds for procurement of equipment/vessels could not be utilized due to non-fulfillment of contractual agreement or late delivery, etc. Therefore, the savings were on account of various reasons that are beyond the control of Government. Moreover, these savings were already taken into account while finalizing the Revised Estimates for the relevant years. However, various Budgetary Authorities are being advised separately so that allocated funds are utilized properly. However, for efficient monitoring and utilization of funds, CBDT has published **Expenditure Manual** in the F.Y 2013-14. The record of the Directorate of Expenditure Budget has also been digitalized to have effective utilization/monitoring of the funds. An "expenditure module" is also proposed to be incorporated in HRMS/ITBA project in future. The field formations have been sensitized for effective monitoring and utilization of funds by way of personal meetings and presentations. In next financial year 2015-16, it is proposed to sensitize various field stations by making presentation before DDOs and concerned officers so that expenditure should be utilized to the maximum in accordance with relevant rules.

CST Compensation to States

The major portion of budget provision under Demand No.43 – Department of Revenue is for providing CST Compensation to the States beyond 2010-11. A provision of Rs.15,028 crore has been kept for 2015-16.

When asked about the mechanism of CST Compensation devised for distribution of the same to the States, the Department in their written reply stated that All the States have been requested to furnish their Central Sales Tax (CST) claim for 2011-12 and 2012-13 vide letter dated 8.12.2014 so as to calculate the actual CST compensation amount to be paid to the States/UT's as per recommendation made by the Empowered Committee of State Finance Ministers (EC) in its Bhubaneswar meeting held on 28 - 29th January, 2013. The EC had recommended that the States/UTs be paid 100% of the CST compensation payable as per guidelines dates 22nd August, 2008 for the year 2010-11, 75% for the year 2011-12 and 50% for the year 2012-13. In their meeting held on 17th March, 2015, Cabinet has approved the proposal for payment of CST compensation as recommended by EC. The amount of CST compensation payable for 2010-11 is being released in the current financial year, while that payable for 2011-12 and 2012-13 would be paid to the States in phases in FY 2015-16 and FY 2016-17 respectively. The provision of fund made in BE 2015-16 would be utilized accordingly towards payment of Central Sales Tax compensation of the State/UT's. The Hon'ble FM has informed the aforesaid position about CST compensation to the States/UTs during his meetings with the State Finance Ministers held on 11th December, 2014 and 20th March, 2015 and the same has been agreed to by the States/UTs.

<u>Goods and Services Tax Network (GSTN)</u>

Under Demand No.43, a budget provision of Rs. 292 crore has been kept in 2015-16 for the Special Purpose Vehicle (SPV) for Goods & Services Tax Network (GSTN) to create an enabling environment for smooth introduction of GST. Out of the budget provision of Rs.100 crore kept for GSTN in 2014-15, Rs. 20 crore has been utilized. The balance amount of Rs. 80 crore has been surrendered for use on other items.

Apart from examining the Demands for grants (2015-16) the Committee have examined the following issues in the succeeding paragraphs of the Report.

1. **Tax Base**

(i) Tax collection slab-wise;

(ii) Tax collected under various heads;

(iii) Tax collected from TDS, Advance Tax, Self-assessment and regular assessment;

(iv) New Assessees Added;

(v) Expansion of tax base;

(vi) Use of information technology and banking platform for expansion of tax base;

2. **Tax Collection and targets**

3. **Tax Buoyancy**

4. **Tax Refunds and interest thereon**

5. **Tax Arrears**

6. **Tax Litigation**

7. **Measures initiated to reduce tax litigation**

8. **Revenue Foregone**

9. **Direct Taxes Code (DTC)**

10. **Tax Administrative Reforms Commission (TARC)**

11. **Searches, Seizures and Surveys**

12. **Redeployment and Rationalization of Manpower**

(i) <u>Tax collection slab-wise</u>

On the issue of tax collected slab-wise, the Department *vide* their written reply have stated that the desired information for the A.Y. 2013-14 & 2014-15, as extracted from the database of this Directorate, is as under :-

A.Y. 2013-14

(Rs. in Crores)

Slabs of Returned Income	No. of assessees	% of the Total assesses falling under this slab	Total Prepaid Taxes Claimed (ADV+ SLF+ TDS+ TCS)
Upto 5 lakh	2,85,41,229	83.67%	63,343.73
5 to 10 lakh	36,98,802	10.84%	30,028.74
10 to 20 lakh	12,27,990	3.60%	34,134.67
20 lakh to 1 crore	5,59,040	1.64%	59,800.44
Above 1 crore	83,516	0.24%	3,22,081.69
Total	3,41,10,577	100%	5,09,389.26

A.Y. 2014-15

(Rs. in Crores)

Slabs of Returned Income	No. of assessees	% of the Total assesses falling under this slab	Total Prepaid Taxes Claimed (ADV+ SLF+ TDS+ TCS)
Upto 5 lakh	1,97,59,500	76.84%	71,471.42
5 to 10 lakh	39,30,521	15.28%	31,435.31
10 to 20 lakh	13,18,060	5.13%	36,586.59
20 lakh to 1 crore	6,25,163	2.43%	66,539.91
Above 1 crore	83,352	0.32%	3,44,800.56
Total	2,57,16,596	100%	5,50,833.78

Note: Belated Returns of income for A.Y. 2013-14 & 2014-15 can still be filed upto 31.03.2015 & 31.03.2016 respectively.

On the issue of decrease in number of assessees in 2014-15 vis-a-vis 2013-14, the Chairman, CBDT during the course of oral evidence stated as under :

" First issue was regarding the decrease in tax payer number at page 14 and 15. We have given data for the returns receipt for the assessment year 2013-14 and assessment year 2014-15. From those figures, it appears that there is a sharp decline. But that is because, for 2013-14 and 2014-15, the returns could also be filed. Like for 2013-14. the returns can come till 31st March this year and 2014-15, the returns can come till 31st March next year. So, if you see the decline is primarily in the returns below the five lakh category, these are the taxpayers for 2013-14, if they wanted to file without paying the penalty, they would have filed the return till last year. Now, if they file the return that will be with the penalty liability accruing them. But for 2014-15, they have time till 31st March to file their returns without paying any penalty and this data which we have given you is up to the 3rd week of March. Last week of March is where we get large number of returns from the small tax payers. So, that is one reason.

Second is small taxpayers earning income below five lakh can file manual returns. Manual returns get digitized over a period of time. Once those figures get added to this, I can assure this House that there is not going to be any decline as far as the number of tax payers is concerned".

(ii) <u>Tax collected under various heads</u>

Regarding tax collected under various heads, the Department of Revenue stated that CBDT does not maintain data of direct taxes collection on the basis of taxes collected from the various sources/heads of income like Salaries, Income from Business & Profession, Income from House Property, etc.

Data of direct tax collection with respect to major heads, viz. Corporate tax, Wealth tax and Securities Transaction tax for last three years is as per the table below :

(Rs. in crore)

Financial Year	Corporate Tax	Wealth Tax	Securities Transaction Tax
2011-12	322816	787	5656
2012-13	356326	845	4997
2013-14	394677	1007	5017

Note: - Gift tax has been abolished w.e.f. 01.10.1998.

Dividend Distribution Tax is reported under the major head Corporate Tax. However, out of the total Corporate taxes collected, the contribution of Dividend Distribution Tax for past three years is as under :

(Rs. in crore)

Financial Year	Dividend Distribution Tax
2011-12	17076
2012-13	21639
2013-14	26674

When asked as to why data regarding tax collected from various heads of income is not being maintained, the Chairperson, CBDT during the course of oral evidence deposed as under :

> "We have said we do not have data on taxes on salary, on business income and professional income. This House has expressed the concern that why we do not maintain that data. The issue here is the data being asked for is the tax on that income. We have data on how much income somebody is declared from salary, from profession, from business etc. But when you see the computation of income, you have income from salary or you have income from profession, somebody has rental income. So, in one return, he can have a salary income, he can have rental income and he can income from other sources. Once that total income is aggregated, then we give deduction up to one lakh fifty thousand, he can claim for certain investments. He has some insurance premium paid, he has the various other deductions and exemptions which we allow. So, how much of deduction now is from the rental income, from salary and from other sources, it cannot be bifurcated. That is why, we are not in a position to give you data.
>
> If you have income from salary, I have income of ten lakh. I have income from other sources of two lakh. I have income from house proper of one lakh. Out of that, my 80 C deduction is one lakh fifty thousand.
>
> We can give you income. We cannot give you tax attributable".

On the issue of introduction of Progressive Tax Structure for the corporate sector in India, the Ministry in their written reply stated that there is no proposal at present to introduce progressive tax structure for corporate sector in India. The Finance Bill, 2015 has proposed to continue with the existing policy of having a specific rate of tax for corporates along with firms and local authorities. Further, in his Budget speech of 2015, the Finance Minister has made an announcement regarding reduction in the rate of corporate tax from 30% to 25% over the next 4 years based on rationalization and removal of various kinds of tax exemptions and incentives for corporate taxpayers.

(iii) <u>Tax collected from TDS, Advance Tax, Self-assessment and Regular Assessment</u>

On being asked about the Tax collected from TDS, Advance Tax, Self-assessment and Regular Assessment, the Department of Revenue *vide* their written reply stated that the collections of tax demand raised by way of processing as well as scrutiny of income tax returns are reported cumulatively under the head Regular Assessment Tax. Data of tax collections under various minor heads TDS, Advance-Tax, Self- assessment tax and Regular assessment Tax is as per table below:

(Rs. in crore)

Financial year	TDS	Advance Tax	Self-assessment Tax	Regular Assessment Tax
2011-12	198680	251526	27648	51511
2012-13	210654	275794	39470	62418
2013-14	248547	292522	44123	72528

(iv) <u>New Assesses Added</u>

When asked about the new assesses added each during the last three years, the Department of Revenue *vide* their written reply has stated that the Statistics regarding number of new assesses added during each year is being compiled.

Non-filers monitoring System (NMS) project was implemented to take focused action on non-filers with potential tax liabilities. Salient features of this initiative are:

i. Data analysis was conducted to identify PAN holders who had not filed Income tax returns despite conducting high value transaction as reported in AIR, CIB data and TDS/TCS Returns. Rule based algorithms were applied to classify the cases as P1, P2, P3, P4 and P5 priority ratings (P1 being the highest priority) for graded monitoring.

ii. The first and second NMS Cycles in 2013 and 2014 identified 12.19 and 22.09 lakh non-filers with potential tax liabilities.

iii. Bulk letters were sent to PAN holders communicating the information summary and seeking to know the submission details of Income tax return.

iv. ‘Compliance’ module was developed on the e-filing portal and information related to non-filers was made available to the specific PAN holder. SMS and email were sent to the target segment asking them to access e-filing portal. The PAN holder is able to provide details electronically and keep a printout of the submitted response for record purposes.

v. An online monitoring system was implemented to ensure that information related to non-filers is effectively used by the field formation.

During the financial year 2014-15, **11,82,713** returns were filed by the target segment identified in 2013 and 2014. Self-assessment tax of **Rs. 1,870** Crore and Advance Tax of **Rs. 1,980** Crore has also been collected from the target segment.

In 2015, NMS Cycle 3 has identified around 44.07 lakh non-filers with potential tax liabilities who have not filed returns for A.Y.2013-14. Information relating to these non-filers has been made available on the 'Compliance Module' on the e-filing portal of the Income Tax Department. As on 22nd March 2015, 5,72,137 identified persons have e-filed I T return for AY 2013-14 and 53,832 have submitted online response.

