

**PUBLIC ACCOUNTS COMMITTEE**  
**(1975-76)**

(FIFTH LOK SABHA)

**HUNDRED AND EIGHTY-SIXTH REPORT**

**CORPORATION TAX AND INCOME TAX**  
**A REVIEW**

[Review of Implementation by Government of  
the Recommendations made by the Public Accounts  
Committee relating to Corporation Tax and Income  
Tax during 1964-74 ]



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

*December, 1975/Agrahayana, 1897 (S)*

*Price: Rs. 2.50 P.*

**LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA  
SECRETARIAT PUBLICATIONS**

| Sl. No.               | Name of Agent  | Sl. No.              | Name of Agent   |
|-----------------------|--|----------------------|---|
| <b>ANDHRA PRADESH</b> |  | <b>MAHARASHTRA</b>   |   |
| 1.                    | Andhra University General Cooperative Stores Ltd., Waltair (Visakhapatnam).                                    | 10.                  | M/s. Sunderdas Gianchand, 601, Girgaum Road, New Princess Street, Bombay-2.                         |
| 2.                    | G. R. Lakshmiapaty Chetty and Sons, General Merchants and News Agents, Newpet, Chandragiri, Chittoor District. | 11.                  | The International Book House, (Private) Limited, 6, Ash Lane, Mahatma Gandhi Road, Bombay-1.        |
| <b>ASSAM</b>          |  | 12.                  | The International Book Service, Deccan Gymkhana, Poona-4.   |
| 3.                    | Western Book Depot, Pan Bazar, Gauhati.  | 13.                  | Charles Lambert & Company, 10, Mahatma Gandhi Road, Opposite Clock Tower Fort, Bombay.              |
| <b>BIHAR</b>          |  | 14.                  | The Current Book House Maruti Lane, Raghunath Dadaji Street, Bombay-1.                              |
| 4.                    | Amar Kitab Ghar, Post Box 78, Diagonal Road, Jamshedpur.   | 15.                  | Deccan Book Stall, Fergusson College Road, Poona-4.   |
| 5.                    | M/s. Crown Book Depot, Upper Bazar, Ranchi.  | <b>MYSORE</b>        |   |
| <b>GUJARAT</b>        |  | 16.                  | M. & J. Services, Publishers Representatives, Accountants & Law Book Sellers, Bahri Road, Bombay-5. |
| 6.                    | Vijay Stores, Station Road, Anand.   | <b>RAJASTHAN</b>     |   |
| 7.                    | The New Order Book Company, Ellis Bridge, Ahmedabad-6.   | 17.                  | People Book House, Opp. Jaganmohan Palace, Mysore.  |
| <b>HARYANA</b>        |  | <b>RAJASTHAN</b>     |   |
| 8.                    | M/s. Prabhu Book Service, Nai Subzi Mandi, Gurgaon.  | 18.                  | Information Centre, Government of Rajasthan, Tripolia, Jaipur City.                                 |
| <b>MADHYA PRADESH</b> |  | 19.                  | M/s. Usha Book Depot, 585/A, Chitra Bazar, Tripolia, Jaipur.  |
| 9.                    | Modern Book House, Shiv Vilas Palace, Indore City.   | <b>UTTAR PRADESH</b> |   |
|                       |  | 20.                  | Law Book Company, Sardar Patel Marg, Allahabad-1.   |

CORRECTED TO HUNDRED AND EIGHTY-SIXTH  
 REPORT OF THE PUBLIC ACCOUNTS COMMITTEE  
 (FIFTH LOK SABHA) PRESENTED TO LOK SABHA  
 ON 16TH JANUARY, 1976.

-.-.

| <u>Page</u> | <u>Line</u>    | <u>For</u>            | <u>Read</u>           |
|-------------|----------------|-----------------------|-----------------------|
| 16          | 7(from bottom) | escapment             | escapement            |
| 21          | 24             | effective             | effective             |
| 22          | 12             | to their              | to this               |
| 29          | 7              | etc, where            | etc, where            |
| 31          | 16-17          | their-of-<br>repeated | their of-<br>repeated |
| 74          | 36             | abayance              | abeyance              |
| 88          | 24             | bag                   | big                   |
| 88          | 30             | reuired               | required              |
| 89          | 7              | trani ed              | trained               |
| 90          | 6              | remain                | remained              |
| 93          | 2              | page 17               | page 14               |

PARLIAMENT LIBRARY  
 Reference Serv  
 Central Govt Publications  
 No. B. 440027  
 23.1.76

**CONTENTS**

|  | PAGE  |
|--|-------|
| COMPOSITION OF THE COMMITTEE . . . . .                                       | (iii) |
| INTRODUCTION . . . . .   | (v)   |
| I. Need for a Review . . . . .   | 1     |
| II. Corporation Tax and Income Tax . . . . .                                 | 3     |
| III. Marked Variations between budget estimates and actuals . . . . .        | 6     |
| IV. Income escaping assessment . . . . .                                     | 16    |
| V. Mistakes committed in assessing total Income due to negligence . . . . .  | 25    |
| VI. Irregularities in allowing Depreciation and Development Rebate . . . . . | 35    |
| VII. Mistakes in levying additional tax on Companies . . . . .               | 43    |
| VIII. Mistakes in assessment in share incomes from firms . . . . .           | 49    |
| IX. Failure to levy interest . . . . .                                       | 52    |
| X. Mistakes in giving effect to Appellate Orders . . . . .                   | 59    |
| XI. Arrear Demands and Arrears Assessments . . . . .                         | 61    |
| XII. Remedial measures . . . . .   | 84    |

**APPENDICES**

|  |         |
|--|---------|
| APPENDIX I.—Copy of D.O. letter No. 3/15/73-DOMS/1975 dt. 6-8-75<br>from Shri H. D. Bahl, Director Organisation & Management<br>Services re-need for preparing estimates of direct taxes . . . . . | 93      |
| APPENDIX II.—Extracts from 16th Report of the Committee on Subordinate<br>Legislation (4th Lok Sabha)—paras 125-128 . . . . .  | 101     |
| APPENDIX III.—Summary of main Conclusions/Recommendations . . . . .  | 102—120 |

**PUBLIC ACCOUNTS COMMITTEE**

**(1975-76)**

**CHAIRMAN**

**Shri H. N. Mukerjee**

**MEMBERS**

2. Shri T. Balakrishniah
3. Shri Chandulal Chandrakar
4. Shri Chandrika Prasad
5. Shri Darbara Singh
6. Shri C. C. Gohain
7. Shri Pampan Gowda
8. Shri Raja Kulkarni
9. Shri Shyam Sunder Mohapatra
10. Shri Priya Ranjan Das Munshi
11. Shri Narendra Singh
12. Shri Noorul Huda
13. Shri Shibban Lal Saksena
14. Shri N. K. Sanghi
15. Shri Somchand Solanki
16. Shri Mohammed Usman Arif
17. Shrimati Pratibha Singh
18. Shri V. B. Raju
19. Shri Gulabrao Patil
20. Shri T. K. Srinivasan
21. Dr. K. Mathew Kurian
22. Shri Rabi Ray.

**SECRETARIAT**

**Shri Avtar Singh Rikhy—Additional Secretary.**

**Shri H. G. Paranjpe—Chief Financial Committee Officer.**

**Shri N. Sunder Rajan—Senior Financial Committee Officer.**

## INTRODUCTION

I, the Chairman of the Public Accounts Committee, having been authorised by the Committee, do present on their behalf the Hundred and Eighty-sixth Report of the Public Accounts Committee (Fifth Lok Sabha) on "Corporation Tax & Income Tax—a Review". The Report is a review by the Committee of the implementation by Government of the recommendations relating to Corporation Tax and Income Tax made by the Public Accounts Committee during the past decade.

2. On the 3rd June, 1975 an Action Taken Sub-Committee consisting of the following Members was appointed to scrutinise the replies received from Government in pursuance of the recommendations made by the Committee in their earlier Reports.

1. Shri H. N. Mukerjee—*Chairman*
2. Shri V. B. Raju—*Convener*
3. Shri Priya Ranjan Das Munshi
4. Shri Darbara Singh
5. Shri N. K. Sanghi
6. Shri Rabi Ray
7. Shri Raja Kulkarni
8. Dr. K. Mathew Kurian

3. The Action Taken Sub-Committee, at their sitting held on the 28th July, 1975, decided to undertake a review, on the lines of the review undertaken earlier in respect of the Committee's recommendations relating to the Customs Department and reported upon in the 89th Report (Fifth Lok Sabha), of the implementation by Government of the recommendations relating to Corporation Tax and Income Tax made by the Committee during 1964—1974. This Report was finalised broadly on the line of approach then indicated by the Action Taken Sub-Committee and was adopted by the Action Taken Sub-Committee at their sitting held on 7th November, 1975. The Public Accounts Committee finally adopted the Report on the 11th December, 1975.

(vi)

4. For facility of reference the main conclusions/recommendations of the Committee have been printed in thick type in the body of the Report. A statement showing the summary of the main recommendations/observations of the Committee is appended to the Report—Appendix III.

5. The Committee place on record their appreciation of the assistance rendered to them in this matter by the Comptroller and Auditor General of India.

NEW DELHI;

December 15, 1975.

Agrahayana 24, 1897 (S).

H. N. MUKERJEE,

Chairman,

Public Accounts Committee.

## CHAPTER I

### NEED FOR A REVIEW

1.1. The effectiveness of Parliamentary control of Government finances through the Public Accounts Committee depends upon the implementation of the recommendations of the Committee both in their letter and spirit. With a view to watching whether the Committee's recommendations were being followed by the executive and implemented promptly and in full measure, an Action Taken Sub-Committee of the Public Accounts Committee was appointed for the first time in 1967-68. The Action Taken Reports were designed, *inter-alia*, to categorise the recommendations of the Committee under the following four broad groups:

- (i) Recommendations/observations that have been accepted by Government.
- (ii) Recommendations/observations that the Committee do not desire to pursue in view of the Government's replies considered to be satisfactory.
- (iii) Recommendations/observations replies to which have not been accepted by the Committee and which required reiteration.
- (iv) Recommendations/observations in respect of which Government have furnished interim replies.

1.2. It was hoped that this procedure of watching the implementation of recommendations by an Action Taken Sub-Committee would fill the gap arising from the lack of a machinery to follow up the recommendations of the Committee.

1.3. However, this expectation was not fulfilled. Only too often, the Committee have found that Government contented itself with furnishing interim replies and even where Government accepted the recommendations, implementation of those recommendations either did not take place or took place tardily. The Committee, therefore, came to the conclusion that if they were to achieve the objectives placed before them, a review of the action taken by Government in pursuance of the recommendations made by the



Committee from time to time was essential. Accordingly, it was decided in the meeting held on 17th August, 1972 that a separate Sub-Committee should be appointed to review the implementation by Government of the recommendations of the Committee in important areas of administration. To begin with, implementation of the recommendations of the Committee upto the year 1972 relating to the Customs Department by the Ministry of Finance was taken up for such a review. The results of this review are contained in the Committee's 89th Report (Fifth Lok Sabha).

1.4. In its meeting held on the 28th July, 1975, the Action Taken Sub-Committee of the Public Accounts Committee (1975-76) decided to undertake a similar review of the implementation by the Government in the Ministry of Finance of the recommendations of the P.A.C. relating to Corporation Tax and Income-tax during the years 1964 to 1974. The findings of this review have been discussed in the succeeding Chapters of this Report.

## CHAPTER II

### CORPORATION TAX AND INCOME TAX

2.1. The audit of Income-tax (including Corporation Tax) was taken up by the Comptroller and Auditor General of India from 1960-61 and the first report on the audit of Revenue Receipts under these heads was given in Chapter VII of the Audit Report (Civil), 1962. It was from the year 1963, however, that a separate Audit Report on the Revenue Receipts of the Government of India was brought out. The results of audit in respect of Corporation Tax and taxes on income other than Corporation Tax were, therefore, included in a separate chapter of the Audit Report (Civil) on Revenue Receipts upto the year 1970-71. As a result of the substantial increase in revenue, the Audit Report (Civil) on Revenue Receipts was split into two volumes with effect from the year 1971-72, Volume I dealing with indirect taxes and Volume II dealing with direct taxes. The results of audit in respect of Corporation Tax and Income-tax have, thereafter, been presented in the second volume of the Audit Report on Revenue Receipts relating to direct taxes.

2.2. The importance of Corporation Tax and taxes on income other than Corporation Tax lies not only in that the receipts from these sources almost quadrupled during the decade 1962-63 to 1972-73, from Rs. 312 crores to Rs. 1,183 crores, but even more in the ever increasing use of these taxes as a measure of rapid socio-economic change in the country. The Income-tax Act has been repeatedly amended during the recent years with a view to plugging the various loopholes leading to evasion of taxes, to combating the evil of black money and to extending the areas of concessions intended for a planned development of the economy. The Reports of the Comptroller and Auditor General of India have been covering a wide field and bringing to light the deficiencies noticed in audit in the systems and procedures relating to the assessment and collection of taxes and the administration of various tax incentives. The Public Accounts Committee, have, in turn, been devoting considerable attention to the examination of the administration of the Income-tax law and procedures with a view to finding out the causes for the deficiencies thrown up in the Audit Reports and the

remedies required for the removal of these deficiencies. The Committee have presented the following Reports on the subjects relating to Corporation Tax and taxes on income other than Corporation Tax.

*Original Reports*

*Action Taken Reports*

THIRD LOK SABHA

6th Report  
9th Report  
21st Report  
27th Report  
28th Report  
44th Report  
46th Report

7th Report (4th L.S.)

FOURTH LOK SABHA

2nd Report  
3rd Report  
17th Report  
29th Report  
73rd Report  
117th Report  
121st Report

}  
}

36th Report  
76th Report  
100th Report  
25th Report (5th L.S.)  
12th Report (5th L.S.)

FIFTH LOK SABHA

51st Report  
87th Report  
119th Report  
128th Report  
176th Report

150th Report  
115th Report  
141st Report  
153rd Report  
Yet to be presented

2.3. Some of the more important problems which have been engaging the attention of the Committee in relation to direct taxes and their collection are as follows:—

- (a) Marked variations between the budget estimates and the actuals;
- (b) Income escaping assessment;
- (c) Mistakes committed in assessing total income due to negligence;

- (d) Irregularities in allowing depreciation and development rebate;
- (e) Mistakes in levying additional tax on companies;
- (f) Mistakes in assessment of share income from firms;
- (g) Failure to levy interest under various provisions of the Income-tax Act;
- (h) Mistakes in giving effect to appellate orders;
- (i) Position of arrear demands and arrear assessments.

2.4. In respect of all these matters the Public Accounts Committee have been making recommendations repeatedly and the Government have been giving assurances. However, as can be seen from the following chapters; the assurances have, largely, remained unfulfilled. In a number of cases (cf. paragraphs 3.14, 4.7, 4.11, 5.13, 5.20, 6.13, 7.5, 7.13, 7.14; 9.17; 11.11; 11.14; 11.20 and 11.25 of this Report), there has been no finality as yet in respect of the action taken by Government on some of the important recommendations of the Committee, despite considerable time having elapsed. Unless the Government devise an adequate machinery to see that the recommendations of the Committee receive adequate and prompt attention and the assurances held out to the Committee are translated into positive action not only at the higher level in the Ministry of Finance and the Central Board of Direct Taxes but also by all those engaged, in some capacity or the other, in administering the Income-tax law and procedures the labours of the Committee over the past so many years shall have been in vain.

## CHAPTER III

### MARKED VARIATIONS BETWEEN BUDGET ESTIMATES AND ACTUALS

3.1. While framing the budget for presentation to the Parliament it is the duty of the Administration to give, as nearly as possible, a correct forecast of Revenue Receipts from the various items of tax and non-tax sources. Any wide variation between the budget as presented to Parliament and the subsequent realisation of the duties would have a wide repercussion in not only distorting the economy but also imposing an unjustified tax burden on the community. The Public Accounts Committee had pointedly observed as early as 1964, in paragraph 4 of their 27th Report (Third Lok Sabha) that the estimates of revenue, the estimates of expenditure and the fresh taxation proposals are closely inter-linked and that the former two serve as some indicators for the quantum of fresh taxation effort necessary. The Committee had reiterated, in 1968, in paragraph 1.23 of their 29th Report (Fourth Lok Sabha) that no effort should be spared by the Government to make their estimates of receipt realistic for these determined to a large extent the rate of taxes and duties which were to be levied through the Finance Bill.

3.2. The following table indicates the extent of variations between the budget estimates and the actuals under Corporation Tax and Income-tax over the years 1962-63 to 1972-73.

#### Corporation Tax

(In crores of rupees)

| Year    | Budget<br>Estimates | Actuals | Variation | Percentage |
|---------|---------------------|---------|-----------|------------|
| 1962-63 | 178.45              | 220.06  | +41.61    | 23.32      |
| 1963-64 | 222.00              | 287.69  | +65.69    | 29.6       |
| 1964-65 | 296.67              | 313.64  | +16.97    | 5.72       |
| 1965-66 | 371.60              | 304.84  | -66.76    | -17.97     |
| 1966-67 | 372.07              | 330.80  | -41.27    | -11.09     |
| 1967-68 | 350.00              | 310.51  | -39.49    | -11.28     |
| 1968-69 | 320.35              | 299.77  | -20.58    | -6.42      |
| 1969-70 | 326.20              | 353.39  | +27.19    | 8.34       |
| 1970-71 | 342.00              | 370.52  | +28.52    | 8.34       |
| 1971-72 | 411.00              | 472.08  | +61.08    | 14.86      |
| 1972-73 | 493.50              | 557.86  | +64.36    | 13.04      |

**Taxes on Income other than Corporation Tax**

(In crores of rupees)

| Year    | Budget Estimates | Actuals | Variations | Percentage |
|---------|------------------|---------|------------|------------|
| 1962-63 | 68.65            | 92.12   | +23.48     | 34.20      |
| 1963-64 | 218.00           | 245.19  | +27.19     | 12.47      |
| 1964-65 | 139.79           | 143.16  | +3.37      | 2.41       |
| 1965-66 | 170.23           | 148.46  | -21.77     | -12.79     |
| 1966-67 | 162.45           | 169.53  | +7.08      | 4.36       |
| 1967-68 | 290.00           | 325.89  | +35.89     | 12.38      |
| 1968-69 | 319.65           | 378.47  | +58.82     | 18.40      |
| 1969-70 | 362.30           | 448.45  | +86.15     | 23.78      |
| 1970-71 | 436.75           | 473.17  | +36.42     | 8.34       |
| 1971-72 | 491.00           | 534.39  | +43.39     | 8.84       |
| 1972-73 | 583.00           | 625.47  | +42.47     | 7.28       |

3.3. It will be seen that the actuals exceeded the budget estimates in 7 out of 11 years in the case of Corporation Tax and in 10 out of 11 years in the case of taxes on income other than Corporation Tax. Except for the years 1965-66 to 1968-69 in respect of Corporation Tax, there has been a persistent under-estimation of tax revenues under the two heads and the magnitude of under-estimation has been as high as 29.6 per cent (for the year 1963-64) under Corporation Tax and 34.20 per cent (for the year 1962-63) under income-tax. Even in recent years from 1969-70, the percentage of under-estimation has ranged between 8.34 and 14.86 for Corporation Tax and 7.28 and 23.78 under Income-tax.