Use of data analysis for identification and prioritization of non-filers with potential tax liabilities have shown encouraging results. The challenges faced in widening the tax base (old address, non-responsive filers, inadequate resources for follow-up etc.) are proposed to be handled under 'Project Insight' which will leverage data analytics, alert management and case analytics capabilities to prepare comprehensive case profile and select appropriate intervention. The Compliance Management Centralized Processing Centre (CM CPC), being set up under the Project, will further enhance capability of the Department in widening the tax base.

(v) <u>Expansion of Tax Base</u>

Regarding steps taken for expansion of tax base, the Department *vide* their written reply has stated that mechanisms of collection of information and their verification have been strengthened. Rationalization of rules relating to third party reporting is under active consideration. The proposed rules seek to expand the area of such reporting. It further seeks to strengthen the reporting mechanism to ensure robust data quality. The levies of tax deduction at source (TDS) or tax collection at source (TCS) inter alia helps in expanding the tax base in the country by providing a mechanism for obtaining information about the taxable transactions. To achieve this objective, the successive Finance Acts have been continuously expanding the scope of levies of TDS and TCS by bringing more and more taxable transaction within their ambit.

Expansion of taxpayer base is a continuous process. The Department has adopted three-pronged approach to expand the taxpayer base as under:

1. Data Collection

- Collection of data from various agencies on specified financial transactions in form of annual information return(AIR)

- Collection of information on high-value transactions from third parties by CIB(Central Information Branch)
- Compulsory quoting of PAN for certain specified transactions

2. Data Analysis

- Non-filer Monitoring System (NMS) has been implemented by the Department to identify non-filers with potential tax liabilities, based on specific information as available in AIR, CIB data and TDS/TCS Returns. First round of NMS cycle was conducted in January 2013 and second cycle in January 2014.
- Standard Operating Procedure (SOP)issued to ensure that field formations maintain consistency in their approach in dealing with NMS.
- Matching of data base of corporate assessees of the Department with the data base of Registrar of Companies.

3. Penal Action

- The Central Action Plan of the Department prescribes that strict action under section 271F (penalty for non-filing of return of income) and 276CC (prosecution for non-filing of return of income) in appropriate cases.

Besides above, various **legislative measures** have been taken in recent years to expand the tax base. These include :

- Inclusion of new areas within the ambit of Tax Deduction at Source/ Tax Collection at Source. Finance Bill 2015 proposes to deduct tax at source on interest in excess of Rs. 10,000 earned on fixed deposits and recurring deposits across branches of bank.

- Purchase of bullion exceeding Rs. 2.00 lakhs and jewellery exceeding Rs. 5.00 lakhs has been subjected to TCS @ 1% of sale consideration.

- Imposition of TDS @ 1% on sale of immovable property (other than agricultural land) of Rs. 50.00 lakh or more.

- Tax on unlisted companies @ 20% on the income distributed to shareholders through buy back of shares.

- Commodities Transaction Tax has been levied on sale of commodity derivative (other than agricultural commodities) @ 0.01%.

- Minimum Alternate Tax (MAT) @ 18.5 % on all persons (other than companies) claiming profit linked deductions. This provision has been extended to firms, AOPs etc

Research:

CBDT has assigned National Institute of Public Finance & Policy (NIPFP) a project to develop an analytical model to study the impact of the increase in per capita income on the total number of tax assessees coming within the taxation bracket. The study aims to quantify the number of non-filers using data analysis and consumer expenditure surveys".

On the issue of expansion of the ambit of TDS, the Ministry in their written reply has stated that for expanding the ambit of the TDS provisions, the Finance Bill, 2015 proposes to -

a) provide that exemption in respect of TDS from payment of transport charges is available on furnishing of PAN to only small transporters who do not own more than ten goods carriage;

b) categorically provide that all cooperative banks (other than a primary agricultural credit society or a primary credit society or a cooperative land mortgage bank or a cooperative land development) shall be required to deduct tax from payment of interest on deposits made by members as per the provisions of section 194A however, the interest payable by a cooperative bank on deposits made by cooperative societies with them will not be subject to TDS;

c) expand the scope of TDS on interest on bank deposits by bringing the interest on recurring deposits within the ambit of TDS.

d) provides that interest for the purpose of TDS by a bank having core banking solution shall calculate the interest bank wise to discourage the practice of splitting the deposits among various branches of the bank.

e) simplified the mechanism for TDS on pre-mature withdrawal from the Employees Provident Fund Scheme (EPFS) for better compliance and reporting.

Further, following measures are taken by the recent Finance Acts for expanding the scope of TDS/TCS:-

A. The Finance(No.2) Act,2014 introduced TDS at the rate of 2% on non-exempt payments of maturity amount over a specified threshold of Life insurance policies.

B. The Finance Act, 2013 introduced TDS at the rate of 1% on payment for acquisition of immovable property (other than rural agricultural Land) having value of Rs. 50 lakhs or more.

C. The Finance Act, 2012 introduced TCS at the rate of 1% on purchase in cash of bullion in excess of Rs. 2 Lakhs and jewellery in excess of Rs. 5 Lakhs.

D. The Finance Act, 2012 introduced TCS at the rate of 1% on purchase of minerals being Coal, Lignite, and Iron ore for trading purpose".

(vi) <u>Use of Information Technology and Banking Platform for expansion of tax base</u>

Regarding use of Use of Information Technology and Banking Platform for expansion of tax base, the Department *vide* their written reply has stated that Income Tax Department (ITD) has embarked on an ambitious computerization plan to improve taxpayer services, promote voluntary compliance and deter tax evasion. Some important initiatives taken by ITD for improving the quality of tax payer services are:

i. Permanent Account Number (PAN) is a ten digit alphanumeric number which uniquely identifies a tax payer. PAN has been issued to more than 22 crore persons.

ii. Online tax accounting system (OLTAS) facilitates near real time reporting, monitoring and reconciliation of tax collection.

iii. E-payment of taxes has been enabled through Net Banking and ATMs and more than 85% of tax is collected through this mode.

iv. e-filing of Income Tax Return is mandatory for all the corporate taxpayers, taxpayers requiring statutory audit of accounts, & taxpayers with income more than `**Rs.** 500,000. The number of e-filed returns increased to 29.7 million in F.Y. 2013-14. The percentage of e-filed returns now exceeds 80% of the total returns received in a year.

v. In 2009, a Centralized Processing Centre for Income tax returns (CPC ITR) became operational for processing of Income tax Returns in an automated environment to determine tax payable or refund of excess taxes paid on the basis of returned income. All e-filed returns are processed at CPC.

vi. Refund Banker Scheme enabled the system driven process for determination, generation, issue, dispatch, tracking and credit of tax refunds.

vii. Under the eTDS scheme the tax deductors submit electronic quarterly statements of tax deductions (withholding of tax). In 2013, a TDS Centralized Processing Cell (TDS CPC) became operational for processing, reconciliation, default resolution to enable end-to-end reconciliation of tax payments and tax credits claimed against withholding of tax.

viii. The online annual tax credit statement (Form 26AS) is generated for each taxpayer (on the basis of PAN) on the ITD portal which shows the details of tax paid, tax deducted/collected and refund issued".

Role of Banking Sector in expansion of tax-base

The banking sector plays a significant role in expansion of tax base in following ways:

i. Capturing PAN details against the account/transaction
ii. Reporting of specified financial transactions under AIR, CIB and TDS schemes
iii. Provide information and transaction details during investigation
iv. Collecting and reporting tax payment details under OLTAS

The banking sector provides following types of information to the Department:

i. Reporting of high value financial transactions in Annual Information Return (AIR) of following types
   a. Cash deposits aggregating to **Rs.**10,00,000 or more in a year in any savings account of a person
   b. Payments made by any person against credit card bills raised aggregating to **Rs.**2,00,000 or more in the year
ii. Reporting of specified financial transactions under Centralized Information branch (CIB) scheme of following types
   a. Time Deposit exceeding Rs.2,00,000/- with a Banking Company
   b. Payment made against bills raised in respect of a Credit Card aggregating to **Rs.**1,00,000/- or more in a year
   c. Payment in Cash for purchase of Bank Drafts Or Bankers Cheques of an amount aggregating ` 1,00,000/- or more
   d. Deposit In Cash aggregating **Rs.** 2,00,000/- or more, with a banking company
   e. Interest earned by depositor
iii. Reporting of financial transactions in Tax Deduction at Source (TDS) return of following types
   a. Salary
   b. Interest
   c. Dividends
   d. Payment to non-residents
   e. Payments to contractors
   f. Commission or brokerage
   g. Rent
   h. Fees for professional or technical services, royalty etc.

Availability of information in electronic form also provided an opportunity to ITD to develop a wide range of non–intrusive methods for promoting voluntary compliance and deterring tax evasion. The Non-filers Monitoring System (NMS) was implemented to prioritise action on non-filers with potential tax liabilities. Salient features of this initiative are:

i. Data analysis was conducted to identify PAN holders who had not filed Income tax returns despite conducting high value transaction as reported in AIR, CIB data and TDS/TCS Returns. Rule based algorithms were applied to classify the cases as P1, P2, P3, P4 and P5 priority ratings (P1 being the highest priority) for graded monitoring.

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In 2015, NMS Cycle 3 has identified around 44.07 lakh non-filers with potential tax liabilities who have not filed returns for A.Y.2013-14. Information relating to these non-filers has been made available on the 'Compliance Module' on the e-filing portal of the Income Tax Department.

As a result of this initiative, a large number of taxpayers have submitted their Income tax returns and significant amount of self- assessment tax and advance tax has been collected.

CBEC:

CBEC has implemented a consolidated IT infrastructure to host all its IT-enabled services across Customs, Central Excise and Service Tax from a central data centre, for taxpayers, institutional partners and its internal users. CBEC provides e-services for 20 lakh taxpayers (importers, exporters, customs brokers, manufacturers, service providers and individuals), e-interface for its partners such as banks and port & airport authorities, as well as electronic workflows for 20,000 CBEC officers. The highlight of this initiative is a standardized, stable, secure IT platform compliant with the ISO 27001 standard for Information Security and using the best practice framework of IT service management as embodied in Information Technology Infrastructure Library (ITIL).

IT services hosted from CBEC's central data centre

CBEC's centrally hosted IT services include:

- Customs services for e-registration, e-filing, e-payment and e-acknowledgements etc., to almost 114 locations across the country [approximately 1Crore documents (Bill of Entries and Shipping Bills etc) are processed on yearly basis]
- e-commerce services from the ICEGATE portal to Importers, Exporters and Customs brokers to interact electronically with CBEC over the Internet;
- Risk Management services to departmental officers at 70 locations across the country;
- Automated Central Excise and Service tax related services to about 20 lakh registered taxpayers and to departmental officers at 105 locations across the country (Approx 28 Lakh Service Tax / Central Excise returns are being processed yearly on this consolidated infrastructure)
- Data analytics and Business Intelligence services (including data mining) to more than 1000 departmental officers from its Enterprise Data Warehouse (EDW) for better decision support and policy-making
- Corporate website and internal email services

Return on Investment

CBEC's IT infrastructure, set up at an approximate cost of Rs. 598 crore, helps the country collect approximately Rs.500 crore per day from Customs e-payments alone. Its Data Analytics and Revenue Reconciliation capabilities have also helped recover several hundred crore of additional revenue. In that context it has paid back for itself several times over.

Use of existing IT Platform to increase the assessee base:

The consolidation of CBEC's IT Infrastructure has enabled creation of a centralized repository of Indirect tax data and using the analytical tools and third party data, the department has been able to identify and bring in its fold many new assesses. The expanding outreach of the department through extension of Customs EDI Facilities at more and more locations have enabled not only uniformity of processes but also enabled monitoring of transactions and comparison of the data with other data sources available with the department, has enabled identification of potential tax evaders.

2. <u>Tax Collection and Targets</u>

When asked about the targets fixed for tax collection the Department of Revenue furnished the following details :

CBDT:

(i) "The direct taxes collection for the last five years is as under:

(In Rs. Crore)

Financial Year	Budget Estimates	Revised Estimates	Actual Direct Taxes Collection	%age of Budget Estimates Achieved	%age of Revised Estimates Achieved
2009-10	370000	387008	377546	102.04%	97.56%
2010-11	430000	446000	445962	103.71%	99.99%
2011-12	532651	500651	493947	92.73%	98.66%
2012-13	570257	565835	558658	97.97%	98.73%
2013-14	668109	636318	638543	95.57%	100.35%

The budgetary targets are set before the beginning of the relevant financial year on the basis of the GDP forecast and expected buoyancy in direct taxes and the impact of changes in tax legislation, both in terms of revenue generation and revenue foregone. These estimates are revised before the end of the financial year on the basis of the growth achieved up to that period and expected performance for the remaining part of the year. However, the estimation of revenue targets remains an approximation due to the fact that the science of revenue forecasting is inexact in nature. It is impacted by various unanticipated economic and non-economic factors in domestic and international sectors, expected performance and inaccuracies in measuring the revenue impact of legislative changes. The shortfall / excess in direct taxes collection during the last few financial years has been within reasonable limits.

CBEC:

The indirect tax targets and collections during last five years are tabulated below :

Indirect tax targets and actual collections

(Rs. in Crore)

Financial Year	Budget Estimate	Revised Estimate	Indirect Tax Collection
2009-10	269477	244477	245367
2010-11	315000	338978	345127
2011-12	397816	398696	392444
2012-13	505044	469546	474482
2013-14	565003	519520	497061

Indirect tax revenue targets are fixed on the basis of factors such as- tax policy, growth in nominal GDP, likely demand of goods and services in the country, volume of imports and rate of exchange w.r.t leading international currencies, outgo on account of indirect tax refund and drawback, and other administrative measures etc. The actual behavior of these factors is not known in advance, so the final tax collections may fall/rise vis-a-vis the estimates (BE/RE) made prior to the commencement of the financial year".

When asked as to whether tax collection targets for 2013-14, 2014-15 have been achieved, the Department *vide* their written reply furnished the following details:

CBDT:

"Direct Taxes collection target for FY 2015-16 as per Finance Bill 2015 is as per table below:

(Rs. in crore)

Corporate tax	Taxes on Income other than Corporate tax*	Total Direct taxes collection target
470628	327367	797995

*Includes Securities Transaction Tax

The actual direct taxes collections for the FY 2013-14 was Rs. 6,38,543 crore which exceeded the Revised estimates for the financial year set at Rs. 6,36,318 crore. The overall direct taxes collection target as per the Revised estimates for FY 2014-15 is Rs. 705628 crore. The current trends indicate that there may be a minor shortfall from the Revised Estimates.

CBEC:

The Indirect tax target for F.Y 2015-16 is Rs. 6,47,918.54 Crore. During financial year 2013-14 the actual collection was 4,97,061 Crore against the RE of Rs. 5,19,520 Crore, the shortfall with regard to RE is mainly attributable to the economic slowdown and low level of industrial output (as IIP growth in 2013-14 was -0.1% over 2012-13). The RE for F.Y 2014-15 is Rs.5,42,325 Crore, and the actual collections during April-February, 2014-15 is Rs.4,78,630 Crore (provisional figure)".

On being asked about the details of tax revenue collected in the form of tax arrears and penalties thereon from the cases probed for unaccounted monies stashed in the country and abroad by the Indian citizens during each of the last three years and the ongoing fiscal, the Ministry in their written reply stated that details in respect of tax revenue collected in the form of tax arrears and penalties from the cases probed for unaccounted monies stashed in the country and abroad by the Indian citizens are not maintained centrally.

3. <u>Tax Buoyancy</u>

Regarding steps taken to boost tax buoyancy in the country, the Department *vide* their written reply stated that the every year through the Finance Act, legislative measures are taken to increase the tax base and revenues. Some such measures taken in last three years are enumerated as under

CBDT:

(A) Legislative Measures

Major policy proposals in Union Budget 2015-16:

- It is proposed to provide for chargeability of interest paid by a permanent establishment (PE) or a branch of a foreign bank in India to its Head office and other overseas branches under the source rule of taxation and for treating the PE or branch as a taxable entity for computation of income and for purpose of levy of tax and TDS.

    - It is proposed to provide for penalty on advance taken / repaid in cash above Rs. 20,000/- for immovable property transactions.

    - It is proposed to enable the Central Government / CBDT to capture information regarding prescribed foreign remittances to ensure proper taxation of such payments.

- Surcharge on income-tax is proposed to be increased from 5% to 7% for domestic companies having income exceeding Rs.1 crore & upto Rs.10 crore and from 10% to 12 % for domestic companies having income greater than Rs. 10 crore. Further, the surcharge on income-tax has been increased from 10% to 12 % for non-corporate assessees having income greater than Rs. 1 crore.

Major policy proposals in Union Budget 2014-15:

- Inclusion of investment linked deduction within the ambit of alternate minimum tax (AMT) after making adjustment for depreciation.
- Levy of dividend distribution tax on the gross amount instead of only the actual amount paid to shareholders.
- Tax deduction at source at the rate of 2 per cent levied on non-exempt payment of maturity amount over a specified threshold of Life Insurance Policies.

Major policy proposals in the Union Budget 2013-14:

- Tax Deduction at Source at the rate of 1 per cent on payment for acquisition of immovable property (other than rural agricultural land) having value of Rs. 50 lakhs or more.
- Introduction of Commodities Transaction Tax on sale of commodity derivative (other than agricultural commodities) at the rate of 0.01 per cent.
- Where the stamp duty value on transfer of immovable property held as stock in trade is greater than the sale consideration, the stamp duty value to be considered as full value of consideration for the purposes of computation of income.
- Levy of additional tax on company @ 20% on buyback of unlisted shares

(B) Administrative measures:

Besides the legislative changes for additional revenue mobilization, the Income Tax Department takes various administrative measures to boost tax buoyancy that includes widening of tax base, monitoring of advance tax payments by top taxpayers, laying emphasis on recovery of outstanding demands, monitoring payment of tax deducted at source (TDS) by top deductors, organizing awareness programme regarding TDS and Tax Collection at Source (TCS) compliance, utilizing third party information available through Annual Information Return (AIR), Central Information Branch (CIB) and other agencies for detection of cases of tax evasion, enforcement/deterrent action by way of searches and surveys, non-discriminatory and unobtrusive risk-based selection of cases for scrutiny, early disposal of high demand appeal cases for recovery of demand, multi-media campaign to encourage voluntary compliance of tax laws, etc. The cadre-restructuring of the Income-tax Department is being implemented under which 1080 new assessment units are to be created over the implementation period (5 years). Other administrative and technological initiatives to augment revenue are as under:-

o A non-adversarial and non-intrusive tax regime to enhance ease of doing business is being promoted through modernization of the business processes of tax administration. Extensive use of information technology is being made for e-enablement of tax payer services. Filling of income tax returns, various forms, audit reports, statements of tax deduction at source have been made compatible with electronic filling and computerised processing.

- o The two measures i.e. Centralized Processing Center for income-tax returns at Bengaluru and Centralized Processing Centre – TDS at Vaishali Ghaziabad have enabled tax administration to function in a more efficient and automated environment and reduce the compliance burden on the tax payers. Centralized processing of returns enables the tax administration to track stop filers, non-filers, non-payment of taxes etc. which helps in widening of the tax base.

- o Data warehouse and business intelligence project has been undertaken for developing a comprehensive platform for effective utilization of information to enhance voluntary compliance and deter non-compliance.

CBEC:

Number of steps have been taken to increase the tax buoyancy like widening the tax base by comprehensive taxation of all services (introduction of Negative List approach to taxation of services w.e.f 1st July 2012) and reduction of exemption in Central Excise and Customs wherever possible. In order to improve compliance and further broaden the service tax base by bringing stop filers and non-filers within the tax net, a Voluntary Compliance Encouragement Scheme (VCES) was introduced in the Union Budget 2013-14.

In the Union Budget, 2015-16, the following proposals have been made to broaden the indirect tax base viz. pruning of the negative list and withdrawal of certain exemptions with regard to service tax. Further increase in service tax rate from 12% plus education cess to 14% is proposed.

In addition to the above, several measures have been taken by the Government to improve the revenue collections such as, risk management system, use of information technology, special audit, speedier adjudication, liquidation of arrears, speedy disposal of confiscated/seized goods etc."

4. <u>Tax refunds and Interest thereon</u>

On the issue of tax refunds and interest paid thereon during the last five years, the Department furnished the following details :

CBDT:

"Details of gross tax refunds and interest on refunds issued during the last five years is as under:

(in Rs. crores)

Financial Year	***Gross Refund amount****	***Interest on refund***
2009-10	57101	6876
2010-11	75189	10499
2011-12	93813	6486

2012-13	83766	6666
2013-14	89060	6598

** Gross amount inclusive of interest paid.*

CBEC:

The Indirect tax Refund during the last five years is mentioned below. The information with regard to interest paid on delayed payment of refunds is not maintained centrally.

(Amount in Rs. Crores)

Indirect tax refund	2009-10	2010-11	2011-12	2012-13	2013-14
	11292	13205	16436	19274	23662

5. Tax Arrears

Regarding pendency of arrears both direct and indirect taxes during the last five years, the Ministry furnished the following details :

CBDT :

"Direct taxes arrear demand for the last five financial years is as per the table below:

(Rs. in crore)

Financial Year	Arrear Demand Outstanding as on 31st March,
2009-10	248927
2010-11	333077
2011-12	478863
2012-13	580326
2013-14	674916

CBEC:

The pendency of arrears (Indirect Taxes) –Year-wise position for the last five years is as under:-

(Rs. in Crore)

YEAR (As on 31st March)	Central Excise	Customs	Service Tax	Total
2009-10	26629.43	8067.28	9515.52	**44212.23**
2010-11	31739.41	9679.51	15470.70	**56889.62**
2011-12	37050.32	9677.85	22012.85	**68741.02**
2012-13	50344.60	12103.40	47233.47	**109681.47**
2013-14	59884.69	17986.38	71257.49	**149128.56**

Regarding quantum of undisputed / uncollected taxes, the Ministry further furnished the following details :

CBDT:

Undisputed uncollected direct taxes arrear demand pending collection for the last five financial years is as per the table below:

(Rs. in crore)

Financial year	Total Outstanding demand (as on 31st March of the FY)	Disputed demand before CIT(A), ITAT, High Court, Supreme Court, I.T. Authorities	Undisputed demand
2009-10	201276	71430	129846
2010-11	291629	186663	104966
2011-12	408418	285647	122771
2012-13	486180	379570	106610
2013-14	575340	443285	132055

An undisputed tax demand does not necessarily suggest that it is collectible. The uncollected taxes may still be difficult to recover due to a variety of reasons including:

- Company is under Liquidation
- Case is before BIFR
- Case is before Income Tax Settlement Commission (ITSC)
- Demand is stayed by Courts/ITAT
- Demand is stayed by Income tax authorities
- Cases where there are no or inadequate assets are available for recovery
- Assessee-in-default is a Notified person under the Special Court (Trial of offences relating to Securities) Act 1992
- Cases where demand is pending write off
- Assessee is not traceable
- Demand is not enforceable due to bank guarantee
- Demand is disputed under the mutual agreement procedure

The_steps for recovery of undisputed uncollected tax demand are the same as enumerated in reply to para 19 (i) above.