3.4. The need for preparing accurate estimates of tax revenues has been engaging the attention of the Public Accounts Committee throughout this period. In paragraph 4 of their very first report on Revenue Receipts, namely the 9th Report (Third Lok Sabha) the Committee had observed that an overall variation exceeding 3 to 4 per cent should be regarded as a matter of concern requiring special remedial measures. The Committee reiterated this guideline in paragraph 1.10 of their 44th Report (Third Lok Sabha).

3.5. During their examination of the variations between the estimates and actuals for the year 1961-62, the Committee took

note of the Finance Ministry's own admission that "with proper care and appraisal of trends of business, better results could be achieved" and observed as follows in paragraph 38 of their 21st Report (Third Lok Sabha):

"The Committee desire that the Ministry should step up the process of improvement of machinery and techniques of framing budget estimates".

3.6. The position, however, deteriorated considerably, rather than improving, in the very next year, i.e. 1962-63, and in paragraph 2 of their 28th Report (Third Lok Sabha), the Committee observed as follows:

"The larger variation between the Revised Estimates and Actuals points to the need for more accurate and careful budgeting. The overall variation between the Budget Estimates and the Actuals is 23 per cent under Corporation Tax and 34 per cent under Income-tax. Taking the gross collections under both the heads together, the variation comes to 19.1 per cent during 1962-63. These variations are very much on the high side, and the Committee hope that efforts would be made to improve the budgeting technique and arrive at more accurate estimates of the receipts under both these taxes."

3.7. In October, 1965, the Public Accounts Committee were informed [Paragraph 1.3 of their 44th Report (Third Lok Sabha)] by the representative of the Central Board of Direct Taxes that they were now collecting vital statistics relating to company assessments on the basis of the returns filed in the earlier years and also on the basis of the balance sheets etc. of the companies wherever possible. Information regarding profit and loss account, the dividend declared, the depreciation, development rebate claims, interest on debentures and approved advances were all obtained by the Director of Inspection, Research, Statistics and Publication. They were, then, collated by him and this would assist in making more precise estimates of company taxation. In respect of new levies, the information required was obtained from the Commissioners and collated. The witness had added that the statistical division of the Directorate of Research, Statistics and Publication had also been strengthened and that with the help of financial journals, the trends in respect of different business were being examined so

that the increases or decreases in tax collection in respect of a particular economic activity could be known. The Committee had then observed that they would like to watch the results of the action taken by the Government in this respect in preparing the budget estimates for the year 1965-66.

3.8. In 1965-66, there was an over-estimation of revenue to the extent of 17.97 per cent under Corporation Tax and 12.79 per cent under Income-tax. In the next 4 years from 1966-67 to 1969-70, while the budget estimates of Corporation Tax were over-estimated till 1968-69 and then under-estimated to the extent of 8.34 per cent during 1969-70, those of Income-tax were continuously under-estimated, the percentage of under-estimation rising from 4.36 in 1966-67 to 12.38 in 1967-68, 18.40 in 1968-69 and 23.79 in 1969-70. The Committee, therefore, reverted to this question and examined the problem, at some length, in their 51st Report (Fifth Lok Sabha). During evidence, the Finance Secretary explained the variations as follows:

“The reasons for sudden variation particularly in respect of corporate tax are not so much any changes in rates etc. as the total change in the economic conditions prevailing in the country during those particular years. These were the years when industrial recession was being noticed, these were the years of severe drought when the corporate sector had suffered at various points. For instance, there was a very big slump in the engineering and jute industries. There was a recession which affected both the current and arrear collection in the industries which were in considerable difficulties in making payments at that time. There were increases in the wage bills and expenses on account of raw materials of the various companies which again reduced their profitability. If you would recollect, these were the years when there was a very sharp rise in prices over a few months. The wages were also escalating at that particular moment. This resulted in a total reduction in corporate tax. This situation continued for two or three years. On the other hand, as far as individual income-tax is concerned, because of larger deductions at source in the case of the employees, the wage bills increasing meant also a large deduction of Income-tax. So, the receipts, under that head increased considerably.”



3.9. When asked to indicate the break-up of the total amount of tax realised, status-wise and category-wise, the Ministry of Finance stated that separate statistics in that manner were not maintained. The representative of the Ministry added: "we have not been able to build up as good a Statistical Organisation as we ought to". When the Committee pointed out that in the United Kingdom, which was also subjected to very many stresses and strains due to depression and so on, the extent of variation between budget estimates and actuals was less than two to three per cent plus or minus, the Finance Secretary stated:

"While I agree that we must take every possible measure to improve our statistical base and the whole statistical system and there is need for very considerable improvement and strengthening the department, the units and also the whole procedure, at this stage I cannot confidently say that we should be able to bring the variation to as low as 5 per cent. My own personal feeling is that there are so many fluctuations and changes taking place that it is not possible to envisage with that much of accuracy. But their system is far more accurate than ours. Apart from deputing some people we can certainly take up a detailed study of this subject."

3.10. When asked to state the reasons for the ineffectiveness of the steps taken by the Ministry of Finance in pursuance of the earlier recommendation of the Committee, the representative of the Ministry stated:

"We have tried to move forward, but unfortunately what was thought of could not be implemented for one reason or the other; questions like 'how could this be done' and 'it is not possible' and so forth arose. But I agree that this needs considerable improvement and a fresh study and a fresh analysis of the whole system. All these measures that have been taken have obviously not met the situation and therefore, still more measures are needed. There were certain measures which were taken and which have not met the situation. This needs a fresh examination and study which will show where we are and how we are going wrong."

3.11. The Public Accounts Committee (1972-73) made the following specific recommendations in paragraphs 1.23 to 1.26 of their 51st Report (Fifth Lok Sabha):

“In Paragraph 2 of their 27th Report (1964-65) the Committee had emphasised that effective steps should be taken to fill up the deficiency in collection of reliable statistics of economic growth so that estimates of revenue are prepared on a realistic basis. The Committee regret, however, that the Ministry of Finance have not been able to make much headway in this direction. They desired that the Ministry should build up a sound statistical base without further delay.

At present there are three agencies collecting information and conducting research on tax problems viz. (i) Tax Research Unit attached to the Department of Economic Affairs, (ii) Tax Planning Section, functioning under the Central Board of Direct Taxes and (iii) Directorate of Statistics, Research and Publications functioning as an attached office under the Central Board of Direct Taxes. The working group of Administrative Reforms Commission observed that there was no coordination among these three agencies and that these should be amalgamated and brought under the direct control of the senior member of the Board incharge of Tax Planning and Assessment. Ample time has elapsed for Government to have considered the Administrative Reforms Commission's recommendations in this respect in a comprehensive manner. The Committee feel that on grounds of efficiency and economy this suggestion is of sufficient importance to merit early action. As a first step in this direction the Units under the Central Board of Direct Taxes could be amalgamated forthwith.

It is significant that at present the Central Board of Direct Taxes do not have up-to-date statistics which in the opinion of the Committee are an essential prerequisite for making reasonably accurate forecasts of tax receipts. For instance, the Board do not have latest figures of income-tax collected in respect of various income brackets. The Board do not also maintain separate statistics of taxes realised from individuals, Hindu undivided families, firms, companies such as manufacturing concerns, trading com-

panies and investment companies. The Committee desire that the Board should maintain up-to-date statistics pertaining to all the categories in order to assess the impact of taxation measures at the time of preparing the budget estimates.

The Committee also desire that the Ministry should study the methods adopted for estimation of revenue receipts in U.K. and other countries where the variation between budget estimates and actuals is not significant in spite of fluctuations in economic conditions and growth. It is needless to point out that incorrect estimation may result sometimes in avoidance revision/imposition of tax levels."

3.12. In their reply dated the 5th March, 1973, the Ministry of Finance stated that the recommendations of the Committee had been noted for processing. When asked to state the subsequent progress, the Ministry, in their note dated the 13th November, 1973, stated:

"A committee has been informally appointed under the Chairmanship of Dr. N. T. Mathew, Joint Secretary, Department of Statistics with senior officers of the Income-tax Department as members, to look into the statistics frame work of the Income-tax Department and to make suitable recommendations for streamlining and systematising it; their report is awaited. Better approximation of the budget estimates will also be covered by the Committee. The Ministry is also obtaining for study the particulars of methodology of budget estimates followed in U.K. and U.S.A., deputation for study to be considered later, if necessary."

3.13. As for the suggestion on the merger of the agencies collecting information and conducting research on tax problems, the Ministry of Finance stated, in December, 1973, that the two units under the Board operated in entirely different spheres without any overlapping in their functions and that there was proper coordination between them. The Ministry added that the Direct Taxes Enquiry Committee had also made some recommendations for the reorganisation of the Directorate of Inspection (RS&P) and it was proposed to consider the recommendation of the Public Accounts Committee along with those of the Direct Taxes Enquiry Committee.

3.14. In paragraphs 1.9, 1.10 and 1.14 of their 150th Report (Fifth Lok Sabha), the Public Accounts Committee (1974-75) made the following observations on the Ministry's replies:

"The Committee would like to be apprised of the findings of the above informal Committee. It should be asked to complete its work expeditiously. Action should be taken urgently by Government on its recommendations and findings and the Committee kept informed of progress in this respect.

The Committee note that the Ministry is also obtaining for study the particulars of methodology of budget estimates followed in the United Kingdom and the United States of America and that the sending of a deputation for study, if necessary will be considered later. The stage at which the study is at present should be reported to the Committee. The Committee are of the opinion that the sending of a deputation for such study in the U.K. and U.S.A. is not necessary. The results of the study and the action taken thereon by Government should of course be reported to the Committee without undue delay.

The Committee have no objection to the decision to treat the two recommendations, that of the Direct Taxes Enquiry Committee (Wanchoo Committee) and that made by the Committee, together so long as this linking does not result in delay. The Committee would urge the Government to come to an early decision without any further loss of time and report the outcome to the Committee."

With reference to the observations of the Committee contained in paragraph 1.9, the Ministry of Finance, in their note dated 27th November 1975, stated:

"The informal Committee referred to in para 1.9 above is the Committee on Statistics appointed by the Government on 31-3-1973 under the Chairmanship of Dr. N. T. Mathew, Joint Secretary, Department of Statistics. After the retirement of Dr. Mathew, his successor Shri V. R. Rao has been appointed as the Chairman of the Committee. The Committee submitted its interim report in November, 1973.

The main recommendations of the Committee in its interim report are:

- (a) The total workload may be reduced through sample tabulation of the less important categories of assessment forms instead of complete enumeration as at present.

The sample tabulation approach will provide a long-term solution of the delays in publishing the Income-tax Statistics.

- (b) The assessment forms to be used in respect of individual assesseees whose total income is Rs. 25,000 or less should be printed on white paper. For all other classes of assesseees the Income-tax Circles may use assessment forms printed on coloured papers.
- (c) Additional information is required to be obtained in the prescribed proforma from each Income-tax Circle on the sample sector.
- (d) The present establishment of the Statistician's office should be strengthened by recruiting some more technical staff.
- (e) The statistics should be presented according to the assessment year as well as according to the assessments completed during the financial year.

The recommendations contained in the interim Report have been accepted by the Government and necessary follow-up action has been taken. In particular, instructions regarding the introduction of the sampling plan have already been issued to the Income-tax Offices. Separate assessment forms have also been introduced with effect from 1-4-1975 as recommended by the Committee. A part of the additional posts recommended by the Committee for strengthening the Statistical Branch have since been sanctioned.

The Committee has been requested to send its final report in respect of the remaining two terms of reference expeditiously."

In respect of the recommendations contained in paragraph 1.10. the Ministry, in their note, dated 27th November 1975, have stated:

"The available material for studying the methodology of formulating budget estimates was received through the Indian High Commission in the U.K. and the Indian Embassy in the U.S.A. The same was passed on by the Ministry to the Directorate of Organisation & Management Services of the Income-tax Department which has been carrying out the said study. A copy of the report of the said Directorate together with its enclosures is attached. (Reproduced in Appendix I).

The observations of the Committee in respect of sending a deputation for studying the methodology of budget estimates in the U.K. and the U.S.A. have been noted."

As regards the Committee's suggestion on the amalgamation of the agencies concerned with the collection of information and with research on tax problems, the Ministry informed the Committee, in their note dated 16th October, 1975 that steps were being taken to expedite the decision and that the Committee would be informed of it as soon as it was arrived at.

**3.15. While, on Government's own admission the steps already taken by the Ministry have not produced any positive results, the Ministry does not seem to have taken any concrete action on the specific recommendations of the Committee made in their 51st Report (Fifth Lok Sabha) even after a lapse of three years. In the meantime, even for the years 1970-71 to 1972-73, the variations between the budget estimates and the actuals have continued to be far more than 3 to 4 per cent indicated earlier by the Committee and there has been again a persistent under-estimation of tax revenues to the extent of 8.34 per cent to 14.86 per cent under Corporation Tax and 7.28 per cent to 8.84 per cent under Income-tax. The conclusion that the recommendations of the Committee in this regard have not been acted upon in letter and spirit is, therefore, inescapable**

## CHAPTER IV

### INCOME ESCAPING ASSESSMENT

4.1. The Public Accounts Committee have, surprisingly enough, frequently come across cases where the assessee did not disclose their incomes truly and correctly and though the information regarding the income suppressed was available in the records, yet the assessing officers failed to take note of the undisclosed income while making the assessment. Under-assessments of substantial amounts on this account have been pointed out in successive Audit Reports.

4.2. In 1964, the Committee were informed that in order to assist the assessing officers in this respect, a book had been published incorporating the experience of more than 38 years on the method of investigation into such cases. In paragraph 51 of their 28th Report (Third Lok Sabha), the Public Accounts Committee (1964-65) observed as under:

“The Committee are happy to learn that in order to assist assessing officers in investigating and assessing cases properly where the assessee has deliberately concealed his income but information regarding suppressed income is available in income-tax records, a book incorporating a large number of years of experience in this type of work has been brought out by the Board. The Committee trust that this guide book would be in the hands of every assessing officer and that it would help to eliminate cases where income escapes assessment.”

4.3. In their later Reports, the Committee analysed, from time to time, the different factors contributing to this type of default and suggested remedial measures. The Audit Report, 1965 pointed out a case in which information about the dividend distributed was not passed on by the Income Tax Officer assessing the declaring company to the Income Tax Officer assessing the recipient company, resulting in escapement of income of Rs. 26.64 lakhs. While examining this case, the Public Accounts Committee (1965-66) noted the remedial action taken by the Department to establish better co-ordination among Income Tax Officers and desired, in paragraph 1.172 of their 46th Report (Third Lok Sabha) that Government should consider what further measures were necessary to prevent recurrence of such cases.

In their Action Taken note on the above recommendations, reproduced at page 183 of the 7th Report (Fourth Lok Sabha), the Ministry of Finance stated that instructions had been issued, in May, 1967, that the Income Tax Officers should be on their guard against attempted tax evasion especially by bigger group of assesseees whose cases were scattered at various places under different Income Tax Officers and that the Commissioners should in particular, examine the cases of companies controlled by the same group and centralise them with one or more Income-tax Officers so that there was proper coordination among the Income Tax Officers dealing with these cases.

4.4. In their 73rd Report (Fourth Lok Sabha), while examining a case in which an income of over Rs. 5 lakhs had escaped assessment due to a difference in the value of stocks as per the books of a company and as shown in the statements submitted by it to the bank being over-looked, the Committee pointed out that although this was a company assessment it had not been checked by Internal Audit as required. On being informed that the Internal Audit parties were not, in any case, checking bank statements, the Committee, in paragraph 3.135 of the Report, recommended that the Government should consider the feasibility of suitably extending the scope of the functions of Internal Audit so as to make it an effective instrument for checking the accuracy of assessments.

In their Action Taken note reproduced at page 81 of the 100th Report (Fourth Lok Sabha), the Ministry of Finance stated, in October 1969, that the scope of scrutiny of the Internal Audit parties had been very substantially enlarged in May, 1969, that the number of Internal Audit Parties and Chief Auditors had been increased from 71 to 91 and from 7 to 19 respectively to take care of the enlarged functions, that 12 posts of Inspecting Assistant Commissioners (Audit) had been created for ensuring a regular and effective supervision over the functioning of Internal Audit parties, that the post of Director of Inspections (Income-tax) had been revived and redesignated as Director of Inspections (Income-tax and Audit) to exercise overall supervision over the Inspecting Assistant Commissioners (Audit) and that an Internal Audit Manual had been prepared giving detailed instructions to Internal Audit Parties for checking different items.

4.5. The Audit Report, 1969, pointed out a case in which a capital gain of Rs. 24.48 lakhs escaped assessment due to the failure of the assessing officer to cross-check the income-tax return with the corresponding wealth tax return. As a safeguard against such fai-



lures the Committee reiterated their suggestion made earlier in paragraph 1.50 of their 73rd Report (Fourth Lok Sabha) to have an integrated tax return for both wealth tax and income-tax and observed as under in paragraph 1.89 of their 117th Report (Fourth Lok Sabha):

“Another useful safeguard would be to have an integrated tax return covering both wealth and income tax. The experience in the instant case itself suggests that it would be a useful tool for checking concealment of income. The Committee have already suggested the institution of an integrated return in para 1.50 of their 73rd Report. The Committee have further suggested in para 1.23 of their 100th Report that it would not be necessary to burden all the assesseees with the obligation of having to submit an integrated return. Only assesseees liable to both income tax and wealth tax need be called upon to do so. This purpose could be achieved by having a different form of return for such assesseees. The Committee would like Government to consider these suggestions and come to an early decision. It seems to the Committee imperative that if the quality of tax administration is to be improved, it is essential to coordinate properly the administration of income tax and wealth tax.”