CBEC:

The requisite reply on quantum of undisputed uncollected tax pendency of arrears (Indirect Taxes) – Year- wise position for last five years is a under:

(Rs. in Crores)

Year	Undisputed Tax Arrears
2009-10	25833
2010-11	35105
2011-12	43209
2012-13	63139
2013-14	76159

When asked about the measures initiated to reduce tax arrears and increase the recovery, the CBDT in their written reply has stated that apart from the statutory measures taken for recovery of outstanding tax dues (including attachment of movable or attachment and sale of immovable properties), the Income-tax Department has also devised an elaborate strategy to recover outstanding taxes, which is disseminated to the field formations for implementation. This includes the following:

(a) Strict monitoring and review of actions for recovery of tax demand by the jurisdictional income-tax authorities;

(b) Use of information from Individual Transaction Statement (ITS) in cases where taxpayer is untraceable or no asset is available for recovery;

(c) Taking assistance of the Investigation wing in large cases for identification of assets;

(d) Guidelines for Tax Recovery Officers for focused efforts towards recovery;

(e) Adherence to the Board's instructions while dealing with stay petitions;

(f) Early disposal of appeals especially in high demand cases.

CBEC:

The following measures have been taken to reduce tax arrears and increase the recovery:

i. All Chief Commissioners have been geared up for taking up the matter, where substantial amount of arrears has been locked up in various Courts/ Appellate Forums, by filing early hearing petitions. Periodic instructions have been issued to the field formations to intensify the efforts made to get the stay orders vacated by pursuing the cases vigorously.

ii. Cases of similar nature are being bunched for expeditious disposal by the appellate authorities.

iii. Wherever no stay has been granted or where stay granted has lapsed, quick action for realization of arrears by attachment of movable/ immovable assets or recovery from sums due to the defaulting assessee elsewhere is taken. The provisions of Sections 142 of the Customs Act, 1962; Section 11 of the Central Excise Act, 1944; and Section 87 of the Finance Act, 1944 are being invoked.

iv. Filing of departmental claims of pending matters before Board for Industrial Financial Reconstruction (BIFR), Debt Recovery Tribunals (DRT) and Official Liquidators (OL) in a timely manner and to pursue them vigorously. With regard to arrears pending in these fora i.e. BIFR/DRT/OL, all field formations have been addressed to send the data of these cases separately. The said data will be used to pursue for early action with the concerned agencies. The field formations are pursuing with the concerned authority wherever the revenue arrears are high for early settlement of the cases.

v. Details of defaulters are being forwarded to FIU, to enable field formations in recovery. Chief Commissioners Zones also avail the facility of ITDMS (Integrated Tax Payer Data Management System) to locate/extract information on defaulters. Field formations have been advised to utilize the database of Ministry of Corporate Affairs in locating the defaulters. Efforts are taken by the zones to obtain the data of the defaulters/units closed with NSDL / CSDL and like authorities to ascertain whether the defaulters are holding any shares or otherwise.

vi. Attachment /auction of property where required – action taken for attachment of movable / immovable assets to recover dues from defaulters as per the legal provision in the concerned Acts.

vii. All field formations have been directed to recover the arrears which are shown as clearly recoverable arrears, before 31st March, 2015.

viii. The field formations have been requested to re-invigorate the recovery cell of their Commissionerate to explore avenues to maximize the arrears recovery output.

ix. Creation of a database containing details of all cases where action under Section 142 of the Customs Act has been initiated, to enable necessary monitoring.

x. Regular inspections of cases of arrears of revenue of the field formations are being undertaken and required action for recovery is being pointed out to the formations.

xi. Timelines as per the action plan for recovery of Indirect Taxes have been given to the field formations for realization / liquidation of revenue arrears. This is being monitored by TAR office.

6. Tax Litigation

On being enquired about the number of assessments and tax involvement during the last few years in respect of appeals decided in favour of the Department and against the Department by various Appellate Authorities in both Direct and Indirect Taxes in order to deduce the success rate of Department, the Department furnished the following details :

CBDT

ANALYSIS OF APPEALS AS DECIDED BY CIT (A)

Financial Year		2011-12	2012-13	2013-14	2014-15*
No. of appeals disposed off	Partially confirmed/ partially allowed	30601 (41.3%)	38090 (44.6%)	32706 (37.7%)	14001 (39%)
	Fully confirmed/ appeals dismissed	21855 (29.5%)	26807 (31.4%)	28023 (32.3%)	10801 (30%)
	Fully allowed	21214 (28.6%)	19859 (23.2%)	25632 (29.5%)	11248 (31%)
	Other	432 (0.6%)	717(0.8%)	403 (0.5%)	208 (1%)
	Total	74102	85473	86764	36258

*till September 2014

ANALYSIS OF APPEALS FILED BY ASSESSEE AS DECIDED AT ITAT, HIGH COURT & SUPREME COURT

JUDICIAL FORUM	ITAT				HIGH COURT				SUPREME COURT			
Financial Year	2011-12	2012-13	2013-14	2014-15*	2011-12	2012-13	2013-14	2014-15*	2011-12	2012-13	2013-14	2014-15*
Decided in favour of deptt.	2507 (35%)	1868 (31%)	1526 (27%)	624 (24%)	267 (36%)	237 (41%)	192 (35%)	154 (37%)	10 (14%)	7 (6%)	10 (30%)	13 (45%)
Decided against deptt.	2594 (36%)	2336 (39%)	2070 (37%)	1269 (48%)	284 (38%)	206 (35%)	244 (45%)	183 (44%)	24 (33%)	45 (41%)	10 (30%)	6 (21%)
Set Aside	572 (8%)	674 (11%)	711 (13%)	273 (10%)	60 (8%)	42 (7%)	47 (9%)	24 (6%)	10 (14%)	45 (41)	0	1 (3%)
Partially Allowed	921 (13%)	858 (14%)	956 (17%)	398 (15%)	23 (3%)	46 (8%)	31 (6%)	10 (2%)	15 (21%)	1 (1%)	3 (10%)	3 (10%)
Others	634 (9%)	325 (5%)	374 (7%)	88 (3%)	114 (15%)	52 (9%)	33 (6%)	46 (11%)	13 (18%)	13 (11%)	10 (30%)	6 (21%)
Total appeals disposed off	7228	6061	5637	2652	748	583	547	417	72	111	33	29

*Sept 2014

ANALYSIS OF APPEALS FILED BY DEPARTMENT AS DECIDED AT ITAT, HIGH COURT & SUPREME COURT

Judicial Forum	ITAT				HIGH COURT				SUPREME COURT			
Financial Year	2011-12	2012-13	2013-14	2014-15*	2011-12	2012-13	2013-14	2014-15*	2011-12	2012-13	2013-14	2014-15*
Decided in favor of deptt.	2595 (19%)	2481 (16%)	2432 (17%)	1135 (18%)	1364 (20%)	681 (19%)	748 (19%)	493 (21%)	94 (10%)	55 (13%)	99 (19%)	84 (25%)
Decided against deptt.	7048 (52%)	7648 (50%)	7404 (53%)	3724 (58%)	4190 (62%)	2262 (63%)	2461 (61%)	1384 (59%)	378 (39%)	272 (64%)	306 (60%)	144 (43%)
Set Aside	1195 (9%)	1055 (7%)	1257 (9%)	430 (7%)	357 (5%)	166 (5%)	295 (7%)	192 (8%)	76 (8%)	7 (2%)	13 (3%)	4 (1%)
Partially Allowed	2276 (17%)	2459 (16%)	2006 (14%)	835(13 %)	338 (5%)	267 (7%)	255 (6%)	130 (5%)	86 (9%)	21 (5%)	44 (9%)	23 (7%)
Others	542 (4%)	1720 (11%)	871 (6%)	248 (4%)	546 (8%)	195 (6%)	270 (7%)	166 (7%)	324 (34%)	70 (16%)	46 (9%)	81 (24%)
Total	1365 6	15363	13970	6372	6795	3571	4029	2365	958	425	508	336

**Till quarter ending September 2014*

CBEC:

The table showing CBEC cases decided by Supreme Court, High Court, CESTAT & Commissioner(Appeals) for the year 2011-12, 2012-13 & 2013-14 is given below:-

FORA	PERIOD	APPEALS PREFERRED BY DEPARTMENT			APPEALS PREFERRED BY ASSESSEE		
		No. of Deptt. Appeals Decided	**Decided in favour of the Department**	**Decided against the Department**	**No. of Party's Appeals Decided**	**Decided in favour of the Department**	**Decided against the Department**
SUPREME COURT	2011-12	184	63	121	474	326	148
	2012-13	173	29	148	73	45	17
	2013-14	156	43	102	105	77	20
HIGH COURT	2011-12	1235	488	747	1569	796	773
	2012-13	842	245	595	2714	1788	825
	2013-14	737	275	447	2683	1944	638
CESTAT	2011-12	2765	412	2353	2807	1514	1293
	2012-13	1867	689	1117	6408	4423	2030
	2013-14	2312	521	1917	7149	4552	2667
COMMR. APPEAL	2011-12	8880	2330	6550	11270	8942	2328
	2012-13	4025	1622	1921	28507	18636	8630
	2013-14	3340	1586	1728	31524	21262	9693

The details of the taxes involved in the above cases are being collected and will be submitted later.

When asked about the success rate of appeals filed by the Department before the appellate forums, the Department stated that the figures for success rate of appeals filed by the Department before ITAT/HC/ SC in the past three years is given in Table 4 above. For FY 2009-10 & 2010-11 the data is as below:

CBDT

	ITAT		HIGH COURT		SUPREME COURT	
	2009-10	**2010-11**	**2009-10**	**2010-11**	**2009-10**	**2010-11**
Decided in favour of Deptt.	4038 (21%)	2795 (19%)	1484 (16%)	1177 (18%)	61 (15%)	81 (14%)
Decided against Deptt.	10382 (53%)	7985 (54%)	6211 (66%)	3954 (61%)	230 (55%)	353 (60%)
Set Aside	1415 (7%)	1226 (8%)	441 (5%)	467 (7%)	69 (17%)	56 (10%)
Partially Allowed	2458 (13%)	2063 (14%)	468 (5%)	394 (6%)	12 (3%)	33 (6%)
Others	1184 (6%)	690 (5%)	817 (9%)	477 (7%)	43 (10%)	64 (11%)
Total	19477	14759	9421	6471	415	587

CBEC:

Appellate Forum	**Success Rate of Department - 2014-15 (up to October, 2014)**	
	Department Appeals	**Party Appeals**
Supreme Court	16.18	22.81
High Court	35.42	20.74
CESTAT	19.76	43.08
Commissioner Appeals	54.77	27.08

Regarding the steps taken to reduce litigation, the Secretary (Department of Revenue) during the course of oral evidence *inter-alia* stated as under :

> "Sir, we are also to reduce dispute and to reduce litigations, it is also our effort to try and provide clarity wherever possible and not to make exorbitant or unsubstantiated kind of demands. But when the law exists, naturally, the assessing officer will have to follow the law. For example, this time this whole retrospective amendment if you recall, it relates to section 9(1) of the Income Tax and that deals with indirect transfers. That section had a lot of ambiguities. For example, it said that where the company located abroad derives its values substantially from its Indian underlying asset meaning substantially from an Indian company where it is a part shareholder. Now, what is substantially was nowhere defined in that section. Like that, there are many aspects of that section which we have this time in the Finance Bill which will come up before the Parliament when the Parliament re-convenes. The entire section 9(1) has been cleaned up. Like that, we have taken a number of measures. Sir, I have noted down the points that have been made

by you and by the hon. Members. We attach great value to the comments which are based on your experience and on the wisdom. We will furnish replies in writing to all the questions and wherever required, as I mentioned, I will place the other points made by the hon. Member before the Finance Minister so that a decision is taken in the matter".

7. Measures initiated to reduce litigation

When asked about the measures initiated to reduce litigation, the Department furnished the following details :

CBDT:

a) "Standing Committee has been constituted to deal with rising litigation with tax payers as well as with employees. The Committee holds meeting once every two months to discuss litigious issues and probable solutions.

b) On various contentious issues and matters leading to widespread litigation, the Board takes cognizance of the issue and issues appropriate Circulars/ clarification to provide consistency of approach by the subordinate authorities. An institutional mechanism has been developed to reduce litigation by way of formation of a Central Technical Committee (CTC) in the CBDT and Regional Technical Committees (RTC) at the local level.

c) Monetary limits for filing appeals before ITAT have been revised after detailed analysis of the number of appeals pending, number of appeals being filed, revenue implications, resources available and desirability of focusing attention on high revenue cases. Brief highlights of the new instruction and its impact are as follows:

Appeals to	Old limits of tax effect for filing appeals	New limits of tax effect for filing appeals	Expected reduction in litigation
ITAT	Rs. 3 Lakhs	Rs. 4 Lakhs	15%
High Court	Rs 10 Lakhs	Rs 10 Lakhs	NA
Supreme Court	Rs 25 Lakhs	Rs 25 lakhs	NA

d) National Judicial Reference System (NJRS) has been soft-launched. NJRS is expected to benefit in reducing litigation by avoiding appeals on decided issues and by bunching and overall improvement in litigation management.

e) While filing SLPs in Supreme Court, rigorous vetting is done as to the merits of the case at the level of DGIT (L&R) and CBDT. This is evidenced in Table 1 which shows marked decrease in the number of SLPs over the last 3 years.

f) A Committee headed by Chief Commissioner of Income tax was constituted to appraise the efficacy of the existing system of filing appeals and suggest suitable measures. The Committee has submitted its Report which is under consideration.

g) A dedicated Bench has been constituted by the Supreme Court to deal with exclusively tax matters. Department has bunched identical issues for bulk disposal. Officers concerned have been directed to give full support to ensure speedy disposal of appeals.

CBEC:

The scope of Authority for Advance Ruling has been further expanded by including Public Limited Companies, Private Limited Companies and Partnership Firms/Proprietorships as the 'applicant' to seek rulings from the Authority".

When asked about the measures initiated to increase the efficiency of existing dispute resolution forums, the Ministry *vide* their written reply furnished the following information :

CBDT:

Following measures have been taken to improve efficiency of existing dispute resolution mechanism in cases of foreign companies and transfer pricing matters :

A. Dispute Resolution Panel:

Dispute Resolution Panels were set up in the year 2009 as a collegium of 3 Commissioners of Income Tax with a view to provide speedy resolution in cases of foreign companies and in cases where transfer pricing adjustments had been made. Till now, the members of DRPs were Commissioners working on additional charge basis. To strengthen the existing dispute resolution mechanism through DRPs, 5 permanent DRPs have now been set up at 3 cities i.e. 2 at Delhi, 2 at Mumbai and 1 at Bengaluru each with 3 CsIT as members on full time basis. Each DRP has a defined jurisdiction and together they cover whole of India. The new scheme for DRPs has come into force with effect from 1st January, 2015 .

B. Advance pricing Agreement (APA)

With a view to reduce disputes in transfer pricing matters, Advance Pricing Agreement (APA) provisions were introduced vide the Finance Act, 2012. Thereafter, the APA Scheme was notified in the Income-tax Rules on 30th August, 2012. In May, 2013, a taxpayer series on "Guidance on APA Scheme and FAQs" was released. The APA provisions seek to provide certainty to taxpayers and the tax administration on transfer pricing issues, thereby reducing litigation/disputes. The APA Scheme has received a tremendous response in India, and 394 applications (337 Unilateral and 57 Bilateral) have been filed so far.

C. Powers of Settlement Commission:

With a view to rationalise the dispute resolution mechanism available to taxpayers in the form of Settlement Commission, the Finance Bill 2015 contains a clause to provide that while making an application to the Settlement Commission for an assessment year which has been re-opened by the Assessing Officer, the assessee can make an application for other assessment years in which the proceedings could be re-opened provided the return of income for such assessment years has been furnished by the assessee. Besides, certain other provisions in the Bill seek to streamline the process of settlement of cases before the Settlement Commission.

D. Mutual Agreement Procedure (MAP)

MAP is an alternate dispute resolution procedure under the Double Taxation Avoidance Agreement with various countries. MAP meetings are being regularly held with the competent Authorities of our major trading partners i.e USA, UK, Japan etc. Efforts are being made to schedule such meetings more frequently.

CBEC:

(a) The provisions of pre-deposit have been made mandatory for filing of appeals before Commissioner (Appeals) and CESTAT. This would result into Appellate Authorities concentrating their time on Main Appeals instead of disposal of Stay Applications.

(b) Monetary limit of the cases heard and disposed of by the Single Member Benches of CESTAT from Rs. 10 lakhs to Rs. 50 lakhs has been enhanced.

(c) Establishment of six Additional Benches of CESTAT has been approved by the Government. Further, efforts are being made to fill the vacancies at the level of Appellate Authorities.

On the issue of time bound disposal of cases in order to arrest protracted litigation, the Ministry furnished the following details :

CBDT:

a) Annual targets are laid down in the Central Action Plan for disposal of appeals by Commissioners of Income tax (Appeals). For the Financial Year 2015-16, targets have been laid down for the first quarter. However, no such targets can be laid down for disposal at Income tax Appellate Tribunal (ITAT), High Court (HC) and/or Supreme Court (SC) level as that is beyond the purview of the Income tax Department.

b) CBDT's OM dated 07.11.2014 on "Further steps towards a non-adversarial tax regime" is a step to achieve this goal of adopting non-adversarial tax regime. It has been clarified that in cases of remand, the Commissioners of Income-tax (Appeals) should specify the aspect which needs to be verified. The practice of forwarding the entire documents/submission of the assessee for comments of the Assessing Officers should cease. Assessing Officers are required to submit a remand report only in cases where the remand is on a specific matter. This would help in expeditiously resolving issues at the first stage itself.

CBEC:

(a) Commissioners (Appeals) have been instructed to decide 70 cases per month. However, where the number of appeals pending is less, the disposal of appeals should not be less than 60% of the combined total of Opening Balance and the monthly receipt.

(b) Instructions have been issued to the field formations to take various steps to improve indirect tax administration.

(c) Field formations have also been issued instructions regarding putting up system to regularly monitor the litigation cases for safeguarding the interest of Union of India.

(d) In the recent cadre restructuring, posts of Commissioners (Executive) have been increased and the same is expected to result into timely disposal of pending Adjudicating cases. Posts of Commissioners (Appeals) have also been increased, this would lead to speedy disposal of pending Appeals.

During the course of oral evidence, the Secretary (Department of Revenue) on the issue of non-adversarial administration *inter-alia* stated as under :

> "........Finally, with regard to the non-adversarial administration, a point was made and it was mentioned as I had explained earlier Sir in the previous meetings both the CBDT and the CBEC have issued detailed guidelines and detailed circulars for these non-adversarial administrations. Small things like meeting the taxpayers, reserving a particular day in the week, Wednesday forenoon is reserved as a tax-payers day where any taxpayer can come and meet the head of the office to issue notice to people and to the taxpayers and not keep them waiting. If you ask somebody to come at 11 o clock, please meet him at 11 o clock. So, a number of instructions have been issued from both the boards. It is our endeavour to ensure that this is implemented".

8. Revenue Foregone

Regarding the quantum of revenue foregone in both direct and indirect taxes by way of various incentives and exemptions to different categories of assessees in the last three years, the CBDT vide their written reply has stated that the quantum of revenue foregone in respect of direct taxes during the last three years (along with estimated revenue forgone for F.Y. 2014-15) is as under :-

(in Rs. crore)

Financial Year	**Revenue Forgone#, category – wise**		
	Corporate*	**Firms/Association of persons/Body of Individuals**	**Individuals**
2011-12	81214.3	7145.4	32230
2012-13	92636	5908.9	27626.8
2013-14	91144.2	4482.3	30771.8
2014-15 (estimated)	98407.6	5141.0	35293.6

* *The figures are exclusive of net additional tax liability on account of MAT.*

The figures have been taken from the Revenue Forgone/Revenue Impact Statement for financial years 2013-14, 2014-15 and 2015-16.

The revenue impact is on account of various tax incentives provided under the Income-tax Act,1961.These incentives have been provided to promote exports; balanced regional development; creation of infrastructure facilities; employment; rural development; scientific research and development; cooperative sector and to encourage savings by individuals and donations for charity etc. In view of this in the present Budget documents the statement has been termed as revenue impact of Tax incentives. It may also be mentioned that in the Budget Speech for 2015-16 Finance Minister has announced for reduction of corporate tax rate from 30% to 25% over the next four years along with that the exemptions and deductions are proposed to be reviewed for phasing out.

On the same issue, CBEC *vide* their written reply stated that customs and Central Excise duties and Service tax are indirect taxes, where the incidence of the tax is on the importer, manufacturer or the service provider respectively but the burden on the tax is on the final consumer. Indirect taxes are a pass through i.e. the taxes are borne by the ultimate consumer. Hence, duty exemption/ concession, which results into revenue forgone, essentially reduces the burden on the ultimate consumer and generally does not benefit the importer or the manufacturer. Further, in Customs and Central Excise, various incentives and exemption are commodities or region/ area based specific and not assesses specific.

22.1 The quantum of revenue foregone in last three years is as under :

(Rs. In Crores)

	Revenue foregone in 2012-13	**Revenue foregone in 2013-14**	**Revenue foregone in 2014-15 (Estimated)**
Excise Duty	2,09,940	1,96,223	1,84,764
Customs Duty	2,54,039	2,60,714	3,01,688
Total	4,63,979	4,56,937	4,86,452

22.2 The effective rate of duty in customs is fixed taking into account, inter alia, the following factors:

- o Interest of farmers,
- o Interest of consumers,
- o Promote domestic manufacturing (by providing protection against imports, inducing domestic value addition and thereby, employment generation).
- o Implementation of treaty obligations, i.e. bilateral and multilateral agreements and promotion of exports.

22.2.1 The effective rate of duty in excise is fixed taking into account, inter alia, the following factors:

- o Interest of consumers,
- o Incentivize manufacturing in small scale sector [by reducing compliance burden (eg. SSI exemption),
- o Promote manufacturing in industrially backward States, etc.