In their Action Taken note, reproduced at page 98 of the 25th Report (Fifth Lok Sabha), the Ministry of Finance stated, in December, 1970, that in the Wealth-tax return form it had been made obligatory for the assesseees to furnish certain essential particulars pertaining to their income-tax assessment such as the date of return of income, total income declared, the general index register number and the designation of the concerned Income Tax Officer. The Government hoped that with this measure there would be better coordination in matters connected with the administration of income-tax and wealth-tax.

While taking note of this, the Committee reiterated, in paragraph 1.21 of their 25th Report (Fifth Lok Sabha), that the feasibility of integrating the returns, wherever necessary, should be examined,

specially in view of the fact that the assessing authority was common for both Income-tax and Wealth-tax.

In reply to the above recommendation, the Ministry of Finance informed the Committee, in December 1972, that the introduction of an integrated form of return for Income tax and Wealth-tax did not appear to be feasible in view of certain practical difficulties involved in completing the assessments in respect of both the direct taxes simultaneously with reference to the integrated return. The Ministry also added that the Direct Taxes Enquiry Committee (Wanchoo Committee) as well as a Study Group appointed by Government in December, 1971 for examining the existing forms of returns and making recommendations regarding the modifications necessary in these forms had not also been in favour of introducing a comprehensive, integrated tax return form for Income-tax and Wealth-tax. Instructions were also stated to have been issued on 15th November, 1972, on the lines suggested by the Wanchoo Committee, for improving the quality of assessment work by co-ordinating or linking Income-tax and Wealth-tax assessments and enjoining upon the Income-tax Officers to take up assessment proceedings in respect of the two taxes simultaneously and carry out requisite cross-checks on the basis of information available in the two returns.

Despite these measures, there does not appear to be any perceptible improvement in the situation as is evident from the cases of failure to correlate properly the Income-tax and Wealth-tax returns that continue to be reported in subsequent Audit Reports.

4.6. In the above case two properties declared at Rs. 1,80,000 and Rs. 1,00,000 in the Wealth tax return were acquired by a State Government and by a University at Rs. 26.40 lakhs and Rs. 10 lakhs respectively. Taking this case as illustrative of the extent to which property values were depressed in the tax returns, the Public Accounts Committee, in paragraph 1.88 of their 117th Report (Fourth Lok Sabha), emphasised the need for undertaking survey of all metropolitan properties in accordance with a time-bound programme. The Ministry of Finance had stated in reply, in December 1970, [vide paragraph 1.17 of the 25th Report (Fifth Lok Sabha)] that the steps taken to implement the recommendation of the Committee would be intimated in due course.

4.7. This recommendation was pursued further by the Public Accounts Committee (1972-73), in paragraph 2.12 of their 88th Report (Fifth Lok Sabha) on other Direct Taxes, wherein the

Committee had reiterated that the survey of house properties in all the charges should be completed under a time-bound programme. The Ministry of Finance had stated, in August 1973, [vide paragraph 1.14 of the 118th Report (Fifth Lok Sabha)] that instructions had been issued to the Commissioners of Income-tax to make a survey of house properties with an annual letting value of Rs. 5,000 and more and that the question of augmentation of the strength of inspectors was under the consideration of the Ministry. The Committee made the following observations in paragraph 1.15 of their 118th Report (Fifth Lok Sabha):

“.....the Committee had specifically desired that the survey of house properties in all the charges should be completed under a time bound programme. It is to be regretted that no such programme appears to have been laid down by the Central Board of Direct Taxes. The Committee are, therefore, constrained to reiterate that it should be done forth-with and the programme strictly adhered to. They would await a report on completion of the survey in all the charges.”

4.8. In paragraph 1.32 of their 51st Report (Fifth Lok Sabha), the Public Accounts Committee (1972-73) referred to the evasion of tax by professionals and desired to have information with regard to four categories, namely, lawyers, doctors, contractors and engineers in the four cities of Bombay, Calcutta, Delhi and Madras, indicating against each category, their total number and number assessed to tax.

In reply, the Ministry of Finance furnished the following information in respect of lawyers and doctors in November, 1973:

---

| Category          | Total No. in<br>4 cities | No. on G.I.R. of<br>the Department |
|-------------------|--------------------------|------------------------------------|
| Lawyers . . . . . | 43,190                   | 7,404                              |
| Doctors . . . . . | 24,084                   | 13,872                             |

---

As regards the other two categories, the Ministry stated that similar information regarding contractors and engineers was being collected.

During evidence tendered before the Committee in December 1973, the Ministry indicated that they would be able to complete the survey "within about 6 to 8 months" [vide paragraph 9.9 of the 119th Report (Fifth Lok Sabha)]. The Committee desired that the whole survey in regard to all the categories should be completed before June 1975 and the results as well as the action taken to assess them to income-tax/wealth tax should be intimated to the Committee. In paragraph 9.16 of their 119th Report (Fifth Lok Sabha), the Committee also observed as under:

"It is surprising that although several decades have passed, the Department has not organised itself in a manner that would ensure that tax due from the members of various professions is fully recovered. The question has quite clearly been ignored so far. It is regrettable that it needed prodding by this Committee for the Department to undertake a survey now. The Committee would like to be informed of the concrete steps proposed to be taken as a result of the survey to see that the professionals are assessed to tax properly. It is necessary that a special machinery is devised and set up for this purpose with utmost expedition. What the machinery should be is for the Government to decide. One of the suggestions could be to set up separate special circles for the different professionals, which should be really affective unlike the Film Circles."

4.9. In their reply, the Ministry of Finance stated, in November 1974, that detailed guidelines had been issued for the conduct of requisite operations in respect of both professional and non-professional assesseees, and that the work relating to collection of information and its utilisation, as also external survey, had been systematised and the Commissioners of Income-tax, Bombay, Calcutta, Delhi, Madras, Ahmedabad, Poona, Hyderabad, Bangalore, Lucknow, Kanpur, Patna and Nagpur had been requested to examine the feasibility of having the jurisdiction over professionals in convenient groupings to ensure maximum possible centralisation, depending upon the work load. The Committee, thereupon, recommended as under in paragraphs 1.46 and 1.47 of their 141st Report (Fifth Lok Sabha):

"The Committee had suggested that special machinery should be devised and set up to ensure that the professionals like lawyers, doctors, engineers, contractors etc. are assessed to tax properly. One of the suggestions was the esta-

ishment of separate special and effective circles for the different professions. Although the Commissioners of Income-tax of bigger cities have been requested about a year ago to examine the feasibility of convenient grouping of the jurisdiction over professionals, it is clearly evident that the Government have not yet applied their mind to the recommendation of the Committee that a special circle should be set up for each of the professionals, on the lines of the film circles but capable of functioning efficiently.

The Committee would like to emphasize that they attach considerable importance to their recommendation of theirs and would like to be informed at an early date as to when it will be completed."

In this connection, the Ministry of Finance informed the Committee, in their note dated 21st August, 1975 that Special Circles for dealing with various professionals had been set up at Bangalore, Bombay, Calcutta, Delhi, Hyderabad, Kanpur, Lucknow, Madras Patna and Poona.

4.10. In paragraph 5.32 of their 119th Report (Fifth Lok Sabha), the Committee expressed their concern over a case in which a refund of sales tax escaped assessment in the income-tax assessment of a firm on account of the failure to verify the relevant sales tax records. The Committee observed:

"It is a pity that there is no coordination between the Sales-tax Department and the Income-tax Department."

The Committee recommended that there should be a system of collecting information directly from the Sales-tax Department to ensure that all the refunds were properly brought to tax.

The Ministry of Finance stated in reply, in June 1974, [vide page 40 of the 141st Report (Fifth Lok Sabha)] that the Commissioners of Income-tax were being directed to establish liaison with the Sales-tax Department for the purpose of collecting information about large refunds issued with a view to considering the assessability of such refunds to income-tax.

4.11. The Audit Report, 1971-72 brought to light a case in which there was an under-assessment of revenue of Rs. 51.59 lakhs due, mainly to the fact that under an agreement with a foreign company

to purchase "technical know-how", considerable income was remitted, in foreign currency, without subjecting the income to appropriate tax under the Income-tax Act. While commenting on this case, the Committee in paragraph 5.69 of their 128th Report (Fifth Lok Sabha) made the following recommendations in regard to the scrutiny of collaboration agreements from the tax angle:

"The Committee regret to find that at present it is not being ensured that the Central Board of Direct Taxes are consulted at the stage when collaboration agreements involving tax matters are approved. The Government should explain and examine how such a serious lacuna has been allowed to continue for so long. The Committee are not at all satisfied with the extent of scrutiny conducted by the Ministry of Finance in regard to the agreements entered into under the advice and with the approval of the various administrative Ministries particularly by the Public Sector undertakings. They accordingly emphasise that the Ministry should work out a fool-proof arrangement so that our limited resources are not frittered away....."

In their Action Taken note submitted to the Committee in December, 1974, the Ministry of Finance stated that the matter was under consideration of the Ministry. The Committee, thereupon, observed as under in paragraph 1.51 of their 153rd Report (Fifth Lok Sabha):

"The Committee would like to await the decision taken in this regard which needs to be expedited."

The Ministry of Finance, in their note dated 27th October, 1975, stated that the matter had been referred to the Ministry of Law for obtaining the opinion of the Attorney-General.

4.12. It would thus appear that, apart from the weakness of Internal Audit and the lack of pre-scrutiny of collaboration agreements, there are other, more basic, factors responsible for income escaping assessment. In the first place, there seems to be a chronic lack of coordination (i) among the assessing officers of the department itself, (ii) among the assessment records pertaining to different direct taxes, particularly income-tax and wealth-tax, (iii) among the Income-tax Department and the other tax collecting departments of the Central and State Governments and (iv) among the Central

**Board of Direct Taxes and the administrative Ministries entering into or approving foreign collaboration agreements.**

4.13. Better late than never, Special Circles have recently been set up in ten urban centres for dealing with 'professionals' like doctors, lawyers, etc. The Committee trust that work in these Special Circles, which will have a lot of leeway to make up, will be adequately performed and supervised.

## CHAPTER V

### MISTAKES COMMITTED IN ASSESSING TOTAL INCOME DUE TO NEGLIGENCE

5.1. Under-assessments of taxes of substantial amounts have been noticed, year after year, on account of mistakes due to carelessness or negligence which could have been avoided altogether had the assessing officers been a little more vigilant. The number of cases and the resultant under-assessment of taxes as reported in the successive Audit Reports are as follows:—

| Year of Audit Report | No. of cases | Under-assessment<br>(In lakhs of rupees) |
|----------------------|--------------|--|
| 1963                 | ..           | 6.50                                     |
| 1964                 | ..           | 9.74                                     |
| 1965                 | 1786         | 38.57                                    |
| 1966                 | 1059         | 41.86                                    |
| 1967                 | 1455         | 35.81                                    |
| 1968                 | 2612         | 33.99                                    |
| 1969                 | 2650         | 52.21                                    |
| 1970                 | 2518         | 56.69                                    |
| 1969-70              | 2719         | 76.16                                    |
| 1970-71              | 2678         | 75.38                                    |
| 1971-72              | 2300         | 60.48                                    |

5.2. The commonest mistake that has been adversely commented upon by the Committee, almost year after year, is the dropping of one lakh of rupees either from the assessed total income or from the amount of tax payable. Thus in paragraph 1.54 of their 3rd Report (Fourth Lok Sabha), the Committee had expressed regret over a case where though the total income was assessed at Rs. 3,37,230, the tax was calculated only on Rs. 2,37,230. In paragraph 2.62 of their 29th Report (Fourth Lok Sabha), the Committee had expres-



sed surprise over a case in which the Income-tax Officer added back an amount of Rs. 3,46,890 in the computation of total income instead of the correct amount of Rs. 4,46,894 already calculated by him. Again, in paragraph 1.129 of their 117th Report (Fourth Lok Sabha), the Committee had commented upon a case in which the disallowances were calculated by the assessing officer at Rs. 2,93,975 and the sum actually added back to the income was only Rs. 1,93,975. Similar mistakes involving the dropping of one lakh of rupees were further reported in the Audit Reports, 1969-70 and 1971-72. These were commented upon by the Committee in paragraph 2.45 of their 51st Report (Fifth Lok Sabha) and paragraphs 1.32 and 1.42 of their 119th Report (Fifth Lok Sabha).

5.3. A somewhat similar mistake, commonly committed, is the wrong transcription of a digit or the dropping of a digit from a substantial amount resulting in under-assessment of income-tax. Thus paragraph 34(b) of the Audit Report 1966, pointed out a case where a figure of Rs. 44,19,611 was adopted in place of the correct figure of Rs. 40,19,611 resulting in under-assessment of total income of Rs. 4 lakhs and short levy of tax of Rs. 2,13,983. In another case mentioned in paragraph 34(d) of the same Report, against the correct addition of Rs. 1.25.153, an addition of only Rs. 12,515 was made in the computation of total income resulting in short levy of tax of Rs. 58,007. In paragraph 3.13 of their 73rd Report (Fourth Lok Sabha), the Committee had come across a case in which the tax payable was correctly computed at Rs. 1,98,267 but was erroneously taken as Rs. 1,19,267 at the time of calculation of the total tax demand in the assessment form. Similarly in paragraph 2.53 of their 51st Report (Fifth Lok Sabha), the Committee came across a case where the tax payable by an assessee was taken as Rs. 14,069 against the correct figure of Rs. 1,40,690.

5.4. Instances of other careless mistakes which have frequently come to the notice of the Public Accounts Committee are: (i) credit given for advance tax not actually paid by the assessee [vide paragraph 62 of the Committee's 21st Report (Third Lok Sabha)] (ii) adding depreciation already charged in the profit and loss account to the net loss instead of deducting it, while allowing depreciation as per the statutory provisions [Paragraph 2.68 of the Committee's 29th Report (Fourth Lok Sabha)], (iii) adding the amounts disallowed to book profits instead of deducting them therefrom [Paragraph 3.7 of the Committee's 73rd Report (Fourth Lok Sabha)] and (iv) making an allowance in the computation of income for an item of

expenditure already debited in the accounts of the assessee [Paragraph 2.1 of the Committee's 87th Report (Fifth Lok Sabha)].

5.5. The Public Accounts Committee sounded a note of caution in respect of these careless and costly mistakes as early as 1964 when they observed as follows in paragraph 5 of their 28th Report (Third Lok Sabha):

“The Committee are given to understand that under-assessments on account of mistakes in working out the total income or tax have been frequently noticed in audit, and these mistakes could have been avoided if the officers were a little more careful. The Committee hope that the Central Board of Direct Taxes would take effective steps to eliminate such mistakes.”

5.6. During their examination of the Audit Report, (Civil) Revenue Receipts, 1966, comments on which have been incorporated in the Committee's 3rd Report (Fourth Lok Sabha) the Committee were informed that, in order to eliminate such mistakes, the number of internal Audit Parties had been increased so as to reduce their work-load and that the scope of Internal Audit had been expanded from 14th February, 1964 and further from 31st January, 1975. In paragraph 1.66 of their 3rd Report (Fourth Lok Sabha), the Committee expressed the hope that the Board would take adequate steps to ensure that such big mistakes involving heavy financial loss to the exchequer were not over looked by Internal Audit.

In their reply [*vide* page 58 of the 36th Report (Fourth Lok Sabha)], the Ministry stated, in 1968, that the scope of Internal Audit had been further revised and enlarged in March, 1966 and that it had been prescribed that the Internal Audit parties should check the total and also check whether the total income was computed in accordance with the returns and accounts and other material available on record. The Ministry added that instructions had also been issued that all company assessments, irrespective of the income, and 100 per cent of other assessments involving an income of more than Rs. 50,000 should be checked by Internal Audit parties soon after the assessments were completed.

5.7. Nevertheless, the Committee had again to comment upon the failures of Internal Audit in this regard in paragraph 2.73 of their 29th Report (Fourth Lok Sabha) and paragraph 1.129 of their 117th Report (Fourth Lok Sabha). The Committee pointed out that des-1469 L.S.—3.

pite the Board's instructions, the assessment in a big income case had not been scrutinised in Internal Audit and observed that the Board should ensure that their instructions in regard to scrutiny by Internal Audit were strictly complied with.

5.8. The Committee had expressed its concern, time and again,\*\* on the fact that such careless mistakes occurred in big income cases and in special circles like Central Circles, Film Circles, etc. Where the number of assessments was comparatively less than in other circles. In paragraph 3.7 of their 73rd Report (Fourth Lok Sabha) the Committee recommended that the Board should take these matters and the enquiries more seriously and issue detailed instructions as to the checks it wanted its officers to exercise to avoid such mistakes in assessments. In reply the Ministry stated, in November, 1969 [vide page 68 of the 100th Report (Fourth Lok Sabha)] that instructions had been issued in October, 1969 impressing upon the officers to exercise utmost care in regard to the arithmetical accuracy of the computation of income and taxes.

5.9. In paragraph 1.129 of their 117th Report (Fourth Lok Sabha), however, the Committee again observed that the calculations had not been counter-checked in a big income case in a Central circle. The Committee reiterated that the Board should ensure that their instructions in regard to the counter-check of calculations were strictly complied with.

5.10. Another factor that came to the Committee's notice in this regard was the weakness of inspections by the Inspecting Assistant Commissioners of Income Tax. In paragraph 1.64 of their 3rd Report (Fourth Lok Sabha), the Committee desired that instructions should be issued to the Commissioners to chalk out a programme of inspection of all the circles at regular intervals. In reply [vide page 57 of the 37th Report (Fourth Lok Sabha)], the Ministry stated that necessary instructions had been issued in December, 1968 that the programme of inspection of Inspecting Assistant Commissioners should be drawn up in such a manner so that every circle was inspected at least once in three years.