22.2.2 Other major areas of revenue forgone on customs / excise side:

- o Supplies to defence – these are exempt from customs and excise duties.
- o Imports under FTAs – chargeable to preferential rates of import duty.
- o Export incentive schemes.
- o Supplies to projects funded by UN or other agencies (international organizations) are exempt from customs and excise duties [it would not be desirable to appropriate a part of such funds towards duties].
- o Domestic LPG (subsidised as well as non-subsidised) and Kerosene for PDS is fully exempt from customs as well as excise duties.
- o Lower basic excise duty on petrol and diesel as compared to the Tariff Rate.
- o SSI exemption – clearances upto Rs.1.5 crore in a FY are exempt for units whose turnover does not exceed Rs.4 crore in the previous FY.
- o Area based exemptions – to promote industrial development of backward States / areas.
- o Lower excise duty on items of mass consumption.

9. <u>Direct Taxes Code</u>

On the issue of current status of implementation of Direct Taxes Code, the Secretary, Ministry of Finance (Department of Revenue) during the course of oral evidence deposed as under :

> "Sir, a point was made with regard to the Direct Tax Code. Now, as regards the Direct Tax Code, as the Finance Minister had stated in the Budget Speech, most of the provisions of the Direct Tax Code already form part of the Income Tax Act. By way of amendments, they have been incorporated".

When asked as to why the Direct Taxes Code (DTC) is being implemented in piecemeal, the Secretary, Ministry of Finance (Department of Revenue) during the course of oral evidence further deposed as under :

> "I entirely agree with you, Sir. When I said that they have been incorporated in the Income Tax Act, what I mean is that the substantive part, that is, the taxability part of DTC is already included. The major advantage of DTC was that it was in a simple language. The entire tax law was written in a very simple language and in a much simpler language. It had great advantage in that. Sir, the Government weighed the balance in favour of going in for a simpler tax law. That is on the one hand. If you go for a new tax law, it will again take years or may be a decade for the jurisprudence, for the case laws to get settled".

The Ministry of Finance (Department of Revenue) in their post-evidence written reply further stated that regarding Direct Taxes Code (DTC) the stated policy of the Government, as mentioned by the Finance Minister in Budget Speech 2015, is that there is no great merit in going ahead with the Direct Tax Code as it exists today as most of the provisions of the DTC have already been included or are proposed to be included in the Income-tax Act and the jurisprudence under the Income-Tax Act is well evolved.

10. <u>Tax Administrative Reforms Commission (TARC)</u>

Regarding the roadmap outlined for the implementation of Reports of Tax Administrative Reforms Commission (TARC), the Ministry of Finance (Department of Revenue) in their post-evidence written reply stated that the Tax Administrative Reforms Commission (TARC) under the chairmanship of Dr. Parthasarthi Shome was set up on 21st August, 2013 with a view to reviewing the application of Tax Policies and Tax Laws in the context of global best practices and recommend measures for reforms required in Tax Administration to enhance its effectiveness and efficiency.

As per their Terms of Reference, TARC have submitted Four Reports to the Hon Finance Minister. In their First Report submitted on 30th May,2014 TARC have dealt in Chapters II to VII with issues such as taxpayer services, structure and governance of the tax administration (both direct and indirect taxes), human resources development and deployment, dispute management, key internal processes on the working and delivery of the tax administration and use of Information Communication Technology (ICT) in tax administration.

The Second Report submitted on 26th September,2014, has two chapters – one on customs capacity building (VIII) and second on information exchange between different organisations with which tax departments interact.(IX)

Both these reports, which contain reformative recommendations on tax administration, have been examined in CBDT. At the first instance, 27 recommendations have been identified for early implementation.

The third report of TARC submitted on 1.12.2014, contains Chapters X to XII dealing with issues of Impact Assessment, Expanding the Base and Compliance Management respectively. It also contains separate appendices for these three chapters which contain details of international best practices regarding impact assessment, expansion of tax base and compliance management. The three main chapters in the third Report are intrinsically connected with the recommendations made elsewhere in the First and Second Reports of TARC in respect of Structure& Governance (Chapter III),Key Internal Processes(Chapter VI), Information and Communication Technology (Chapter VII) and Exchange of Information (Chapter IX). In fact the Third Report deals more with "Why" and "How" of the recommendations already made in the earlier two reports. Therefore, the recommendations made in the Third Report are to be seen in the light of the earlier conclusions made by the TARC about the current status of structure and governance, key internal processes and compliance management as obtaining within the CBDT.

The fourth report of TARC submitted on 20.2.2015, contains Chapters XII to XIV dealing with issues of Revenue Forecasting, Predictive Analysis and Research for Tax Governance.

While recommendations contained in the First and Second Reports have already been examined and analysed and some of them have been identified for early implementation, the recommendations contained in the Third and Fourth Reports are presently under examination in CBDT.
The broad contours of implementation of the recommendations already identified are being worked out. Since recommendations contained in all the Four reports submitted by TARC have linkages with one another, approval of

> the competent authority will be obtained for implementation of the recommendations identified from all the four reports as soon as examination of the third and fourth report is completed and necessary action will be initiated accordingly immediately thereafter.

On the issue of status of implementation of recommendations of TARC, the Secretary (Department of Revenue) during the course of oral evidence deposed as under :

> "Sir, with regard to the recommendations of the Tax Administration and Reforms Commission (TARC), they have submitted, in total, four reports. The final report was submitted on 19th or 20th February, 2015 just one week before the Budget. As the Finance Minister had explained in his Budget Speech, these reports are in very advanced stages of examination in both the Boards, and many of the recommendations will get implemented. I have the list of recommendations, which will be implemented and how they are going to be implemented. The final decisions are going to be taken by the Government shortly. I will submit a detailed note on this as a part of our replies".

11. Searches, Seizures and Surveys

On the issue of searches, seizures and surveys made during the last three years, the Ministry vide their written reply stated that Searches and survey are amongst the main evidence collecting mechanisms that are used in cases wherein credible information about tax evasion is in possession of the Income-tax Department (ITD). The Investigating Officer who conducts the search prepares a report appraising the evidences gathered, documents seized, etc., and forwards the same to the Assessing Officer to initiate assessment proceedings. The evidence collected through searches and surveys along with other evidence gathered/collected from various other sources by the ITD is used for determination of tax liability, if any, through the quasi-judicial process of assessment of income of the subject person. Such assessment of income is subject to appeals at different stages before various authorities including Hon'ble Supreme Court, as provided in the law. The determination of actual tax liability is done after completion of all the appellate proceedings. There is a time-lag between the search/survey and passing of the assessment orders and disposal of all the appeals relating to the same. The time-lag could spread over several financial years. In view of the processes and time-lag involved therein, the data on actual tax yield of searches and surveys separately is not maintained centrally. However, the ITD has undertaken a new information technology project – Income Tax Business Application (ITBA) which is expected to capture such information electronically, even at intermediate stages. The ITBA is scheduled to be rolled out in phases from FY 2015-16.

CBDT:

Statistics with regard to search and seizure conducted in the last three financial years are as under:

(in Rs. crore)

Financial Year	Number of groups searched	Total assets seized	Undisclosed income admitted under section 132(4) of the Act
2011-12	621	905.6	15070.64
2012-13	422	575.08	10291.61
2013-14	569	807.84	10791.63

Statistics with regard to surveys conducted in the last three financial years are as under:

(in Rs. crore)

Financial Year	Number of surveys conducted	Undisclosed income detected
2011-12	3706	6572.75
2012-13	4630	19337.46
2013-14	5327	90390.71*

** Rs.71,195 crore pertains to one particular case*

In view of the processes and time-lag involved therein, the data on actual tax yield of searches and surveys separately is not maintained centrally.

CBEC:

The cases of duty evasion in Customs, Central Excise and Service tax is given in the tables below. The revenue realized in respect of Customs evasion cases is indicated in the relevant table. However, the data in respect of amount realized in Central Excise and Service Tax evasion cases is not maintained centrally. The same is being collected from the field formations and will be submitted later. The tax wise information is given in the following tables:

Details of Service Tax evasion during the last three years-

(Rs. in crore)

Year	Number.	Amount involved
2011-12	8710	14608.06
2012-13	12810	24768.42
2013-14	9215	14842.00

Details of Central Excise duty evasion during the last three years is as below-

(Rs. in crore)

Year	No. of SCNs issued	Amount involved
2011-12	3920	4582.74
2012-13	3470	6269.68
2013-14	1789	5170.00

Details of Customs evasion during the last three years

(Rs. in crore)

Description	**FY 2011-12**		**FY 2012-13**		**FY 2013-14**	
	Number of cases	Value / Duty	Number of cases	Value / Duty	Number of cases	Value / Duty
Commercial Fraud cases detected (in terms of duty)	5333	2198	5390	5970	4625	3974
Duty Recovery	6243	610	6757	1604	4630	1609
Seizures effected (in terms of value)	25537	4523	28317	3079	28168	4063

12. <u>Redeployment and Rationalization of Manpower</u>

Considering the extensive computerization and outsourcing of processes being implemented by the department and increasing e-filing of cases, when asked as to whether it would not be better to re-deploy and re-adjust manpower with a view to modernizing the available infrastructure and amenities for both tax collectors & payers, the Ministry in their written reply furnished the following details :

CBDT:

The officers of the Income Tax Department carry out cross- functional work. The main functions carried out in various offices of Income-Tax Department are as under:

i. Receipt and Processing of Returns
ii. Rectification of orders of processing u/s 143(1)
iii. Selection of cases for scrutiny, issue of notices and carrying out scrutiny assessment.
iv. Penalty proceedings
v. Appeals with CIT(A)
vi. Revision of orders by CIT
vii. Waiver of penalty
viii. Filing of appeals to ITAT, High Court, Supreme Court
ix. Giving effect to orders of CIT(A), CIT, ITAT and other higher authorities
x. Collection and Recovery of taxes
    a. grant of installment
    b. grant of stay
    c. write off
xi. Prosecution
xii. Internal Audit

xiii. Processing of Revenue Audit Objections

xiv. Surveys/ data collection u/s
    1. 133A (5)
    2. 133A (3)
    3. 133 B

xv. Tax evasion petitions

xvi. Collection of information regarding various financial transactions through Central Information Branch (CIB)

xvii. Analysis and follow-up actions on information received through Annual Information Returns (AIR)

xviii. Search & Seizure

xix. Administration functions which include Transfer/ Posting, Promotions/ Confirmations, Training, Vigilance, ACR, IPR, Payroll, leave etc.

As brought out by the BPR study in 2007-08, nearly 80% of the manpower of the Department was engaged in doing processing work (corresponding to items i and ii above). As a result thereof, the Department could not focus on compliance and other high knowledge activities (items from iii to xviii above), which adversely impacted its performance, compliance capabilities and quality of output.

The business process re-engineering effort to centralize the bulk and routine task of the officers and staff to the Centralized processing centers has enabled the skilled manpower to focus on compliance functions which was being neglected. Greater focus on tax compliance activities would allow significantly greater effort in tackling tax evasion and curbing black economy.

Therefore, it would be appropriate to state that computerization and centralization of processes has enabled the Department to re-align its functions to focus more on compliance activities. The re-deployment and re-adjustment of manpower due to the extensive computerization and e-filing has been implemented at the time of restructuring where resources have been moved from erstwhile salary charges etc to corporate and international taxation charges. Similarly, several jurisdictions have been merged or bifurcated based on the assessment of compliance related tasks and assessment workload.

CBEC:

Various computerization and Information Technology projects implemented by CBEC aim at better tax-payer services, transparency, accountability and efficiency of Indirect Tax administration. E-filing and e-processing are gradually replacing manual filing and handling of paper documents. The computerization and Information Technology projects have enabled faster registration and submission of returns by the assessees, easy and faster tracking of refunds and settlement of disputes by them, and reduced their face-to-face interaction with the Department on day-to-day basis. These automation measures are trade friendly and trade facilitating and have reduced the transaction cost and enhanced the productivity of the trade and industry. However, at the departmental levels the functions such as scrutiny of the details filled in the returns and claims, management of adjudication process, management of risks (such as duty-evasion, misuse by unscrupulous elements in trade, under-invoicing and over-invoicing, mis-declaration etc.), creation of audit profiles and conduction of audits, reconciliation of accounts, generation and analysis of various reports, examination of goods, implementation of allied laws including wildlife, trafficking in cultural property, Intellectual Property Rights, Narcotics & Psychotropic Substances Act, environment related acts etc. still have to be necessarily attended to manually. Thus, the computerization and IT related projects of CBEC have not *per se* reduced the requirement of staff at various levels.

CBDT :

Processes and structures in respect of e-filing and e-processing of Income – tax returns, by their very nature, have to be responsive, dynamic and ever evolving. Amendments in the Income-tax Rules are regularly carried out for the purpose of rationalization and institutionalization of processes and structures in respect of e-filing and e-processing of Income–tax returns. Further, the power to lay down these processes and structures in greater detail has been delegated to Director General of Income-tax (Systems) which regularly issues instructions in this regard.

PART-II

OBSERVATIONS / RECOMMENDATIONS

Under-utilisation of Allocated Funds

1. **The Committee are perturbed to note the under-utilisation of funds under Demands No.43, 44 and 45 during the last three years. In respect of Demand No.43 during the years 2011-12, 2012-13 and 2013-14, sums of Rs.8,096.36 crore, Rs.366.17 crore and Rs.7,611.91 crore were respectively surrendered. In respect of Demand No.44 in the years 2011-12, 2012-13 and 2013-14, sums of Rs.644.86 crore, Rs.375.97 crore and Rs.238.88 crore respectively were surrendered. Similarly, in respect of Demand No.44 in the years 2011-12, 2012-13 and 2013-14, sums of Rs.95.81 crore, Rs.111.06 crore and Rs.146.37 crore respectively were surrendered. As regards Demand No.43, most of the surrenders in the years 2011-12, 2012-13 and 2013-14 were on account of non-utilisation of the provision meant for compensation to the States for phasing out of CST, as decision could not be taken about providing CST Compensation to States beyond 2011-12. The surrender of funds under Demands No.44 and 45 were due to non purchase of properties / vessels under the 'Capital Section'. As usual, the Ministry has tendered routine explanation regarding surrender of funds which is not tenable. Locking of precious and scarce funds with unrealistic projections and surrendering them with monotonous regularity is not at all acceptable. The Committee have been pointing out this recurrent flaw in the financial planning of the Department in their previous Reports. It is the basic fundamental of prudent financial planning that amount sought are based on realistic projections and each and every rupee allotted is judiciously spent and fully accounted for. While strongly disapproving this aspect of financial planning of the Department, the Committee desire that accountability should be fixed and concrete mitigating action should be taken so that the malaise of surrendering huge amount of allocated funds is fully curbed from this fiscal onwards.**

<u>CST Compensation</u>

2. The Committee note that under Demand No.43 in BE 2015-16, a provision of Rs.15,028 crore has been kept for CST Compensation to the States beyond 2010-11. A provision of Rs.10,758.43 crore was made at RE stage in the year 2014-15 for CST Compensation to the States. Given the record of the Department of the previous years when large amounts have been surrendered, as no decision could be taken about providing CST Compensation to the States beyond 2011-12, the Committee desire that the provision of CST Compensation made at RE stage in 2014-15 and BE 2015-16 should be fully utilized. This will help the Central Government in the smooth roll-out of Goods and Services Tax (GST) in April, 2016.

<u>Goods and Services Tax Network (GSTN)</u>

3. The Committee note that the Government has decided to set up a Special Purpose Vehicle (SPV) for Goods and Service Tax Network (GSTN) to create enabling environment for smooth infrastructure of GST. It would provide IT infrastructure and services to various stakeholders including the Centre and States. A budget provision of Rs.292 crore has been kept in 2015-16 for the SPV. In 2014-15 a provision of Rs.100 crore was kept for the same, however only Rs.20 crore could be utilised on SPV and the balance amount of Rs.80 crore has been surrendered. With such a track record, the Committee wonder how the Government will be able to spend the budgeted provision of Rs.292 crore in 2015-16. The Government should note that in the ongoing fiscal any under-spending would not only jeopardise the launch of GSTN but also affect the smooth introduction of GST in April, 2016. The Committee, therefore, exhort the Government to make sincere efforts for the setting up of GSTN within three months from the presentation of the Report and by fully utilizing the allocated funds so that GST is also rolled out as scheduled in April, 2016.

Widening of Tax Base

4. The Committee are happy to note that to augment the tax base the Government has implemented Non-filers System (NMS) to take focused action against non-filers with potential tax liabilities. The first and second NMS cycles in2013 and 2014 have identified 12.19 lakh and 22.09 lakh non-fliers with potential tax liabilities. In 2015, NMS cycle has identified around 44.07 lakh non-filers with potential tax-liabilities, who have not filed returns for AY 2013-14. Use of data analysis for identification and prioritization of non-fliers with potential tax liabilities have evidently shown encouraging results. The Committee hope that the new Compliance Management Centralised Centre (CMCPC), which is being set up under the 'Project-Insight', will further enhance the capability of the Department in widening the tax base and show positive outcomes.

5. While on this aspect, the Committee note with concern that the number of tax payers in the country has not increased proportionate to the increase in direct tax collections over the years. It is very strange that the taxpayers in the lowest income slab of upto Rs. 5 lakh constitute roughly 98% of the total taxpayers, while they contribute only about 10% of the tax revenues. This obviously indicates an extremely narrow tax base, which clearly calls for systematic data capture and monitoring thereof. The recommendations of the Tax Administration Reforms Commission (TARC) (constituted in August, 2013) should be considered and implemented towards this direction. The Committee believe that if we had a broad tax base, a simpler system with moderation in tax rates can be put in place and administered. The Committee desire that in order to further expand and broaden the tax base, the Government should bring the vast and spawning unorganised sector under the tax net, while continuing to tap the high-spending /high net worth categories. Extensive use of Information Technology, banking platform and third party data should be resorted to for this purpose.

Progressive Tax Structure for the Corporate Sector

6. The Committee note that there is no proposal at present to introduce progressive tax structure for corporate in India. The Finance Bill, 2015 has proposed to continue with the existing policy of having a specific rate of tax for corporates along with firms and local authorities. The progressive tax structure reduces the tax incidence for the payee with a lower ability to pay, while effectively taxing those with a higher ability to pay. The concept of progressive income tax is already well established in India in personal income tax and is generally accepted as the default norm for taxation. The Committee, therefore, desire that the Government should consider the proposal of introduction of progressive tax structure for corporates in India and in this respect, a study should be conducted on the merits / demerits of the proposal.

Tax Collection and Targets

7. The Committee note that the actual Direct Taxes collections for the FY 2013-14 was Rs. 6,38,543 crore which exceeded the Revised Estimates for the year set at Rs. 6,36,318 crore. The overall direct taxes collection target as per the Revised Estimates for FY 2014-15 was Rs. 7,05,628 crore. The current trends indicate that there may be a minor shortfall from the Revised Estimates. The Indirect Tax target for F.Y 2015-16 is Rs. 6,47,918.54 crore. During financial year 2013-14, the actual collection was 4,97,061 crore against the RE of Rs. 5,19,520 crore, resulting in a shortfall with regard to RE, which has been attributed to economic slowdown and low level of industrial output. The RE for F.Y 2014-15 was Rs. 5,42,325 crore, and the actual collection during April-February 2014-15 was only Rs. 4,78,630 Crore (provisional figure). The Committee note with concern that Indirect Taxes collection for the FY 2013-14 as well as 2014-15 is falling way behind the targets. The decline in industrial output as claimed by the Department, defies the recent revision in growth figures put out by the CSO. Such regular shortfall in Indirect Taxes collection could therefore suggest laxity in enforcement and consequential leakages in revenue. The Committee, therefore, urge that although taxes should be

collected in a fair and judicious manner, strict action should be initiated against tax evaders and dodgers, as well as those colluding with them.

8. On the crucial issue of tax revenue collected in the form of tax arrears and penalties from the cases probed for unaccounted monies stashed in the country and abroad by the Indian citizens, the Committee were not provided the figures by the Department on the plea that these are not maintained centrally. The Committee are not at all convinced by this specious argument of the Government on a matter of significant importance and sensitivity. They, therefore, desire that not only be these figures collected immediately from the regional offices and submitted to the Committee within one month of the presentation of this Report to Parliament but, henceforth, availability of this data centrally should be permanently systemized.

Tax Refunds and interest thereon

9. The Committee note that the Government have made large amount of tax refunds alongwith interest on refunds in respect of both the Direct and Indirect Taxes during the last three years. During the years 2011-12, 2012-13 and 2013-14 in respect of direct tax, tax refunds of Rs. 93,813 (inclusive of interest amount of Rs. 6,486 crore), Rs. 83,766 crore (inclusive of interest amount of Rs. 6,666 crore) and Rs. 89,060 crore (inclusive of interest amount of Rs. 6,598) were made respectively. In indirect tax Rs. 16,436 crore, Rs. 19,274 crore and Rs. 23,662 crore of tax refunds were made respectively during the years 2011-12, 2012-13 and 2013-14. The Committee are alarmed at such a huge outgo by way of refunds together with interest thereon. The figures cited above clearly indicate that very significant proportion of taxes collected is being returned by way of refunds in both direct and indirect taxes. It is high time a thorough inquiry/review is made on the reasons and processes involving refunds. As this ever-increasing trend has now become a phenomenon with large implications for revenue, the Committee feel that the Government should now confront this festering issue head on and arrive at viable solutions. In this connection, the Committee would reiterate their

earlier Recommendation that in the interest of transparency and accountability, the Government should especially provide for interest liability of tax refunds in the Central Budget.

<u>Tax Arrears</u>

10. The Committee note that the huge and ever-increasing pendency of tax arrears, including undisputed and uncollected tax both in direct and indirect taxes is becoming perennial and unmanageable. In 2012-13, direct tax arrears were Rs. 5,80,326 crore, which substantially increased to Rs. 6,74,916 crore in 2013-14. Similarly, in indirect taxes in 2012-13, the tax arrears were Rs. 1,09,681.47 crore, which increased to Rs. 1,49,128.56 crore. The quantum of undisputed /uncollected taxes in direct taxes in 2012-13 was Rs. 1,06,610 crore, which rose to Rs. 1,32,055 crore in 2013-14 and in indirect taxes, undisputed tax arrears in 2012-13 was Rs. 63,139 crore, which also increased to Rs. 76,159 crore. This huge pendency of tax arrears clearly shows failure of tax policy and administration. The Department owes an explanation in this regard as to how such huge demand arrears were first created in the books, which they were not able to realize later. The Committee have been pointing out in their earlier Reports on the assessing officer raising unrealistic tax demands without accompanying responsibility for recovery, leading to a situation of staggering tax arrears. The Committee, therefore, reiterate their Recommendation that there is an urgent need for a time-bound action plan for realising tax arrears particularly which are undisputed and collectible and failure to do so should invite stringent action and accountability of concerned officials should be fixed on this count.