---

\*\*Paragraph 1.54 of 3rd Report (4th Lok Sabha).  
 Paragraph 3.7 of 73rd Report (4th Lok Sabha).  
 Paragraph 1.129 of 117th Report (4th Lok Sabha).  
 Paragraph 2.61 of 51st Report (5th Lok Sabha).  
 Paragraph 1.32 and 1.42 of 119th Report (5th Lok Sabha).

5.11. The Committee also noticed that even after such apparent mistakes were pointed out by Revenue Audit, rectificatory action was not taken promptly. In paragraph 1.47 of their 3rd Report (Fourth Lok Sabha), the Committee took note of the agreement of the Chairman, Central Board of Direct Taxes that rectification in such cases "should be simultaneous" and expressed the hope that in future action would be initiated at the time of the receipt audit objection itself.

The Ministry stated in reply, [vide page 53 of the 36th Report (Fourth Lok Sabha)], in June 1968, that necessary instructions had been issued.

5.12. The defaults, however, continued to occur and the Committee had to reiterate, in paragraph 3.14 of their 73rd Report (Fourth Lok Sabha), that, with a view to avoiding unnecessary delay in the recovery of tax dues, corrective action should be initiated by the Department soon after the errors in assessment came to notice. The Ministry stated in their Action Taken note [vide page 70 of the 100th Report (Fourth Lok Sabha)], that instructions had already been issued in August, 1968 that there should be no delay in taking corrective action in respect of mistakes pointed out by Revenue Audit or by Internal Audit. It was also stated that the Board had already prescribed a register in February, 1966 for ensuring timely action on the mistakes pointed out by Revenue Audit. A similar registrar was, however, not prescribed for a follow up of Internal Audit cases.

5.13. The situation did not still improve in this regard and the Audit Report 1970-71 brought to light a case where an apparent mistake involving an excess computation of loss of an assessee to the extent of Rs. 21,81,203 was rectified more than two years after the Revenue audit objection. The Committee commented upon this case in paragraph 2.19 of their 87th Report (Fifth Lok Sabha). Since this had happened despite the fact that it was the practice to inform the Directorate of Inspection of all the important irregularities noticed in Audit, the Committee desired that the working of the Directorate should be improved to serve as an effective instrument of vigilance on behalf of the Board.

In their reply, the Ministry of Finance stated, in October, 1973 that with a view to improving the functioning of the Directorate in audit matters, a new Audit Cell had been created to review, periodically, the progress of rectifications made by Income Tax Officers

and to keep a close watch and ensure speedy corrective action, besides exercising a more effective check on behalf of the Board, on the settlement of audit objections.

In this connection, the Committee observed as under in paragraph 1.11 of their 115th Report (Fifth Lok Sabha):

“The Committee note that a new Audit Cell has been created recently in the Directorate with a view to exercising a more effective check over settlement of Audit objections. The Committee require that the adequacy of the arrangement made may be examined in consultation with the Comptroller & Auditor General of India, under advise to them.”

In reply to the above observation, the Ministry of Finance, in their note dated 1st January 1975, stated, *inter alia* that a watch was being kept over the functioning of the Audit Cell and that if and when necessary, further steps would be taken to improve its performance.

The Committee were informed by Audit in this connection that the Ministry had been requested, on 14th April 1975, to indicate (i) the number of objections with tax effect pointed out separately by Revenue Audit and Internal, Audit which became time-barred during the year 1973-74 and (ii) the various steps taken since January 1973 to improve the functioning of the Internal Audit Parties and whether the Audit Cell had made any assessment of the improvement effected in this regard and that reply to this communication was awaited from the Ministry.

5.14. The Committee reviewed the position in their 51st Report (Fifth Lok Sabha) and observed as under in paragraph 2.43 of that Report:—

“Despite the concern expressed by the Committee in their successive Reports over the mistakes committed in the computation of tax which went undected, the number of such cases has shown a steady rising trend in recent years. The number of cases which was 1,786 in 1965 went upto 2,719 1969-70. From the nature of the mistakes examined by the Committee there can be only one conclusion that either there was no effective check in the Department or the mistakes were not bonafide. The Committee note

that the Department had issued some instructions on the 13th December, 1971 after the Committee took evidence. The Committee would content themselves with the observation that the effectiveness of performance depends on the implementation of instructions of which there was no dearth even earlier.'

5.15. After reviewing the position, the Committee made specific recommendations on four main contributory factor, viz. rush of work towards the end of the year, continued inefficiency of Internal Audit, lapses in the check of computation of income and the lack of counter-check of the computation of income.

5.16. In paragraph 7 of their 28th Report (Third Lok Sabha), the Committee had already taken note of the rush of assessments in the month of March being a contributory factor or being cited as such for such careless mistakes. In paragraph 2.50 and 2.95 of their 51st Report (Fifth Lok Sabha) the Committee reiterated their-of-repeated suggestion that assessments in high income brackets should, as far as possible, be completed earlier in the year.

The Ministry stated [vide page 47 of the 150th Report (Fifth Lok Sabhā)] in March, 1973 that "instructions stand issued in this behalf" in November 1970 requesting the Commissioners of Income-Tax to ensure that the Income Tax Officers planned their programme of work in such a way that assessments of cases involving large incomes were not crowded into the last month and the last week of the financial year.

5.17. The Committee reverted to this topic in paragraph 1.72 of their 119th Report (Fifth Lok Sabha) wherein they observed as under:—

"The Committee have received an impression that the Income Tax Officers act with lacrity where they want to and other cases are put off till these are about to become time-barred. The figures reported in paragraph 7(iv) of the Report of the C.A.G. (1971-72) speak eloquently of the utter lack of planning. The number of assessments completed during 1970-71 and 1971-72 was as low as 59,688 and 57,408 respectively in April and 56,078 and 55,737 respectively in May and it started rising gradually thereafter. The number of assessments completed in the month of March during these years was 5.37 lakhs and 4.94 lakhs

respectively. That the performance is so poor in the beginning of a year despite the carry-over of the pending assessments to the extent of over 12 lakhs in number shows that something is seriously wrong somewhere. The Committee are convinced that with proper orientation and planning it should be possible not only to overtake the arrears but also to complete the assessments in time. They accordingly desire that the Department should give serious thought to this problem and take steps to normalise the position soon. The Committee would like to be informed of concrete measures taken to improve the rate of disposal of cases in the beginning of the financial year and to eliminate the undue rush towards the end of the financial year."

The Ministry stated, [vide page 30 of the 141st Report (Fifth Lok Sabha)], in September 1974 that they had taken concrete steps for proper planning of work and stepping up of the disposal of assessments uniformly through the year and that a close watch on the implementation of the action plan was being kept by the Board.

5.18. As for the Internal Audit, the Committee in paragraph 2.52 of their 51st Report (Fifth Lok Sabha) stressed that the programme of Internal Audit should be so arranged as to cover all the circles without delay so that when Statutory Audit proceeds with their audit they would have an opportunity to review the work of the Internal Audit also.

The Ministry stated, in reply [vide page 47 of the 150th Report (Fifth Lok Sabha)], in March 1973 that Internal Audit parties had been further strengthened and immediate audit by Internal Audit within one month of the completion of the assessment had been prescribed in respect of company cases and other income-tax cases involving assessed income of Rs. 1 lakh and more. The Ministry added that broad-based and comprehensive training arrangements had been provided for officers and staff so as to improve their performance.

5.19. In paragraph 2.84 of the 51st Report (Fifth Lok Sabha), the Committee took note of the Ministry's statement to the effect that "the Board feel that while the calculation of tax is being checked and rechecked in most cases, the same attention is not being paid to the summing up of the total income of the assesseees." and that the Board had issued instructions for preventing such lapses. The Committee observed in paragraph 2.86 of the Report that they

would like to watch the improvements through future Audit Reports.

5.20. The Committee also suggested a counter-check of the computation of income and draft assessment orders and observed as follows in paragraphs 2.17 and 2.66 of their 87th Report (Fifth Lok Sabha):

"Mistakes in the computation of income which were examined by the Committee from year to year point to the need of having a counter-check of assessment orders. At present there is an arrangement only for the counter-check of arithmetical calculation of tax. The Committee regret that the Central Board of Direct Taxes do not see the need for prescribing a counter-check of the computation of income. As stressed elsewhere in the report, in the opinion of the Committee such a check before the assessments are finalised is essential.

The Committee learn that at the present there are no arrangements for checking up draft assessment orders before they are finalised and issued to the assessee. In view of the large number of mistakes in computation of assessable income that have been reported by Audit from year to year, the Committee desire that Government should consider the advisability of providing some kind of check of the draft assessment orders, preferably a pre-check of Internal Audit in big cases."

The Ministry stated, [vide page 126 of the 115th Report (Fifth Lok Sabha)], in December 1973:

"Having regard to the limited man-power reserve presently available with the department for assessment and audit purposes, the Director, O & M Services who is currently engaged in a work study of the Department's audit organisation is being asked to consider the feasibility of the Department's audit organisation being suitably expanded, taking up pre-check of assessments in important cases."

The Ministry added that further action would be considered on receipt of this report. Action, if any, taken on the report of the Director, O&M Services is yet to be reported to the Committee.

5.21. It would appear from the above that while on the one hand there is still much to be desired in the implementation of the ins-



tructions by the Board, on the other, the Ministry has yet to take firm and effective steps to ensure proper planning of the work of the Income-tax Officers so as to avoid the assessments, at least in big income cases, being rushed through towards the end of the year or the end of the limitation period and to ensure that the computation of income and the assessment orders themselves are checked and counter-checked so as to avoid careless and costly mistakes.

## CHAPTER VI

### IRREGULARITIES IN ALLOWING DEPRECIATION AND DEVELOPMENT REBATE

6.1. The administration of the provisions of the Income-tax Act relating to the allowance of depreciation and development rebate seems to be an area of particular weakness in the Revenue Department. The table below shows the number of cases in which mistakes in computation of depreciation and development rebate were pointed out in Audit and the under-assessment of tax resulting therefrom.

| Year    | No. of cases | Amount under-assessment<br>(in lakhs of Rs.) |
|---------|--------------|--|
| 1963    | 574          | 29.13  |
| 1964    | 678          | 33.83  |
| 1965    | 2089         | 75.97  |
| 1966    | 979          | 368.42                                       |
| 1967    | 892          | 97.85  |
| 1968    | 630          | 41.94  |
| 1969    | 759          | 93.80  |
| 1970    | 807          | 132.09                                       |
| 1969-70 | 1119         | 79.77  |
| 1970-71 | 942          | 118.53                                       |
| 1971-72 | 697          | 102.77                                       |

6.2. The mistakes committed, year after year, are of a repetitive nature. These comprise, the allowance of depreciation in excess of the total original cost of the assets, wrong rates of depreciation, mistakes in allowing extra shift allowance of depreciation and mistakes in converting or calculating the written down value resulting in excessive depreciation allowance. With regard to development rebate, the mistakes lie either in the development rebate being allowed

on assets like road transport vehicles on which the rebate is not admissible or the allowance being made in the absence of the fulfilment of the necessary preconditions such as the assets being wholly used for the purposes of business carried on by the assessee, development rebate reserve of an amount equal to 75 per cent of the development rebate being created, the said reserve being retained in the business for a period of 8 years and not distributed by way of dividends or profits or remitted outside India or used for acquisition of assets outside India, or the assets concerned being not sold or otherwise transferred by the assessee before the expiry of 8 years from the end of the year of acquisition or installation.

6.3. The Public Accounts Committee had, repeatedly\*, expressed concern over the large number of cases of under-assessment due to incorrect allowance of depreciation and development rebate. In order to help improve matters, the Committee made a number of specific suggestions on the subject. These are recounted briefly in the following paragraphs.

6.4. In their 21st Report (Third Lok Sabha), the Public Accounts Committee suggested that besides the strengthening of the checks by Internal Audit, the staff dealing with calculations of depreciation allowance should be adequately trained. In paragraph 29 of their 28th Report (Third Lok Sabha), the Committee repeated that the large number of wrong assessments, as a result of incorrect calculations of depreciation allowance, made it imperative that speedy action were taken to train the staff properly in this respect. The Committee also drew attention in paragraph 1.196 of their 117th Report (Fourth Lok Sabha), to the fact that the Internal Audit had not been going into questions relating to depreciation and development rebate while checking assessments and the scope of internal audit had been limited to scrutinise arithmetical calculations. The Committee observed that although Internal Audit parties were now required to check whether depreciation on a particular asset had been calculated with reference to the period of use and also whether the total depreciation allowed exceeded the original cost, there were still no specific instructions authorising them to check the admissibility of depreciation on intangible assets. The Committee suggested that this should be specifically brought within the purview of Internal Audit. Further in paragraph 1.41 of their 100th

\*Paragraph 21 of 6th Report (3rd Lok Sabha).

Paragraph 45 of 21st Report (3rd Lok Sabha).

Paragraphs 24A and 29 of 28th Report (3rd Lok Sabha).

Paragraph 1.69 of 46th Report (3rd Lok Sabha).

Paragraph 1.108 of 3rd Report (4th Lok Sabha).

Paragraph 2.95 of 29th Report (4th Lok Sabha).

Report (4th Lok Sabha), the Committee suggested that the question of admissibility of depreciation and development rebate should be specifically brought within the purview of the functions of Internal Audit.

The Ministry stated in December, 1970 [*vide* page 51 of the 25th Report (Fifth Lok Sabha)], that instructions had been issued requiring the I.T.Os. to obtain a break up of the assets into tangible and intangible ones to enable the Internal Audit parties to make necessary scrutiny at the time of Audit.

6.5. In paragraph 1.126 of their 3rd Report (Fourth Lok Sabha), the Committee suggested that, having regard to the large number of assessments in which mistakes in granting depreciation allowance and development rebate were noticed, each Inspecting Assistant Commissioner should check certain number of cases of each Income Tax Officer under his charge at regular intervals. Again, in paragraph 1.197 of their 117th Report (Fourth Lok Sabha), the Committee recommended that, in the course of check of assessments by Inspecting Assistant Commissioners the allowance made in the assessments on account of depreciation and development rebate should receive their special attention.

The Ministry stated in reply in January, 1971, [*vide* page 52 of the 25th Report (Fifth Lok Sabha)], that in the course of inspection of assessments, Inspecting Assistant Commissioners of Income-tax did check the allowance made on account of depreciation and development rebate. The Ministry added that they were now being asked to scrutinise such allowances in about a dozen of the largest cases in each Income Tax Officer's charge every year, irrespective of whether or not these cases were taken up for general inspection.

6.6. In paragraph 24A of their 28th Report (Third Lok Sabha), the Committee suggested that comprehensive and clear instructions may be issued to all Income Tax Officers regarding the determination of development rebate for calculation of income-tax, so that large scale under-assessments were avoided. Again, in paragraph 1.69 of their 46th Report (Third Lok Sabha), the Committee recommended that suitable instructions, containing comprehensive details, should be issued to all the Income-tax Officers for calculation of development rebate and depreciation allowance and training should be given to the field staff in making such calculations.

The Ministry stated in reply, [vide page 98 of the 7th Report (Fourth Lok Sabha)], that a compendium of various instructions issued from time to time on development rebate was issued by the Board in October, 1965. Regarding depreciation, the Board stated in November, 1966 that a compendium of instructions would be prepared and issued to the Income Tax Officers.

6.7. In paragraph 1.114 of their 3rd Report (Fourth Lok Sabha), the Committee suggested that a chart showing the depreciation allowance from year to year should be maintained in respect of depreciable assets. The Committee reiterated in paragraph 2.96 of their 29th Report (Fourth Lok Sabha) that action should be taken to maintain depreciation registers properly and up-to-date so as to avoid any mistakes in the working of depreciation and development rebate.

The Ministry stated in their Action Taken Note in July, 1968, [vide page 63 of the 36th Report (Fourth Lok Sabha)], that suitable instructions had been issued in May, 1968.

6.8. In paragraph 2.95 of their 29th Report (Fourth Lok Sabha), the Committee observed that the method of computation of depreciation allowance was complicated and should be simplified. In paragraph 3.65 of their 78rd Report (Fourth Lok Sabha), the Committee recalled the suggestion of the Working Group of the Administrative Reforms Commission and the Report on "Rationalisation and Simplification of Tax Structure" and recommended a rationalisation and simplification of the provisions regarding depreciation.

Pursuant to these recommendations of the Committee, the Government published draft rules for rationalisation of the provisions regarding depreciation on an industry-wise basis. While taking note of this, the Committee, in paragraph 1.175 of their 117th Report (Fourth Lok Sabha), pointed out that for important industries like scooters and automobiles, electronics etc. industry-wise rates of depreciation had not been prescribed.

The draft rules were finalised by Government and brought into effect from 1st April, 1970. Regarding the Committee's recommendations in respect of important industries like scooters, automobiles, electric equipment etc., the Ministry stated [vide paragraph 2.140 of the 51st Report (Fifth Lok Sabha)] that the Committee's recommendations were still under consideration but that it might not be possible to fix industry-wise rates because the percentage of machi-

nery entitled to different rates of depreciation may not be the same in the case of all the concerns running a particular type of industry.

6.9. In view of the very large number of mistakes resulting in wrong computation of depreciation and development rebate, the Committee, in paragraph 1.68 of their 46th Report (Third Lok Sabha) suggested that the Board should get a special review conducted in all the charges. In paragraph 1.109 of their 3rd Report (Fourth Lok Sabha), the Committee took note of the Ministry's assurance that a special review had been ordered in all the charges to check the correctness of the calculations on development rebate and depreciation allowance. In 1969, the Committee, however, noted in paragraph 3.65 of their 73rd Report (Fourth Lok Sabha), that the position had not been substantially remedied even after the special review of the assessments made in pursuance of the recommendations of the Public Accounts Committee.

6.10. As the situation did not improve, in spite of the action taken by Government on the aforesaid recommendations of the Committee (Paragraphs 6.4 to 6.10 ante), the Public Accounts Committee reviewed the position at some length in their 51st Report (Fifth Lok Sabha). In paragraphs 2.146 to 2.148 of this Report, the Committee observed and recommended as under:—

“The two-fold increase in the number of cases in which mistakes in computing depreciation and development rebate were noticed by Audit, clearly indicates that the steps taken by the Department in pursuance of the observations made by the Committee in the successive reports have not been effective enough. The Ministry has held that ‘the increase in the number of mistakes reported by Audit may have been due to only a larger coverage by them rather than increasing incidence of the mistakes’. The Committee regret their inability to accept this interpretation of the Ministry which displays an excessively complacent attitude. In this connection, they would like to refer to the suggestion contained in the 3rd Report (Fourth Lok Sabha) that a special review should be conducted in all the charges with a view to checking correctness of the calculations of the development rebate and depreciation allowance. The Ministry has pleaded that it had not been possible to follow up the reviews because of the inadequacy of man-power. This is a plea which the Committee

find it difficult to accept. In the opinion of the Committee only a complete review and proper follow up action would reveal the degree of efficiency of the department in this regard. They accordingly hope that the Ministry will take adequate follow up action in all cases speedily.

The Committee note that the new rules brought into effect from the 1st April, 1970 do not provide for industry-wise rate of depreciation in respect of a large number of industries. The Ministry has explained in this connection that it may not be possible to fix industry-wise rates because the percentage of machinery entitled to different rates of depreciation may not be the same in the case of all the concerns running a particular type of industry. In a case examined by the Committee, they have noticed that there has been some controversy regarding determination of rate applicable to printing machinery. The Committee would, therefore, suggest that Government should examine as to how far the rules regarding depreciation allowance could be rationalised further to place matters beyond doubt.

The Committee have been reiterating that each I.A.C. should check a certain number of cases of each Income-tax Officer under his charge at regular intervals. They note that although some instructions have been issued in this regard, it is not yet known as to what extent I.A.Cs. were able to pay attention to such a test check. The present position is quite unsatisfactory. The Committee hope that the Ministry will ensure that instructions are followed in letter and spirit."

6.11. In their Action Taken note on the Committee's recommendations contained in paragraphs 2.147—2.148 of the 51st Report (Fifth Lok Sabha), the Ministry stated as under in April, 1973 [cf. page 60 of the 150th Report (Fifth Lok Sabha)]:

"In the case referred by the Committee the assessment related to the period prior to 1st April, 1970, the new depreciation rules were introduced with effect from 1st April, 1970. Instructions have been issued laying down guidelines for applying the rates applicable prior to 1st April, 1970.

The Director of Inspections (IT&A) has been asked to ensure compliance with the instructions issued by him on 10th.

November, 1970 in this matter; for check up the Commissioner's have been asked to send half-yearly reports to the D.I."

6.12. In their 128th Report (Fifth Lok Sabha) the Committee observed that these instructions were still not implemented and the check of these assessments by Internal Audit and by the Inspecting Assistant Commissioners still left much to be desired. In paragraph 3.50 and 3.63 of this Report, the Committee observed as under:

"It is most distressing that the assessments for 8 years in the case of one company and for two years in the case of another company were not checked by Internal Audit despite instructions issued by the Board in 1965 that all company assessments should be checked cent-per-cent. The check of the only assessment carried out by them did not bring to light the mistakes. This is yet another instance of the inefficiency and inadequacy of the Internal Audit. The Committee are unable to accept the plea that the strength of the Internal Audit parties was not adequate to complete the volume of work within a reasonable time. What is necessary is the manning of Internal Audit Parties with competent and trained personnel at a fairly high level. The Committee would like this aspect to be examined urgently and suitable action taken thereafter without loss of time. Meantime, the Committee note that recently the Board have laid down priorities for the work of the Internal Audit so that cases with considerable revenue effect get foremost attention and trust that the Board will ensure that at least these instructions are strictly adhered to by the Internal Audit.

The Committee have received an impression that the cases of depreciation and development rebate allowed by the I.T.Os. are not being checked properly despite the instructions issued by the Board from time to time. In this connection they would refer to their observation contained in paragraph 2.148 of their 51st Report regarding carrying out of a check of such cases by the I.A.Cs. Further, although the instructions to the Internal Audit Party were that in cases of depreciation and development rebate of over Rs. 25,000, calculations would be checked by an I.T.O. posted as Officer-on-Special Duty, the cases men-



tioned in the Audit paragraph had not been checked by him. The plea of heavy work load is totally unacceptable as it was upto the Government to see that proper arrangements are made so as to ensure effective compliance of their instructions. The Government should carefully assess the work-load keeping in mind the quality aspect of the work-load and take steps to have adequate staff. The Committee expect Government to see to it that their instructions are enforced efficiently and expeditiously."

6.13. In reply to the recommendations in paragraph 3.50 of the 128th Report (1973-74), the Ministry stated in September 1974 [vide page 30 of the 153rd Report (Fifth Lok Sabha)], that a study on the organisation and working of the Internal Audit Parties had been conducted by the Directorate of O&M Services and the report on the Study was under examination by the Board. In respect of paragraph 3.63, the Ministry stated in November, 1974 that the Commissioners of Income Tax were required to submit half-yearly progress reports regarding the number of cases planned for checking and the cases checked by the Inspecting Assistant Commissioners of Income-tax. The Ministry added that whenever there was deficiency in disposal the concerned Commissioner of Income Tax was asked to make good the deficiencies during the ensuing half year.

**6.14. It is clear from a summary of the position that the implementation of the specific suggestions of the Public Accounts Committee, whether in the matter of simplification or rationalisation of the rules and procedures or in the matter of improving the efficiency and check by Internal Audit and the Inspecting Assistant Commissioners, has been half-hearted, and as a result the situation has not improved at all.**

## CHAPTER VII

### MISTAKES IN LEVYING ADDITIONAL TAX ON COMPANIES

7.1. The Income-tax Act provides (from 1955-56) for the levy of additional super-tax (additional tax from 1965-66) on companies in which the public are not substantially interested, if such a company does not distribute, within 12 months closing of its accounts of the previous year, a prescribed minimum percentage of its profits. The object of this provision, introduced when the rates of corporate tax were substantially lower than the rates of tax on individuals, was to prevent avoidance of super tax by individual shareholders who have controlling interest in such companies by not declaring dividends.

7.2. Mistakes in the levy of this additional tax on companies have been engaging the attention of the Public Accounts Committee from year to year. The three main aspects which have received particular attention of the Committee are the non-levy of additional tax, the delay in the finalisation of these cases and the mistakes in the classification of companies in which public are not substantially interested.

7.3. The question of non-levy of additional tax was first considered by the Committee in their 21st Report (Third Lok Sabha) when a number of cases of failure to levy super-tax, resulting in a total short levy of Rs. 5.77 lakhs, were brought to their notice through the Audit Report, 1963. The Committee learnt from Audit that the Central Board of Revenue had prescribed a special register for watching the levy of additional tax, but that this register had not been properly maintained by the Income-tax Officers. The Committee also understood that instructions were issued by the Board on 15th February, 1958 to take appropriate action for the levy of additional super-tax immediately after the completion of regular assessment but much regard had not been paid to these instructions. The Committee took a serious view of the laxity on the part of the Income-tax officers in observance of the prescribed procedure in regard to both maintenance of registers and taking action to levy additional super tax and suggested that the procedure should be suitably tightened.

7.4. The position brought to the notice of the Committee in the very next Audit Report (1964) was far worse; the number of cases increased to 101 and the amount of under-assessment involved rose to Rs. 30.37 lakhs. In paragraph 41 of their 28th Report (Third Lok Sabha) the Committee felt that the failure to levy additional super tax appeared to have become chronic and expressed regret on the

deterioration of the position. The Committee reiterated that the procedure should be tightened up and the Board should keep a close watch on the position.

7.5. Case of non-levy of additional tax, however, continued to occur and the Committee reverted to this subject in their 128th Report (Fifth Lok Sabha). In paragraph 1.73 of this report, the Committee called for a review of all the completed assessments relating to the assessment years prior to 1965-66 for appropriate action. The Committee desired to be informed of the results of the review.

In reply, the Ministry stated in December, 1974 that a review was being undertaken and a further report would follow.

In paragraph 1.14 of their 153rd Report (Fifth Lok Sabha) the Committee expressed the desire that the review should be completed expeditiously so that appropriate action for the recovery of taxes, wherever due, might be taken without loss of time. The progress made is not however, known to the Committee so far.

7.6. As for the delay in the completion of these cases, the Public Accounts Committee observed in their 73rd Report (Fourth Lok Sabha) that the number of cases pending had gone up from 1086 on 31st March, 1967 to 2477 on 31st March, 1968, involving an approximate amount of additional tax of Rs. 3.02 crores. The Committee were informed that the 1922 Act did not prescribe any time limit for the finalisation of these cases, though the 1961 Act prescribes a limitation period of 4 years from the end of the assessment year relevant to the previous year in question or one year from the end of the financial year in which the assessment or re-assessment has been made, whichever is later. The Ministry also informed the Committee that the Board had issued instructions in June, 1968 that the proceedings under the old Act should be completed as if the time limit prescribed under the 1961 Act applied even to those assessments and that instructions were again being issued impressing upon the Commissioners of Income-tax the urgency and the need for expeditious completion of all such cases by 31st September, 1969 at the latest. The Committee took note of these assurances in paragraph 5.58 of this Report and expressed the hope that the cases pending under the old Act would be finalised by this target date (30th September 1969) and substantial progress would also be made with the clearance of other pending cases coming under the 1961 Act. The Committee also observed that since the 1961 Act stipulated a definite time limit for the completion of these cases it was essential that they should also be expeditiously finalised.

7.7. The number of cases pending, however, went up further as on 31st March, 1969 to 2593 involving an estimated amount of tax of Rs. 4.31 crores. These cases related to the years from 1954-55 onwards. The Ministry stated that it had not been possible to finish the cases falling under the old Act within the target date of 30th September, 1969 and it was expected to have these cases finalised by 30th September, 1970. The Committee expressed their concern in paragraph 1.254 of their 117th Report (Fourth Lok Sabha) and observed that all cases pending under the old Act should be finalised by the new target date (30-9-1970) and substantial progress should also be made towards the clearance of cases pending under the 1961 Act.

7.8. In their reply to Ministry stated in August, 1971 that fresh instructions had been issued on 16th July, 1970 asking the Commissioners of Income Tax to complete the old cases by the 30th September, 1970 and to expedite disposal of cases pending under the new Act. The Ministry, however, added that 83 cases under the Old Act and 1296 cases under the 1961 Act were still pending on 31st December, 1970, as against 99 and 2227 cases respectively as on 30th September, 1970 [cf. page 60 of the 25th Report (Fifth Lok Sabha)].

7.9. The Public Accounts Committee reviewed the position in their 87th Report (Fifth Lok Sabha) and found that 30 cases under the old Act still remained outstanding even as late as July, 1972. The Committee emphasised that these cases should be disposed of without further loss of time. The Committee also noted that 30 cases involving Rs. 6.96 lakhs relating to the assessment years 1962-63 to 1965-66 were outstanding on 31st March, 1971 and enquired whether these cases had not become time-barred involving a loss of revenue.

In their reply, reproduced at page 98 of the 115th Report (Fifth Lok Sabha), the Ministry stated in December, 1973 that the pendency of the cases under the old Act had come down to 27 on 1st April, 1973 and the proceedings in these cases were pending due to weighty reasons such as pendency of writ petitions or appeal. As for the cases relating to the years 1962-63 to 1965-66 the Ministry stated that that all these cases, except 3, had since been completed; the assessments in 3 cases were pending as corresponding income-tax assessments had been reopened or had been set aside.

7.10. While on this subject, the Committee also observed in paragraph 5.10 of their 87th Report (Fifth Lok Sabha) that with the

reduction of the period of limitation for the completion of assessments from 4 years to 2 years, the time limit for the levy of additional tax should also be correspondingly curtailed in the interest of speedy realisation of penalty. In compliance with this recommendation of the Committee, the Income-tax Act, 1961 was amended through the Finance Act, 1975 to reduce the period of limitation for the levy of additional tax to 2 years from the assessment year 1975-76.

7.11. In their 73rd Report (Fourth Lok Sabha), the Committee had considered the question of classification of companies under the Income-tax Act as companies in which the public are not substantially interested. The Committee observed that the marked difference between the tax payable by an individual and that payable by a company at the time this provision was introduced in the Income-tax Act did not exist any more in that measure with private companies having been progressively subjected to higher rates of taxation. Besides, the number of companies in which the public were not substantially interested was rather small and the criteria laid down in the Income-tax Act for determination of this category of companies "are complicated and incapable of correct application". (Paragraph 5.63) the Committee therefore observed that it should be considered, whether in the changed context, this category of companies could be dispensed with under the Act. The Committee added that if revenue considerations required its retention, Government should consider whether the statute could be simplified to retain the essence of control on the lines suggested by the Working Group of the Administrative Reforms Commission.

7.12. The Public Accounts Committee reverted to this subject in 1972 and observed as follows in paragraph 2.74 of this 51st Report (Fifth Lok Sabha):—

"The Committee feel that while a valid distinction could be made between a public company and a private company as defined in the Companies Act, the basis for differential treatment for taxation of profits of a closely held public company needs to be elucidated. They would like Government to examine the feasibility and economics of dispensing with the subtle distinction between a public company and a closely held public company for the purpose of taxation of profits, as promised during evidence. The outcome of the examination may be intimated to them."

7.13. In their reply [vide page 146 of the 150th Report (Fifth Lok Sabha)], to the above recommendation, the Ministry of Finance had stated in March, 1973 that it would be examined and the results intimated in due course. During evidence before the Committee in November, 1973, the Chairman Central Board of Direct Taxes stated that both Shri Boothlingam and the Wanchoo Committee had also recommended the abolition of this distinction but the distinction was necessary because it was not difficult for private companies to be registered as or to change themselves into public companies if they wanted to escape the rigours of the taxation law. The Committee observed in para 1.75 of their 128th Report (Fifth Lok Sabha): "The Committee understand that there is an attempt to meet this situation in the new Company Law (Amendment) Bill. They accordingly wish to reiterate that the question of doing away with the distinction between a public company and a closely held public company should be considered expeditiously as a step towards simplification."

The Ministry stated, in their reply, in December, 1974, that the matter was under consideration in consultation with the department of Company Affairs.

In paragraph 1.17 of their 153rd Report (Fifth Lok Sabha) the Committee observed as under:

"The Committee cannot but deplore the inordinate delay in arriving at a decision in respect of a relatively simple issue. The Committee trust that Government will come to a decision without further loss of time."

The Ministry have not sent any further report.

7.14. As the question of removal of this distinction continued to take time, and in the meanwhile mistakes continued to occur in the classification of companies under this category, the Committee also found it necessary to make specific recommendations to remedy the situation. In paragraph 2.73 of their 51st Report (Fifth Lok Sabha), the Committee observed that the onus lay on the department to determine whether a company was one in which the public were substantially interested or not and that it took considerable effort and time to do it. The Committee therefore suggested that an additional column should be provided in the income-tax return to put the onus for indicating the nature of the company on the assessee.

Further, in paragraph 1.74 of their 128th Report (Fifth Lok Sabha), the Committee suggested that the criteria for determining whether the public have or have not substantial interest in a company should be clearly laid down in the Internal Audit Manual. The Committee also suggested that the question how far a foreign company could be treated as one in which the public were substantially interested might also be examined, in consultation with the Ministry of Law. The Committee reiterated these recommendations in paragraph 1.15 of their 153rd Report (Fifth Lok Sabha) and urged the Government to come to an early decision in this regard.

7.15. It is apparent, thus, that on the subject of levying additional tax on companies more than on any other, there has been what might be called a kind of a consistency of in-action and delay. The review of all past assessments suggested by the Committee in the interest of revenue has not been completed, while the recommendation of the Committee about the abolition of the subtle distinction between public companies and closely held public companies has been "under consideration" for as long as six years. Compliance, if any, with the specific suggestions made by the Committee during the last three years remains yet to be reported.

## CHAPTER VIII

### MISTAKES IN ASSESSMENT OF SHARE INCOME FROM FIRMS

8.1. Under the Income-tax Act, firms are classified into two categories, registered firms and unregistered firms. Any genuine firm constituted under a deed of partnership which specifies the individual shares of the partners can apply for registration under the Act. A registered firm pays only a small amount of tax on its income; the rest of its income is apportioned among the partners and included in their individual assessments. An unregistered firm, on the other hand, pays full tax on its total income.

8.2. The Public Accounts Committee have, repeatedly noticed irregularities in the assessment of share income in the hands of the partners resulting in loss of revenue. While commenting upon the wide-spread failure in the assessment years 1956-57 to 1960-61 to revise the assessments of the partners originally made adopting the share income on a provisional basis even after the receipt of the intimation of the final share income on completion of the firms' assessments, the Committee, in paragraph 65 of their 21st Report (Third Lok Sabha), took a serious note of the failure to keep a proper watch over the cases assessed on provisional basis through a register prescribed by the Central Board of Revenue in February, 1959. The Committee expressed the hope that the instructions issued by the Board would be strictly followed by the Income-tax Officers in future.

8.3. The very next year, however, the Committee come across as many as 287 cases of similar failures, involving an under-assessment of tax of Rs. 16.25 lakhs.

The Committee were informed, during evidence, that the Board had taken a serious view of the continuing lapses and had issued instructions that the Commissioners should ensure that the register prescribed by the Board in 1959 for keeping a watch over these cases was properly maintained and was also brought up-to-date. Further the Inspecting Assistant Commissioners and Internal Audit parties had been instructed to make a special check in this regard.



In paragraph 49 of their 28th Report (Third Lok Sabha), the Committee recalled their earlier observation on the subject and desired that the procedure should be tightened up and the instructions strictly enforced. Having regard to the extensive nature of under-assessments due to lapse of this type, the Committee also felt that it might be worthwhile to order a general review of such cases in all Commissioners' charges.

8.4. In reply to the Committee's recommendation, the Ministry of Finance stated that "as desired by the Committee a review of cases regarding failure to ascertain and adopt the current share income of partners on completion of the firms' assessment was conducted in the Commissioners' charges in Gujarat and Madras" and that a similar review was being made in the remaining Commissioners' charges.

When the Committee drew the Ministry's attention to this reply subsequently in 1971, [*vide* paragraph 2.223 of the 51st Report (Fifth Lok Sabha)], the Ministry stated:

"It is regretted that the matter of review contemplated for other Commissioners' charges was not pursued by the Board; this appears to have been due to the inadequacy of staff."