<u>Tax Litigation</u>

11. A perusal of figures for success rate of appeals filed by the CBDT before ITAT/HC/SC during the last few years, reveals that the majority of cases were decided against the Department. Similarly, the success rate of CBEC before CESTAT/High Court/ Supreme Court is also very low. This clearly

shows that both the taxman and tax policy are on the wrong track, for which corrective measures are required to be taken at the earliest.

Since efficacy is a critical aspect of any modern tax management system, the Committee believe that systemic changes in the tax administration need to be effected to address the loopholes and lacunae in the dispute resolution mechanism. A well-defined and coherent tax regime would be the first building block to increase the tax-GDP ratio in the country, which at present is quite low.

The Committee, therefore, desire that an inclusive and constructive dialogue between the tax payer and tax administration is very critical to create trust and mutual understanding of tax position, before the issue become a dispute. This will also ensure that appeals are filed judiciously after close scrutiny and not in a routine manner leading to further burdening of an already burdened system and resultant loss of efficiency.

Revenue Foregone

12. The Committee note that Revenue Foregone during the year 2012-13 in Direct Taxes for Corporate was Rs.92,636 crore, Rs.5908.9 crore for Firms/Associations and Rs.27,626.8 crore for individuals. In 2013-14, the corresponding figure was Rs 91,144.2 crore for Corporates, Rs.4,482.3 crore for Firms / Associations and Rs.30,771.8 crore for individuals. In 2014-15 Rs.98,407.6 crore for Corporate, Rs.5,141 crore for Firms/Associations and Rs. 35,293.6 crore for individuals. In Indirect taxes (both custom and excise duty) Revenue Foregone in 2012-13 was Rs.4,63,979 crore, Rs.4,56,937 crore in 2013-14 and Rs 4,86,452 crore in 2014-15 respectively. According to the Department, Revenue Foregone is provided to promote exports, balanced regional development, creation of infrastructure facilities, employment, rural development, scientific research and development and to encourage savings by individuals and donations for charity etc. With a view to ensuring that tax exemptions actually fulfill the desired objectives, the Committee have time and again in the past recommended that a comprehensive review of revenue

foregone be made to find out as to how it has served the intended economic objectives or social purpose during the years so that the Government are able to formulate their tax exemption / incentive policy. The Committee note with satisfaction from this year's Budget proposals that the Government has finally made some adjustments in the Corporate Tax structure this year with a view to progressively do away with the element of revenue foregone in the coming years. The Committee would like to be apprised of the exact road map for the purpose.

Direct Taxes Code (DTC)

13. The Committee are not convinced with the reply of the Government that there is no great merit in going ahead with the Direct Tax Code, as it exists today, as most of the provisions of the DTC have already been included or are proposed to be included in the Income-Tax Act. Since the Income-Tax Act, 1961 is considered a very cumbersome Statute, fraught with complexities and several ambiguities prone to capricious interpretations and avoidable litigation, the Committee desire that the Government should go ahead with the Direct Taxes Code with its good provisions and implement the same within a stipulated deadline along the lines of the GST regime. The Committee are sure that while doing so the Government would rely on the Report of the Committee on 'the Direct Taxes Code Bill' so as to ensure that a flawless legislation is finally enacted.

Tax Administrative Reforms Commission (TARC)

14. The Committee note that as per their terms of reference, the Tax Administrative Reforms Commission(TARC) have submitted their four reports to the Finance Minister. While recommendations contained in the first and second reports have already been examined and some of them have been identified for early implementation, the recommendations contained in the third and fourth reports are presently under the examination of the Government. Since recommendations contained in all the four reports submitted by TARC have linkage with one another, the Committee desire that

the recommendations made by the TARC in their reports should be implemented in a holistic manner and not piecemeal and in a fixed time frame not later than three months so as to achieve the intended objectives in toto.

Search, Seizures and Surveys

15. The searches and surveys are amongst the main evidence collecting mechanisms that are used in cases where tax evasion is involved. The evidence collected through searches and surveys is used for determination of the liability, if any, through the quasi-judicial process of assessment of income of the subject person. The Committee note that there is a time-lag between the search / survey and passing of the assessment orders and disposal of all the appeals relating to the same, which defeats the intended purpose of searches and surveys. The Committee further note that due to time-lag between the search / survey and passing of assessment orders, the data of actual yield of searches and surveys is not maintained centrally. The Committee, therefore, desire that the Government should strive to curtail this time-lag and also maintain centralised data on actual yield of searches and surveys, so as to judge the efficacy of this process.

Redeployment and Rationalization of Manpower

16. The Committee note that computerization and centralization of processes has enabled the Department to re-align its functions to focus more on compliance activities, and that re-deployment and readjustment of manpower has already been implemented. As a result thereof, nearly 80% of the manpower of the Department is now engaged in processing work. With a view to achieving gainful utilisation of manpower, the Committee would suggest that the Income Tax Department should now focus on more specialised areas involving transfer pricing & international taxation, prevention and detection of unaccounted transactions, income and wealth and categories/areas prone to tax avoidance or evasion etc. If required,

modifications in the Rules and Procedures should be carried out for such re-orientation and rationalization with due promptitude.

New Delhi;
16 April, 2015
26 Chaitra, 1937 (Saka)

DR. M. VEERAPPA MOILY,
Chairperson,
Committee on Finance

Minutes of the Twenty-second Sitting of the Committee on Finance
The Committee sat on Monday, the 30th March, 2015 from 1400 hrs. to 1620 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily – Chairperson

MEMBERS

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Venkatesh Babu T.G.
4. Shri Nishikant Dubey
5. Dr. Gopalakrishnan C.
6. Shri Shyama Charan Gupta
7. Shri Prataprao Jadhav
8. Shri Rattan Lal Kataria
9. Shri Bhartruhari Mahtab
10. Shri Rayapati Sambasiva Rao
11. Prof. Saugata Roy
12. Shri Jyotiraditya M. Scindia
13. Shri Gajendra Singh Sekhawat
14. Shri Gopal Shetty
15. Shri Anil Shirole
16. Shri Shivkumar Udasi
17. Dr. Kirit Somaiya

RAJYA SABHA

18. Shri Naresh Gujral
19. Dr. Mahendra Prasad
20. Shri P. Rajeeve
21. Shri Ajay Sancheti
22. Shri Digvijaya Singh
23. Dr. Manmohan Singh

SECRETARIAT

1. Shri P.C. Koul - Director
2. Shri Ramkumar Suryanaryanan - Additional Director
3. Shri Kulmohan Singh Arora - Deputy Secretary

WITNESSES

Ministry of Finance (Department of Revenue)

1. Shri Shaktikanta Das, Secretary

2. Ms. Rashmi Verma, Additional Secretary
3. Shri H. Pradeep Rao, AS & FA
4. Shri Udai Singh Kumawat, Joint Secretary

Central Board of Excise and Custom

1. Shri Kaushal Srivastava, Chairman
2. Shri S.B. Singh, Adviser
3. Ms. Joy Kumari Chander, Member
4. Shri Jayant Mishra, DG (Systems)
5. Shri Alok Mishra, Joint Secretary (TRU-I)
6. Shri M. Vinod Kumar, Joint Secretary (TRU-II)

Central Board of Direct Taxes

1. Ms. Anita Kapur, Chairperson
2. Ms. Rani Singh Nair, (Member)
3. Shri Atulesh Jindal, Member (R)
4. Shri S.M. Nigam, Member (IT)
5. Ms. Surbhi Sinha, Member (A&J)
6. Shri A.K. Jain, Member
7. Ms. Nishi Singh, DG (Systems)
8. Shri K.C. Jain, DG (Logistics)

At the outset the Chairperson informed the Members that Shri P. Rajeeve, MP (Rajya Sabha) and a Member of the Committee was shortly going to retire from Rajya Sabha. He, thereafter, on behalf of the Committee and on his behalf placed on record appreciation of the significant contribution of Shri P. Rajeeve, MP to the deliberations of the Committee. The Chairperson, then directed that the Witnesses be ushered in.

Thereafter, Witnesses were ushered in.

After the customary introduction of the Witnesses, the Committee took their oral evidence in connection with the examination of Demands for Grants (2015-16) of the Ministry of Finance (Department of Revenue). The major issues discussed during the Sitting broadly related to low tax-GDP ratio, impact of Revenue Foregone on economy particularly on job/employment creation in the county, broadening of tax-base, mismatch between Pan Cardholders and actual tax payers, exemption of service tax on Government lotteries, phasing out of exemptions and subsidies, tax evasion, tax refunds made during the last quarter of a fiscal, tax on Super-Rich, status of implementation of Direct Tax Code, roadmap regarding rollout of GST from 1st April, 2016, protection of revenue loss to Mineral bearing States due to rollout of GST, implementation of recommendations of Tax Administration Reform Commission, protracted tax dispute litigation, shortage of manpower in CBDT and CBEC and need to fill up these vacancies, unearthing of black / unaccounted money etc. The Chairperson directed the representatives of Ministry of Finance (Department of Revenue) to furnish written replies to the points raised by the Members which could not be answered to/adequately responded to during the discussion within seven days to the Committee Secretariat.

(The witnesses then withdrew).

A verbatim record of proceedings has been kept.

The Committee then adjourned.

Minutes of the Twenty-Fourth Sitting of the Committee on Finance
The Committee sat on Thursday, the 16th April, 2015 from 1100 hrs. to 1315 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily – Chairperson

MEMBERS

LOK SABHA

2. Shri S.S. Ahluwalia,
3. Shri Nishikant Dubey
4. Shri P.C. Gaddigoudar
5. Shri Prataprao Jadhav
6. Shri Rattan Lal Kataria
7. Shri Bhartruhari Mahtab
8. Shri Gajendra Singh Sekhawat
9. Shri Gopal Shetty
10. Shri Shivkumar Udasi
11. Dr. Kiritbhai Solanki
12. Dr. Kirit Somaiya

RAJYA SABHA

13. Shri Naresh Gujral
14. Shri A. Navaneethakrishna
15. Dr. Mahendra Prasad
16. Shri P. Rajeeve
17. Dr. Manmohan Singh

SECRETARIAT

1.	Shri P.K. Misra	-	Additional Secretary
2.	Shri P.C. Tripathy	-	Director
3.	Shri Ramkumar Suryanarayanan	-	Additional Director
4.	Shri Kulmohan Singh Arora	-	Deputy Secretary

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3. Thereafter, the Committee took up the following draft Reports for consideration and adoption :

(i) Draft Report on Demands for Grants (2015-16) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment);

(ii) Draft Report on Demands for Grants (2015-16) of the Ministry of Finance (Department of Revenue);

(iii) Draft Report on Demands for Grants (2015-16) of the Ministry of Planning;

(iv) Draft Report on Demands for Grants (2015-16) of the Ministry of Corporate Affairs; and

(v) Draft Report on Demands for Grants (2015-16) of the Ministry of Statistics and Programme Implementation.

4. After some deliberation, the Committee adopted the draft Reports at Sl. Nos. (i) & (v) with minor modifications and Sl. Nos. (ii), (iii) & (iv) above without any modification and authorised the Chairperson to finalise them in the light of factual verification received from the concerned Ministries / Departments and present these Reports to Parliament.

The Committee then adjourned.

A verbatim record of the proceedings has been kept.