8.5. As similar lapses involving loss of revenue continued to occur, the Public Accounts Committee reverted to this subject in paragraphs 2.204 to 2.227 of their 51st Report (Fifth Lok Sabha). The Committee made the following specific suggestions in paragraph 2.224:—

"The Committee regret to find that there is no satisfactory arrangement to ensure timely revision of the partners' assessment, provisionally completed, after the final share incomes become known. Although erstwhile Central Board of Revenue had prescribed a register called 'register of cases of provisional share incomes' to be maintained in each Income-tax office, the register is not being maintained properly. Inordinate delays have occurred both in intimating the correct share of income by the officer assessing the firm's income and in taking timely action by the officer assessing the partners' income. The Committee, therefore, suggest that there should be a similar register through which the timely intimation of the correct

share of income to the officer assessing the partner's income can be ensured. This would also help to watch the action taken to revise the partner's assessment, which is already required to be intimated to the officer assessing the firm's income. Further it is desirable to have a time limit both for such an intimation to be sent and for revising the partner's assessment on receipt thereof. The proper maintenance of the register already prescribed and the one now suggested by the Committee and adherence to the time-limit to be laid down, should be checked by the I.A.C. as also by the Internal Audit so as to ensure that the Interest of revenue are properly safeguarded."

8.6. The Ministry informed the Committee in April, 1973 [*vide* page 67 of the 150th Report (Fifth Lok Sabha)], that the suggestions of the Committee had been accepted and necessary instructions in this regard had been issued on the 28th March, 1973.

## CHAPTER IX

### FAILURE TO LEVY INTEREST

9.1. According to the provisions of the Income-tax Act, interest is leviable on assesseees in the following circumstances:—

- (i) Late submission of income-tax return;
- (ii) omission to file estimate of income and to pay advance tax, or  
filing incorrect estimate of income and reducing the liability towards advance tax; and
- (iii) non-payment of demand of tax within the prescribed period.

9.2. The following table indicates the number of cases, together with the amounts involved, of non-levy/incorrect levy of interest under the above statutory provisions of the Act as pointed out in successive Audit Reports:—

| Audit Report | No. of cases | Amount<br>(In lakhs of rupees) |
|--------------|--------------|--------------------------------|
| 1963         | 327          | 5.00                           |
| 1964         | 632          | 6.64                           |
| 1965         | 523          | 9.08                           |
| 1966         | 1297         | 17.72                          |
| 1967         | 1834         | 32.60                          |
| 1968         | 2064         | 40.48                          |
| 1969         | 2566         | 63.56                          |
| 1970         | 2501         | 63.06                          |
| 1969-70      | 3395         | 91.12                          |
| 1970-71      | 2493         | 67.05                          |
| 1971-72      | 2012         | 54.52                          |

9.3. The Public Accounts Committee have commented upon this widespread failure, many a time, during these years and have also made a number of recommendations and suggestions in this regard.

9.4. In the beginning, the Ministry assumed a rather complacent attitude; in later years they held out assurances which were not fulfilled. Thus in 1964, the Ministry "assured the Committee that this type of mistake was not widely prevalent", *vide* paragraph 43 of the Public Accounts Committee's 28th Report (Third Lok Sabha). The Chairman of the Central Board of Direct Taxes also informed the Committee (*vide* paragraph 44 *ibid*) that "it had now been made the specified responsibility of Internal Audit to check this point, and that the number of mistakes was on the decline."

9.5. Nevertheless, in the Audit Report, 1965 the amount of under-assessment on this account went up and the Committee enquired about the steps taken to avoid these mistakes in future.

The representative of the Ministry stated [paragraphs 1.202 and 1.203 of the 46th Report (Third Lok Sabha)] "that instructions had been issued to Commissioners of Income-tax to ensure that penal interest would be levied in all the cases wherever it was leviable. The Income-tax officers had also been asked, while making assessment, to look into the earlier assessment also and to see if there had been any mention of it in earlier year also...the Internal Audit had also been instructed to carefully look into these matters but the amounts involved were not generally much."

In view of these steps, the Ministry hoped that chances of such omissions would be reduced. In paragraph 1.205 of the Report, the Committee also expressed the hope that with the issue of these instructions, such lapses would not occur in future.

9.6. The instructions issued by the Board did not, however, have the desired effect and the hopes of the Committee were belied. The representative of the Central Board of Direct Taxes stated before the Committee in 1966 that the instructions issued in 1965 were reiterated in 1966. The Committee took note of the continued failure in the following words in paragraph 1.209 of their 3rd Report (Fourth Lok Sabha):

"It appears to the Committee that the omission to levy interest is widespread which indicates that the steps taken by Board have not been very effective. The Committee

desire that steps should be taken to rectify the cases before they become time barred."

9.7. In pursuance of this recommendation of the Committee, the Central Board of Direct Taxes issued fresh instructions on the 4th July, 1968 [*vide* page 76 of the 36th Report (Fourth Lok Sabha)], in which they asked the Commissioners of Income-tax to ensure, *inter-alia*, that the mistakes were rectified promptly and that in no case were these allowed to become time-barred.

9.8. In 1967, the Committee again enquired into the various steps taken to avoid these mistakes, *vide* paragraph 2.127 of the Committee's 29th Report (Fourth Lok Sabha). The Ministry informed the Committee that, apart from issuing instructions in respect of levy of interest under various provisions of the Income-tax Act, they had also issued instructions that, while making assessment for later year, the Income-tax Officers should verify if penal interest had been correctly charged in the past, that the Commissioners of Income-tax should ensure that review of all cases from the point of view of levy of interest for non-payment of tax within the prescribed period was carried out twice a year on the 31st of August and 28th of February and that the Internal Audit party should invariably check the levy and calculation of interest in all cases. The Committee desired that the matter should be kept under watch.

9.9. In their Action Taken note, [*vide* page 95 of the 76th Report (Fourth Lok Sabha)] the Ministry merely stated, in December, 1968, that the suggestions of the Committee had been noted. The Committee enquired into the concrete steps taken by the Government in the light of the Committee's recommendations to obviate omissions in the levy of interest. The Ministry stated in reply in March, 1969, that the Commissioners of Income-tax were being asked to keep a watch over the matter and that the Board were further considering the rationalisation of the procedure for levy of interest at various stages.

9.10. As matters did not improve the Public Accounts Committee expressed their concern at the deteriorating situation in paragraph 5.85 of their 73rd Report (Fourth Lok Sabha) and made the following specific suggestions:—

- (i) As suggested by the Working Group of the Administrative Reforms Commission in their Report on the Central Direct Taxes Administration, the interest calculations should be

made with reference to complete months rather than days and there should be provision for rounding off the calculations.

- (ii) In order to simplify the work, the varying rates of interest, for different kinds of default should be rationalised and tabulator's used for purposes of calculation.
- (iii) In order to ensure that levy of interest for delayed submission of return is not omitted, a prominent indication should be given by means of a label or a rubber stamp to the effect that the return had been received after the prescribed date and that penal interest is chargeable.
- (iv) The spacing of work in the department should be improved so as to ensure that the rush of assessments in the month of March does not lead to such omissions.

9.11. The Ministry informed the Committee in November, 1969, that the above suggestions had been accepted and that action was being taken to acquire powers under the Income-tax Act to make rules for calculating interest with reference to complete months and rounding off calculations. The Committee were also informed that instructions had been issued to the Commissioners of Income-tax on the other points [of Pages 102—107 of the Committee's 100th Report (Fourth Lok Sabha)].

9.12. The number of omissions noticed in audit still continued to increase and the Audit Report 1969-70 pointed out 3395 cases with a tax effect of Rs. 91.12 lakhs. The Committee, therefore, reverted to this question in their 51st Report (Fifth Lok Sabha). The Ministry stated in a note to the Committee as follows:—

“The Ministry share the Committee's concern at the increase in the number of cases in which interest was not levied or short levied. They would, however, like to state that out of 3395 cases mentioned in the Audit paragraph, only 165 cases relate to assessments involving tax-effect of Rs. 10,000 and above. The Central Board of Direct Taxes contemplate taking measures to ensure that wherever interest is chargeable it should be done more or less in automatic manner.”

9.13. The Committee made the following observations in paragraph 2.302 of their 51st Report (Fifth Lok Sabha):—

“The Committee trust that with a rationalisation of rate of interest and the procedure for the levy, such large scale mistakes or omission as have been noticed in the past, should not occur. The Committee note in this connection that the Central Board of Direct Taxes have assumed powers with effect from 1st April, 1971 to frame rules for regulating the calculations of interest. They desire that necessary rules simplifying and streamlining the procedure should be framed without delay.”

9.14. In March, 1973, the Ministry informed the Committee that necessary provisions for the calculation of interest would be made in the Income-tax Rules, 1962 in the light of the decision taken by Government on the recommendations of the Direct Taxes Enquiry Committee “in due course.” When asked to state the latest position, the Ministry stated in November, 1973 that action for framing the necessary rules was “under active consideration.” The Public Accounts Committee then made the following observations in paragraph 1.68 of their 150th Report (Fifth Lok Sabha) on this inordinate delay in the implementation of the assurance held out in November, 1969:—

“The Committee deplore the inordinate delay that has taken place in framing rules for regulating the calculations of interest. The Committee need hardly stress that necessary rules simplifying and streamlining the procedure should be framed forthwith under intimation to them.”

9.15. The rules in this regard were framed and notified in December, 1974, effective from 1st January, 1975 i.e. six years after the Committee's suggestion and four years after taking the Income-tax Act.

9.16. As the failure had become chronic, the Committee also called for a general review of all big cases in paragraph 6.4 of their 119th Report (Fifth Lok Sabha), wherein the Committee observed as under:—

“The Committee have been exhorting the Ministry to ensure that the penal provisions are properly enforced. The Ministry does not seem to have come to grips with the

problem. Having regard to the fact that non-levy of interest has become chronic, the Committee consider that there is need for a general review of all cases where assessments for more than Rs. 50,000 have been completed, at least for the past three years. This review should be undertaken urgently and the results communicated to the Committee."

9.17. The Ministry informed the Committee in October, 1974 that a general review of all cases of assessments of Rs. 50,000 and above completed during the years 1971-72, 1972-73 and 1973-74 had been ordered on 27th September, 1974 and that the results of the review would be communicated to the Committee "in due course". The Committee were pained to note that the results of the review called for by the Board by the 31st October, 1974, were not actually available even 6 months after the target date. The Committee deplored the delay in paragraph 1.42 of their 141st Report (Fifth Lok Sabha) in the following words:—

"The Committee note from the reply dated 5th October, 1974 that the Ministry have ordered a review of all cases of assessments of Rs. 50,000 and above completed during the years 1971-72 to 1973-74 to see whether interest has been levied in all cases for short or non-payment of advance tax, for delay in submission of return of income and for non-payment of tax by the due dates and that the results were expected by 31st October, 1974. It is most deplorable that even after six months of the target date fixed, the results of the review have not been made available to the Committee. The Committee take a serious view of the delay that has taken place and for which there would appear to be no valid reasons. They would urge the Government to expedite the review and report the results to them without any further loss of time. The Committee also desire that responsibility for the delay should be fixed."

The final result of the review is yet to be reported to the Committee.

**9.18. In spite of various exhortations and recommendations of the Public Accounts Committee, the Ministry of Finance has still not come to grips with the problem relating to the failure to levy interest and has consistently failed to fulfil the assurances held out. Even where action is taken on a special suggestion of the Committee, it is so tardy that the Committee feel that the Ministry has to be goaded**



time and again. For instance, their suggestion regarding the simplification of interest calculation had been accepted as long back as November 1969; powers to frame rules for the purpose were acquired in April, 1971 by amending the Income-tax Act, while the rules were actually framed and notified in December, 1974, effective only from the 1st January, 1975. It is disconcerting that the Ministry should have taken six long years to implement this simple suggestion. Similarly, though in pursuance of the Committee's suggestion the target date for a general review of all cases of completed assessments for more than Rs. 50,000 with a view to ensuring enforcement of penal provisions, had been fixed as 31st October, 1974 by the Central Board of Direct Taxes itself, the results of this review are still not available to the Committee.

## CHAPTER X

### MISTAKES IN GIVING EFFECT TO APPELLATE ORDERS

10.1. Another common area of mistakes which has been engaging the attention of Public Accounts Committee is the mistakes committed by the Income-tax Officers in giving effect to appellate orders of the higher authorities or the Courts.

10.2. In paragraph 61 of their 21st Report (Third Lok Sabha), the Committee, while expressing surprise at the defective manner in which the Appellate Tribunal's Orders was given effect to by the Income-tax Officers in a case resulting in short assessment of tax amounting to Rs. 1.04 lakhs, suggested that revision of assessments done as a result of orders of an appellate authority involving large sums should be scrutinised by some higher authority to avoid the possibility of such mistakes occurring. In compliance with this recommendation of the Committee, the Board issued instructions in July, 1964 [*vide* paragraph 5.101 of the 73rd Report (Fourth Lok Sabha)]. that in all cases where the tax-effect as a result of revision of assessments, consequent on appellate orders, exceeded Rs. 1 lakh, the Income-tax officer should take prior approval of the Inspecting Assistant Commissioner before giving effect to the appellate orders.

10.3. In 1969, while examining a case where a mistake in giving effect to the orders of the High Court resulted in under-assessment of Rs. 2,40,291 the Committee enquired whether the revision assessment had been submitted for the prior scrutiny of the Inspecting Assistant Commissioner. In their reply the Ministry stated that the revised assessment was not made with the prior approval of the Inspecting Assistant Commissioner. The Committee took a serious view of this and in paragraph 5.106 of their 73rd Report (Fourth Lok Sabha) desired that the Board should ensure that the instructions issued by them in pursuant to the Committee's recommendation were strictly complied with.

In their Action Taken note reproduced at page 107 of the 100th Report (Fourth Lok Sabha) the Ministry stated, in November 1969, that according to the Commissioner of Income-tax the instructions requiring the Inspecting Assistant Commissioner's prior approval

for giving effect to the appellate order were lost sight of in the heavy pressure of work in March, 1965 when the assessment order was revised.

10.4. This same plea of heavy pressure of work had been put forth in another case examined by the Committee in paragraph 1.151 of their 46th Report (Third Lok Sabha) when the Committee had observed as under:—

“The Committee consider it very unsatisfactory that the Income-tax Officer who committed the mistake was so much over-burdened with the work at the particular time that he had to hold five important charges. The Committee hope that suitable administrative arrangements will be made to avoid such instances in future.”

10.5. It would appear that the mistakes in giving effect to appellate orders continue to occur, first, because the Ministry has not been able to ensure a proper spacing of work with the result that the rush of work at the end of the year has become a recurring phenomenon, and secondly, because the Central Board of Direct Taxes has not been able to secure compliance even with their own instructions, issued at the instance of the Public Accounts Committee.

## CHAPTER XI

### ARREAR DEMANDS AND ARREAR ASSESSMENTS

11.1. The Public Accounts Committee have repeatedly expressed concern at the increasing arrears of tax and the large number of pending assessments. Apart from exhorting the Revenue Department towards better performance, the Committee have given a series of specific suggestions to improve the situation in this regard.

11.2. The following table indicates the gross arrears of tax as at the end of each year:

| Year    | Gross arrears<br>(In crores of Rs.) |
|---------|-------------------------------------|
| 1961-62 | 287.32                              |
| 1962-63 | 270.43                              |
| 1963-64 | 282.37                              |
| 1964-65 | 322.72                              |
| 1965-66 | 381.88                              |
| 1966-67 | 541.73                              |
| 1967-68 | 622.61                              |
| 1968-69 | 774.40                              |
| 1969-70 | 840.70                              |
| 1970-71 | 738.77                              |
| 1971-72 | 805.37                              |

11.3. In paragraph 31 of their 6th Report (Third Lok Sabha) and in paragraph 72 of their 21st Report (Third Lok Sabha) the Committee desired that, in the context of the national emergency and economic development, vigorous efforts should be made to speed up the collection of past arrears. In paragraph 67 of their 28th Report (Third Lok Sabha), while reviewing the remedial measures taken by Government by way of impressing on all Commissioners of Income-tax the necessity of making all out efforts for

collecting arrears and introducing Sec. 140A in the Income-tax Act to provide for payment of tax on self-assessment basis, the Committee again expressed concern at the arrears and reiterated that these arrears should be realised by intensifying the collection efforts.

11.4. The Committee went into this subject at some length in paragraphs 1.257 to 1.260 of their 46th Report (Third Lok Sabha), paragraph 1.274 of their 3rd Report (Fourth Lok Sabha) and paragraphs 1.24 to 1.27 of their 17th Report (Fourth Lok Sabha) and made the following specific suggestions:—

- (i) On being informed that a fair portion of the arrears would be irrecoverable on account of the demands being inflated and that instructions had been issued to write off inflated demands partially leaving a sufficient margin for recovery, the Committee, in paragraph 1.259 of the 46th Report (Third Lok Sabha) suggested that, at the time of agreeing to scale down the demand which was accepted as inflated, full payment of the balance or security in lieu thereof should, as far as possible be insisted upon.
- (ii) The Committee also suggested, in their 17th Report (Fourth Lok Sabha) that the root cause of inflated demands, that is, the tendency on the part of the Income-tax Officers to make over-pitched assessments, should be effectively dealt with as unrealistic demands would, on the one hand lead to wasteful litigation and on the other fictitiously boost the demand figures with its other pernicious ramifications.
- (iii) In paragraph 1.25 of their 17th Report (Fourth Lok Sabha), the Committee suggested that the department should pay concentrated attention to cases of arrears of tax demand of Rs. 5 lakhs and above as the number of such cases was relatively small while the arrears of revenue arising from them were of a high order.
- (iv) In paragraph 1.26 of their 17th Report (Fourth Lok Sabha), the Committee suggested that Government should pay particular attention to the arrears of tax from companies so as to allay the apprehensions that some of these companies might be holding back Government dues and utilising them for business purposes.

11.5. The question of writing off the irrecoverable demands was considered again by the Committee in their 51st Report (Fifth Lok Sabha), when they were informed that zonal Committees, which were required to meet once in two months to accelerate the pace of writing off had been constituted in 1968 to go through such cases. The Committee recommended, in paragraph 4.50 of that Report, that in order to watch the progress of work done by the Zonal Committees, the Board should get periodically necessary returns which should be properly scrutinised in the interest of speeding up work. In paragraph 4.51, the Committee also reiterated the observations of the Administrative Reforms Commission that outstanding demands should be written off only if they were found clearly to be irrecoverable, exhausting all other avenues open to the Department.

In their reply, reproduced at page 118 of the 150th Report (Fifth Lok Sabha) the Ministry of Finance stated in May, 1973, that an annual return had since been prescribed to enable the Board to watch the progress of work done by the Zonal Committees. The Ministry also stated that in order to see that the write off was resorted to only in cases where there were absolutely no chances of recovery, Government had introduced a system of scrutiny of all such cases by specially constituted Committees and had also laid down, irrespective of the formal delegation of powers, that in cases where the demand involved was Rs. 1 lakh or more, the prior approval of the Board should be obtained before the demand was written off; cases involving a demand of more than Rs. 25 lakhs for write off were to be submitted to the Finance Minister.

11.6. As for the over-pitched assessments, the Ministry of Finance stated, [vide page 48 of the 76th Report (Fourth Lok Sabha)], in November, 1968, that the Commissioners of Income-tax had been asked to look into cases of over-pitched assessments where the Tribunal, High Courts or Supreme Court might have passed strictures against such assessments and that from the Report received in this regard, it was seen that "there was no such case during the past four years." The Ministry added that palpably wrong or harrassing assessments "are taken notice of by the Department while evaluating the work of the assessing officers."

11.7. On the suggestion being repeated in paragraph 1.80 of the 73rd Report (Fourth Lok Sabha), however, the Ministry stated in October, 1969 that on the basis of a pilot study conducted by a Committee of officers of the orders passed during 1967-68 in certain

charges, which revealed that only 35.5 per cent of the assessment orders were confirmed in appeal, instructions had been issued indicating the typical omissions and commissions made by the Income-tax Officers and impressing upon them the imperative need for making well reasoned and realistic assessments. The Commissioners of Income Tax were also requested that these aspects of assessment work should be particularly looked into during inspection of the work of the Income Tax Officers and during scrutiny of the adverse appellate orders.

11.8. With regard to the suggestion about arrears of tax demand of Rs. 5 lakhs and above, the Ministry stated in December, 1968 [vide page 45 of the 76th Report (Fourth Lok Sabha)], that information regarding the progress made in the cases involving arrears of Rs. 5 lakhs and above was not readily available as no separate statistics were maintained regarding the collections made out of cases involving arrears of Rs. 5 lakhs or more and other cases.

11.9. In paragraph 1.55 of their 117th Report (Fourth Lok Sabha) the Committee observed that a relatively small number of cases involving tax arrears of over Rs. 1 lakh accounted for almost 50 per cent of the gross arrears of tax and desired that special attention should be paid to these cases. The Committee also recommended in this connection, that the Government should consider whether sort of system of tax insurance, on the lines prevalent in the United States, could be introduced in the case of high incomes in this country.

The Ministry stated in November, 1970 [cf. page 110 of the 25th Report (Fifth Lok Sabha)] that the suggestion had been taken up for consideration in consultation with the Controller of Insurance and the decision arrived at would be intimated to the Committee.

Subsequently, in their note dated 22nd March, 1973, the Ministry of Finance informed the Committee as follows:

"It has been ascertained from the Controller of Insurance that no system of insurance of direct taxes prevails in the U.S.A. It appears that the Committee had in mind a system on the customs side in which every importer has to take out a policy with a Surety Insurance Company. The Insurance Company pays the duty if the importer fails to make payment. It may be observed that the insurance in such a case is made against a definite object,

the element of which is absent in the direct taxes administration as the administration of indirect taxes, e.g., customs and excise duties, is quite different. The Government, therefore, do not propose to introduce a system of tax insurance in so far as direct taxes are concerned.

The present amount of tax in arrears relates to a long period covered by a continuously developing tax law. As and when law was found inadequate to deal with the situation contributing to tax arrears, steps have been taken to tighten it. However, the taxes raised prior to the introduction of such remedial measures suffered from the drawbacks subsequently remedied.

Various steps have been taken in the past few years with a view to eliminating factors contributing to tax arrears such as delays and inadequacies of law and procedure. Elimination of delays and tightening of machinery are aimed at restricting the growth of arrears whereas organisational improvements and the proper utilisation of the legal powers are aimed at prompt collection of taxes and prevention of taxes from falling into arrears. Various steps have been taken in this direction and these are detailed below:

I. *Delays—Elimination of:*

- (1) Vesting of power in the I.T.O. enabling him to complete an assessment in the very same year in which a person was suspected of leaving India and curtailment of period of notice, etc.
- (2) Provision enabling the I.T.O. to complete an assessment in the very same year in which a property is suspected to be transferred, sold, etc., with a view to avoid tax payment.
- (3) Reduction of period for completion of Income-tax assessments from 4 years to 2 years.
- (4) Provision fixing responsibility on taxpayer to estimate and pay advance tax where the same is likely to exceed the amount demanded by 33-1/3 per cent.
- (5) Enlarging of the scope of tax deductible at source; in case of certain types of interest, prizes on crossword



puzzles and lotteries, payment to contractors and sub-contractors. (Sections 194A, 194B and 194C).

- (6) Special watch by the Commissioner and the Inspecting Assistant Commissioners on the speedy services of the notices of demand so that the taxes could be collected during the same year.

## II. Tightening of machinery:

- (1) Requirement under the law for the production of a certificate before the I.T.O. by a person going abroad, if he is of non-Indian domicile or a person of Indian domicile not likely to return to India. (Introduced with effect from 1-4-1952).
- (2) Directors of a private limited company which goes into liquidation after 1-4-1962 the date from the Act 1961 came into force, are liable in certain circumstances for the tax payable by the company. (Section 179 of the Income-tax Act, 1961).
- (3) Certain transfers of property during the pendency of proceedings to defraud revenue are declared to be void. (Section 281 of the Income-tax Act, 1961).
- (4) Payment of interest for late payment of tax. (Section 220 of the Income-tax Act, 1961).
- (5) Requirement for the production of a tax clearance certificate before documents for sale of property in excess of Rs. 50,000 are registered. (Section 230A introduced in 1964).
- (6) In order to ensure better collection of tax by deduction at source the penalties for failure to deduct and pay tax at source have been increased. Section 276B introduced in 1968, provides for rigorous imprisonment for failure to deduct and pay tax. A more vigorous prosecution policy was also launched resulting in better collection of tax by deduction at source.
- (7) Names of defaulters are being published under the powers taken under Section 287 in order—
  - (a) to invite people to give information about the defaulters.

- (b) to create among the public a dislike for the tax defaulters.

### III. Improvement in Organisation:

- (1) The introduction of the Scheme of Functional Distribution of work. Here the collection of taxes is made the specific function of one or more Income-tax Officers in the Range or District. There are 125 Income-tax Officers attending exclusively to the work of the collection of taxes.
- (2) As a result of the summary assessment scheme, some Income-tax Officers were diverted from assessment to collection and recovery work.
- (3) Prior to 1961 recovery of tax arrears was done by State authorities who often failed to evince sufficient interest in the collection of the Central revenues. The 1961 Act, therefore, incorporated a self-contained Revenue Code and made provision for Tax Recovery Officers who could be Departmental Officers. 84 Tax Recovery Officers were sanctioned till 1971. 89 more posts have been sanctioned recently. 5 officers of the status of Commissioner of Income-tax and a number of Additional Commissioners of Income-tax are working as Tax Recovery Commissioners. Tax recovery work has been taken over in almost all the Charges by the Department. It may be stated why the revenue recovery work was taken over late. This work had to be taken over after considering the extent of the work and the facilities available. It also involved the absorption of State Government staff to the extent possible and the training of our own staff, wherever necessary. It had, therefore, to be done in a phased manner. The process started in 1966 and has now been practically completed.
- (4) The Commissioners were directed to use more vigorously the powers to attach the debts, movable properties and to consider sending the assessee to jail.
- (5) A drive for early disposal of appeals was launched so that the disputed taxes may either be deleted or if confirmed in appeal, can be collected.

- (6) Arrears Clearance Fortnights are being observed all over the country. During these periods special emphasis is laid on carrying out pending adjustments/rectifications, giving effect to appellate orders and collecting the net demand due from the assessees.
- (7) Acceptance of crossed cheques by the Department and opening of special receipt counters for this purpose in the Income-tax Offices.

The Direct Taxes Enquiry Committee (Wanchoo Committee) has made some valuable recommendations for recovery of taxes. Some of these are reproduced below:—

- (a) The powers of distraint movable properties and sending defaulters to jail should be used more vigorously.
- (b) The machinery for write off and scaling down of arrears should be strengthened and a high powered body set up within the Department exclusively to consider and decide cases of write off and scaling down of tax demands in arrears where the amounts involved exceed Rs. 1 lakh.
- (c) The Tax Recovery Officer may be authorised to order suspension of business other than industrial undertaking and in suitable cases recourse may be taken to appoint Receivers.
- (d) The law may be suitably amended to create an automatic lien on the properties, movable and immovable, of the taxpayers in favour of revenue.
- (e) Revenue matters should be excluded from the purview of Article 226 of the Constitution.
- (f) Payment of undisputed tax before the admission of appeal.

These recommendations are being considered by the Special Cell created in the Ministry of Finance.

*Supervision on collection of arrears:*

Considerable attention is being given in the Department to the realisation of the arrears. A record of all cases in which substantial arrears are outstanding is being maintained at the following levels and it is the responsibility of the officers who are maintaining these records to ensure that appropriate action is taken:

- (i) Arrears between Rs. 1 lakh and Rs. 5 lakhs in each case.—Commissioner of Income-tax.
- (ii) Arrears between Rs. 5 lakhs and Rs. 25 lakhs in each case.—Director of Inspection (Research, Statistics and Publications).
- (iii) Arrears above Rs. 25 lakhs in each case.—Central Board of Direct Taxes.

11.10. In reply to the Committee's further recommendations contained in paragraph 4.49 of their 51st Report (Fifth Lok Sabha), the Ministry stated in May 1973 [cf. page 114 of the 150th Report (Fifth Lok Sabha)], that studies were conducted by the Director of Inspection (R.S.&P.) in arrear cases involving outstanding demands of Rs. 5 lakhs or more to spot-light the causes for large arrears and possible remedies. The Committee added:

“The results achieved from these studies show that a substantial portion of our arrears are outstanding because our judicial system is no longer able or geared to cope with the huge arrears of tax cases that are pending before them. It is also a fact that with the advances in education, experience and wealth, the tax payers are becoming conscious of the financial advantages of going to a High Court or the Supreme Court and delaying Income-tax proceedings. Under the present judicial system, even simple cases of litigation can be prolonged for a decade. With this end in view, tax payers prefer to go to court rather than adopt other means to settle their differences with the Income-tax Department. Action on the results of this study was deferred as the Wanchoo Committee was also going into this matter and their recommendations could be awaited. The Committee in their Report, since submitted, has suggested remedial measures which have been considered.”

The remedial measures referred to the provisions made in the **Taxation Laws (Amendment) Bill, 1973 (Act No. 41 of 1975)** to make the provisions regarding recovery proceedings more stringent.

11.11. In this context, the Committee, in paragraph 4.54 of their 51st Report (Fifth Lok Sabha) noted that, in pursuance of one of their earlier recommendations, the Commissioners had informal discussions with the Chief Justice of many States regarding consti-

tution of additional or special benches to dispose of income-tax cases pending before the courts and the response from some of the Chief Justices was quite favourable. The Committee desired that efforts should continue to be made in this direction and further recommended that Government should take suitable action on the recommendation of the Law Commission to the effect that the strength of the High Courts may be increased where necessary.

In their Action Taken Note, reproduced at page 123 of the 150th Report (Fifth Lok Sabha) the Ministry stated in March, 1973 that the Committee's recommendation had been forwarded to the Ministry of Law for further action.

The action, if any, taken by the Ministry of Law has not been reported to the Committee.

11.12. On the Committee's suggestion relating to the arrears of tax from companies, the Ministry stated in December, 1968 that instructions had been issued in September, 1968 requesting the Commissioners of Income-tax to pay particular attention to collection of tax from companies and discourage, by levying deterrent penalties, any attempt by them to utilise in their business the taxes withheld by them. The Committee suggested in paragraphs 1.16 to 1.18 of their 76th Report (Fourth Lok Sabha) that the Department should expeditiously compile a break-up of arrears due from companies as between those due from companies which have sufficient funds to pay the taxes and those due from companies which do not have sufficient funds and then, pay special attention to the realisation of arrears in the former type of cases so that the tax withheld is not utilised by them in their business. In respect of the latter type of cases, the Committee suggested that the matter should be kept continuously under review so as not to jeopardise chances of recovery.

11.13. As the arrears of tax still continued to build up, the Committee in paragraphs 1.80 et-sq. of their 73rd Report (Fourth Lok Sabha) suggested the following preventive steps to avoid accumulation of arrears:

- (i) As the tax on dividends and salaries statutorily deductible at source constitutes a major portion of the total tax realisation and the Committee had drawn attention to instances of failure to remit taxes deducted at source, the departmental machinery should be geared to check compliance with the provisions of law in this regard.

- (ii) The Collection of tax by way of advance tax also accounts for a major portion of the tax realisation. The department should work out an arrangement to ensure that advance tax notices are duly issued and collections watched.
- (iii) The tendency on the part of many ITOs to delay assessments till the end of the financial year and make cumulative assessments for more than one year, particularly in big assessment cases, resulting in piling up huge demands which the assessee is naturally unable to discharge should be firmly checked and the assessment work spaced out evenly over the year.

(iv) The suggestion made by the Working Group of the Administrative Reforms Commission to the effect that the Income-tax Act should be amended to "provide that where an appeal is preferred against an assessment, such an appeal will not be admitted unless tax is paid on the undisputed amount involved in the assessment" and allied suggestion to fix "a time limit for giving effect to appellate orders" should be considered as these suggestions would, apart from creating a better public image of the Department, also tend to make the picture of arrears more realistic.

(v) The Working Group of the Administrative Reforms Commission had pointed out that there is a tendency for assessees to go "underground till the period of limitation of 8 years is over" to evade demands made against them. It should, therefore, be considered whether the law should be amended to make it permissible to reopen assessments in such cases without any time limit.

(vi) The Government should also gear up their recovery mechanism. The Commissioners of Income-tax were progressively taking over the work hitherto done by the State Governments. The recovery squads should function effectively and energetically to realise all recoverable tax dues.

11.14. On the first suggestion, the Ministry stated in their Action Taken note [cf. page 60 of the 100th Report (Fourth Lok Sabha)] in October, 1969 that instructions were already there for launching prosecutions in cases of failure to deduct tax at source and remit the same to Government and that these instructions had been reiterated in January, 1969.

Subsequently the Committee learnt from Audit that a system of reconciliation between the amount of tax deducted at source and the

amounts, remitted to Government account was in vogue in Britain and that the same was brought to the notice of the Central Board of Direct Taxes by Audit in July, 1970. In paragraph 4.57 of their 51st Report (Fifth Lok Sabha), the Committee desired that the system followed in Britain should be studied and a procedure devised to arrive at a satisfactory system of reconciliation. The Ministry informed the Committee in their Action Taken note in 1973 [reproduced at page 168 of the 150th Report (Fifth Lok Sabha)] that a Committee of officials had been appointed informally under the auspices of the Directorate of O&M Services to consider the tax accounting system to the Income-tax Department and make necessary recommendations in this behalf; the Ministry also added that "the papers regarding the U.K. system have been made available to the Committee for keeping in view." The Committee observed as under in para 1.105 of their 150th Report (Fifth Lok Sabha):

"The Committee would like to be apprised of the findings of the Committee of Officials which need to be expedited. The Committee would, however, like to stress the need for a satisfactory system of reconciliation between the amount of tax deducted at source and the amount credited to Government Account in the Income-tax Department as is in vogue in the United Kingdom."

When the Committee enquired into the latest position in this regard, the Ministry of Finance, in their d.o. letter dated 29th November 1975, stated that the reply furnished on 13th November 1975 in respect of the recommendation contained in paragraph 1.95 of the 150th Report (Fifth Lok Sabha) also covered the recommendations contained in paragraph 1.105 of the Report. Paragraph 1.95 of the Report and the Ministry's reply thereto are reproduced below:

#### **Recommendation of the Committee**

"1.95. The Committee would await the report of the informal Committee appointed by the Ministry, *inter alia* to examine the whole question of deduction at source, and the action taken thereon by Government in this regard."

#### **Action Taken by the Government**

"The Committee of Experts on Accounting and Collection Procedure appointed by the Government to review the system of accounting and collection procedure in the Income-tax Department has submitted its report. The

Committee has examined the existing procedure regarding tax deduction at source and analysed the defects from which the present system suffers. The Committee has recommended the creation of a special cadre of officers to look after tax deduction at source. The Committee has also suggested certain changes in the periodical returns prescribed under the rules. The Committee has also examined the records and registers at present maintained for the purpose of tax deduction at source and has prescribed certain new sets of records and registers. The recommendations made by the Committee have been accepted in principle. Directorate of O&M Services have been asked to review the forms on the lines recommended by the Committee. Further action regarding amendment of law and the relevant rules with a view to implementing the recommendations of the Committee is under examination."

11.15. On the suggestion relating to the issue of advance tax notices, the Ministry stated that instructions had been issued in November, 1962 which were repeated in March 1968 asking the Commissioners of Income-tax to make sure that advance tax notices in all cases, including cases in which the first instalment was due on 15th September were actually served before the end of May.

11.16. As regards the tendency to delay assessments till the end of the financial year, the Ministry stated that instructions had been issued in October 1968 that the Income-tax Officers should plan their programme in such a way that assessment of cases involving large income was not crowded into the last month and the last week of the financial year. The Ministry added that the work of the assessing officers was closely watched by the Inspecting Assistant Commissioners and the Commissioners of Income-tax and necessary directions were issued where it was noticed that the disposal of cases per month was not uniform which might lead to heavy disposal of cases in the last months of February and March.

11.17. The suggestion regarding the amendment of the Income-tax Act, to provide for tax on undisputed income being paid before an appeal was admitted, was not acceptable to Government. The Ministry of Finance stated in November, 1969 [cf. page 126 of 100th Report (Fourth Lok Sabha)] that a provision like this would result in multiplication of disputes and delay in the disposal of appeals, since non-admission of appeals on the ground that tax on undisputed



income had not been paid, would itself have to be made appealable. The Ministry also added that it would also be extremely difficult to determine the amount of undisputed income. Further the Income-tax Officers had already adequate powers to enforce the collection of tax even where the assessments were under appeal and were required to hold in abeyance collection of tax on amounts which they considered to be genuinely disputed.

11.18. In view of the Ministry's explanation, the Public Accounts Committee, in paragraph 1.56 of their 117th Report (Fourth Lok Sabha) suggested that Government should issue instructions to assessing officers to make maximum use of their powers for timely recovery of tax dues so as to ensure that assesseees were not able to retain undisputed tax dues by filing appeals. In compliance with this suggestion the Board issued instructions in September, 1970 that all possible steps should be taken for the recovery of undisputed tax by the Income Tax Officers and the assesseees should not be allowed to withhold payments of undisputed demand merely because they had filed appeals before the Appellate Assistant Commissioner of Income-tax. [cf. page 34 of 25th Report (Fifth Lok Sabha)].

11.19. The Public Accounts Committee reverted to this topic in paragraph 3.22 of their 51st Report (Fifth Lok Sabha) and suggested that it should be examined whether in cases which were sought to be re-opened by the assesseees under Section 146 of the Income-tax Act or before an appeal was made, the assesseees should be required to deposit a certain portion of the tax which should not be less than that pertaining to the undisputed income. The Committee again emphasised that in all cases of assessment, re-assessment, it would be desirable if the payment of tax on undisputed portion of income was made a condition precedent to filing appeals.

In reply, [cf. page 103 of the 150th Report (Fifth Lok Sabha)] the Ministry of Finance stated in June, 1973 that a similar recommendation since made by the Direct Taxes Enquiry Committee (Wanchoo Committee) was under examination of Government and if it was accepted, necessary amendment to the Income-tax Act would be moved "in the current Budget Session of the Parliament." The Ministry later informed the Committee that Clause 60 of the Taxation Laws (Amendment) Bill met this point by seeking to amend suitably Section 249 of the Income-tax Act, 1961. This bill was enacted in August, 1975.

11.20. In reply to the suggestion for the amendment of the law to tackle the problem of arrears of demand from assesseees who

become "untraceable", the Ministry stated in November, 1969 [vide page 126 of the 100th Report (Fourth Lok Sabha)] that the suggestion was under consideration of the Ministry. The Committee reiterated the suggestion in paragraph 1.57 of their 117th Report (Fourth Lok Sabha) and desired that an early decision should be taken. The Ministry stated, in the reply, in December, 1970 [cf. page 101 of the 25th Report (Fifth Lok Sabha)] that the time limits for initiating assessment proceedings in respect of escaped income were fixed after a careful consideration of the Income-tax (Amendment) Bill, 1971 by the Select Committee and it would be advisable not to change the provisions so soon after they were put on the statute book. The Ministry added that the objective of foiling assesseees seeking to go unassessed for years together could be achieved by strengthening the Intelligence Wing of the Income-Tax Department and some suggestions in that regard had already been made to the Direct Taxes Enquiry Committee. The Ministry further stated that the existing provisions regarding recovery of tax were quite adequate even for meeting the cases of persons who go underground and added that for tracing them out administrative measures were necessary, not legal ones. The Government, the Ministry stated, would like to await the recommendations of the Direct Taxes Enquiry Committee, in this respect.

While taking note of the Ministry's reply, the Committee, in paragraphs 1.14 and 1.15 of their 25th Report (Fifth Lok Sabha) emphasised that the methods adopted by Intelligence Wing of the Department should be improved and desired that the recommendations of the Enquiry Committee in this regard and the action taken by Government thereon should be intimated to the Public Accounts Committee.

In their further reply, furnished to the Committee in March 1973, the Ministry of Finance stated:

"1.14. The Direct Taxes Enquiry Committee have made certain suggestions for strengthening the Intelligence Wing of the Income-tax Department at paras 63 to 71 and 76 of their recommendations, which are being processed. The Government are anxious to improve the intelligence work of the department and the recommendations of the Committee would be kept in view while taking a decision in the matter."

"115. The problem posed is whether the time limit of 8 years should be extended for enabling recovery of taxes from assesseees who remain underground till the expiry of the said period of limitation. The question of recovery of taxes normally arises only after an assessment is framed. The cases contemplated here, therefore, appear to be those where the assessment itself cannot be framed due to the assessee being untraceable. Now, in a case where a notice under Section 139(2) or Section 148 has already been served on an assessee, even if the assessee goes underground, thereafter, the assessment can still be finalised *ex parte* under Section 144. No extension of time limit for completion of assessment is thus needed.

The problem will arise, of course, in a case where the initial notice under Section 139(2) or Section 148 itself cannot be served on the assessee. Such cases can be of two types. In one case the Department may fail to serve the notice (even while possessing information regarding taxability of the assessee) as the person makes himself scarce. In the other case, the tax evader may manage to escape the Department's notice altogether. Instances of the latter type have, undoubtedly, been taken into consideration by the Wanchoo Committee while making observations in paras 2.120 and 2.121 of its Report. As for the former, although the Committee can be said not to have made any reference specifically, the position is not much different. Firstly, it is not easy for a person with a taxable income to remain completely underground for a long period of 8 years (16 years in cases of evaded income of Rs. 50,000 or above). Secondly, if a tax evader does remain in hiding for such a long time, he cannot avoid carrying on commercial transactions clandestinely. There are a number of measures suggested by the Wanchoo Committee—some have already been adopted by the Department—which are calculated to prevent such under-cover activities. The Committee's recommendations regarding (a) increasing survey operations (paras 2.164 to 2.171), (b) strengthening intelligence machinery paras 2.97 to 2.119), (c) introducing permanent account numbers (paras 2.149 to 2.161), (d) widening the scope of the provisions for deducting of tax at source (paras 4.50 to 4.55), (e) denial of legal remedy for enforcing benami rights unless disclosed to the Depart-

ment (paras 2.230 and 2.231), (f) preventing cash transactions above Rs. 2,500 (para 2.219), (g) imposing restrictions on payments to contractors and on hundi loans and blank transfers of shares (paras 2.220 to 2.229) etc., are all calculated to strike against concealed activities for profit. The Committee has also made an important recommendation to widen the scope of section 277 of the Income-tax Act in order to provide for prosecution for attempts to 'evade or defeat taxes'. Such a measure will also take care of persons who try to evade tax by remaining underground for a number of years."

11.21. With regard to the last suggestion of the Committee on the taking over of the tax recovery work from the State Governments, the Ministry of Finance stated in November 1969 [cf. page 126 of 110th Report (Fourth Lok Sabha)] that out of 28 charges of Commissioners of Income-tax, the recovery work had been fully taken over by the Department in 7 charges and partially in 15 charges and that the take-over in other charges was under the active consideration of the Government.

The Committee enquired about the further progress in this direction in paragraph 4.56 of their 51st Report (Fifth Lok Sabha) and added that the Board should closely watch the impact of taking over this work on the arrears of tax collection and take necessary measures to improve the system.

The Ministry of Finance stated in March, 1973 [cf. page 127 of 150th Report (Fifth Lok Sabha)], that the recovery work had been taken over by the Income-tax Department all over India except in certain portions of West Bengal and that steps were being taken to take over this remaining portion of the work also.

11.22. In paragraph 1.54 of their 117th Report (Fourth Lok Sabha), the Committee again observed that the steps taken by Government, besides adding to the numerative strength of the staff, had, obviously, had no effect. The Committee felt that the department would have to launch an all-out drive if a substantial reduction in tax arrears was to be brought about.

In reply, [cf. page 33 of 25th Report (Fifth Lok Sabha)] the Ministry of Finance stated in December, 1970 that the problem was discussed at the Conference of Commissioners of Income-tax in May, 1970 and it was decided that a special drive "RAT" (Reduction of

Arrears of Tax) should be launched in all the Commissioners' charges to reduce the outstanding tax demands. The Ministry also stated that four posts of Additional Commissioners of Income-tax (Recovery) had been created in the city charges of Bombay, Calcutta, Delhi and Madras and 60 posts of Income-tax Officers had been sanctioned for attending to the work of liquidation of arrears.

11.23. In paragraph 4.38 of their 51st Report (Fifth Lok Sabha), the Committee made a further suggestion that the Income-tax Act should be amended on the lines prevalent in the United States by which tax due including interest, penalty etc. could be given a lien on the property of the assessee so that he could not escape tax by transferring the property. In their Action Taken Note, reproduced at page 128 of the 150th Report (Fifth Lok Sabha), the Ministry stated in May, 1973 that the recommendation of the Committee was under consideration. Subsequently they informed the Committee that suitable amendment was being made to Section 281 of the Income-tax Act, 1961 through the Taxation Laws (Amendment) Bill, 1973 (Act No. 11, 1975).

11.24. In reply to the Committee's recommendation contained in paragraph 3.25 of their 87th Report (Fifth Lok Sabha), the Ministry further informed the Committee in December, 1973 [vide page 71 of 115th Report (Fifth Lok Sabha)], that apart from the amendment in the law through the Taxation Laws (Amendment) Bill, 1973, a number of administrative steps had been taken to tackle the problem of arrears. These included an enhancement of powers of write off of arrear, meetings with Commissioners of Income Tax and a scheme for giving monetary rewards for outstanding performance in collection and reduction of arrears of tax. The Ministry also stated:

“A record of all cases in which substantial arrears are outstanding is being maintained at the following levels and the officers who are maintaining these records supervise the action taken to recover the arrears:

- |  |                                    |
|--|------------------------------------|
| (i) Arrears between Rs. 1 lakh and Rs. 5 lakhs in each case    | Commissioner of<br>Income-tax      |
| (ii) Arrears between Rs. 5 lakhs and Rs. 10 lakhs in each case | Director of<br>inspection (RS&P)   |
| (iii) Arrears above Rs. 10 lakhs in each case                  | Central Board of<br>Direct Taxes.” |

11.25. On being informed that “there is no readily available source in the field indicating the total amount of arrears outstanding against

an assessee at a particular time", the Committee, in paragraph 3.27 of their 87th Report (Fifth Lok Sabha) recommended that an assessee-wise compilation of arrears of substantial amounts, say Rs. 1 lakh or more was necessary and that it should be attempted forthwith. In paragraphs 3.29 and 3.30 of that Report, the Committee recommended as under:—

"It is regrettable that the Board does not have any satisfactory system of watching the recovery of arrears. The Committee, therefore, desire that the Board should set up a machinery for watching the recovery of arrears in excess of Rs. 10 lakhs in each case. They would suggest introduction of a ledger card system for each assessee which would bring out the up-to-date position of arrears and a brief account of the measures taken to recover them.

The Committee would like to know the details of the cases of arrears in excess of Rs. 10 lakhs each as on 31-3-1972 and the steps taken to recover them in each case, duly verified by Audit."

In their Action Taken Note, reproduced at page 143 of the 115th Report (Fifth Lok Sabha), the Ministry of Finance stated in December, 1973 that the recommendation of the Committee had been referred to the Director of Inspections (RS&P) for processing.

Subsequently, in their note dated 5th December, 1974 indicating the further action taken on these recommendations, the Ministry of Finance stated:

"3.29. It was decided that, from 1-4-1973, the Central Board of Direct Taxes would watch the recovery of taxes in all cases where arrears of income-tax exceeded Rs. 10 lakhs. The work of supervision of recovery of arrears of taxes was accordingly allocated amongst other authorities as under:

- |   |                                  |
|---|----------------------------------|
| (i) Arrears exceeding Rs. 1 lakh but below Rs. 5 lakhs    | Commissioner of<br>Income-tax    |
| (ii) Arrears exceeding Rs. 5 lakhs but below Rs. 10 lakhs | Director of<br>Inspection (RS&P) |
| (iii) Arrears above Rs. 10 lakhs in each case             | C.B.D.T.                         |

However, the work of supervision of recovery of taxes has been re-allocated with effect from 1-4-1974 as under :

- |  |                             |
|--|-----------------------------|
| (i) Arrears exceeding Rs. 1 lakh but below Rs. 10 lakhs in each case . . . . . | Commissioner of Income-tax. |
| (ii) Arrears exceeding Rs. 10 lakhs in each case. . . . .                      | C.B.D.T.                    |

A Special Cell has been set up in the Central Board of Direct Taxes for this purpose. Dossiers containing comprehensive information regarding year-wise-arrear demand, fresh demands created during the quarter, collection in cash or by adjustment reduction on account of appellate orders or other revisionary action and steps taken for realisation of these demands are sent by the Commissioners of Income-tax at the end of each quarter which are scrutinised in this Cell and suitable instructions|guidelines are issued to them."

"3.30. In view of the position explained above in reply to para 3.29, the details of all cases in which arrear demands exceed Rs. 10 lakhs in each case as on 31-3-1974 are available with the Central Board of Direct Taxes and the same are being brought up-to-date. If approved by the Committee, the details of the cases of arrears exceeding Rs. 10 lakhs each as on 31-3-1974 duly vetted by Audit will be submitted."

The Committee were informed by Audit in this connection that the Ministry had been requested, on 20th May 1975, to furnish details of all cases in which arrear demands exceeded Rs. 10 lakhs in each case as on 31st March, 1972 as corrected upto 31st March, 1974 and that reply to this reference was awaited.

11.26. The Public Accounts Committee have been equally concerned all along at the large number of pending assessments which, in fact, constitutes one of the contributory factors for the heavy arrears of tax demands. The Committee expressed their concern in paragraphs 73 of the 21st Report (Third Lok Sabha), 68 of the 28th Report (Third Lok Sabha) and 1.269 of the 46th Report (Third Lok Sabha). In paragraph 1.8 of the 17th Report (Fourth Lok Sabha), the Committee recommended that the Department should have a certain order of priorities so that at least the category I cases involving big revenue stakes were completed expeditiously. In their reply [cf. page 2 of 76th Report (Fourth Lok Sabha)], the Ministry stated in November, 1968 that a planned and phased programme of disposal of assessments had been drawn up for each Commissioner's charge and

for liquidating the pendency of big cases more Income-tax Officers had been provided with each of the four Central charges at Bombay, Calcutta, Delhi and Madras.

11.27. The Committee reiterated the suggestion that more attention should be paid to the expeditious completion of category I cases in paragraphs 1.9 of their 76th Report (Fourth Lok Sabha), 1.29 of the 73rd Report (Fourth Lok Sabha), 1.12 of the 100th Report (Fourth Lok Sabha) and 1.42 of the 117th Report (Fourth Lok Sabha). In paragraph 3.21 of their 51st Report (Fifth Lok Sabha), the Committee again emphasised the fact that the pendency in big income cases was continuing to be heavy and that the assessments in such cases were continued to be taken up for completion in the last three months of the financial year and especially in the month of March.

The Committee were informed about the difficulties in finalisation of bigger cases. One of the difficulties as explained by the representative of the Ministry was that "usually big cases represented by eminent lawyers.....just drag on." Another difficulty was stated to be that the assessee sought extension of time on payment of interest. The Committee expressed concern over the plea of helplessness of the Department in completing the assessment cases of bigger assesseees and recalled that the Working Group of the Administrative Reforms Commission had come to the conclusion, on the basis of a case study, that the total number of adjournments granted by the Income Tax Officer on his own was much higher than the adjournments asked for by the assesseees. The Committee desired that Government should seriously consider this matter in all its aspects and take effective measures to discourage dilatory tactics on both sides so that bigger assessments may be completed speedily.

11.28. The Ministry of Finance stated in reply, in April, 1973 [cf. page 100 of 150th Report (Fifth Lok Sabha)], that the instructions already issued on the basis of the Committee's 117th Report had been reiterated in March, 1973, that the assessing officers should not, unless for compelling reasons, adjourn such cases of their own and the assessee's request for adjournment should be weighed by them very carefully and conceded only if the circumstances pleaded were convincingly genuine and unavoidable.

11.29. In paragraph 1.43 of their 117th Report (Fourth Lok Sabha), the Committee, while noting that the Department expected to reduce the pendency to 10 lakhs assessments by the end of the financial year 1969-70 and to "an insignificant figure" by 1972, expressed the hope that vigorous efforts would be made by the



Board to fulfil the undertaking given by it. The Ministry of Finance stated, in reply, in January, 1971 [cf. page 30 of 25th Report (Fifth Lok Sabha)], that the Board had issued suitable instructions to the Commissioners of Income-tax and it expected that the pendency as on 31st March, 1971 would be about 8.5 lakhs assessments and by 31st March, 1972 it would be further reduced to about 2 to 3 months' work-load.

11.30. As against this assurance, the Committee noted, with regret, in paragraph 4.4 of their 87th Report (Fifth Lok Sabha) that the pendency as on 31st March, 1971 actually turned out to be 12.39 lakhs and that on 31st March, 1972, 11.24 lakhs. The Committee expressed the hope that efforts would be made to pull up the arrears. The Committee also re-emphasised the need for the timely finalisation of cases involving large revenues and enquired whether the Central Board of Direct Taxes had devised any machinery, at least to watch finalisation of such cases.

In their reply, [cf. page 75 of 115th Report (Fifth Lok Sabha)] the Ministry stated in December, 1973 that, on a recomputation, the correct pendency as on 31st March, 1971 was found to be 14.87 lakhs instead of 12.39 lakhs. The Ministry further stated that the increase in the number of assesseees was one of the main reasons for the increase in pendency of assessments. They added that, with a view to having effective control over the disposal in general and revenue-yielding cases in particular, the Commissioners of Income-tax were required to submit quarterly reviews of their performance.

The Committee observed as under in paragraphs 1.42 and 1.43 of their 115th Report (Fifth Lok Sabha):

"From the reply furnished by Government, the Committee note that the arrears of assessments as on 31st March, 1971 should have been 14.87 lakhs as against 12.39 lakhs reported earlier and that the correct position which is particularly disquieting, was ascertained as a result of physical verification of the assessment records. This suggests that the arrears are not being computed with adequate care. The Committee suggest that such statistics should be subjected to a test check by the Internal Audit Organisation so that mistakes of the kind noticed in this case may not persist in the organisation.

The Committee feel constrained to observe that they are not satisfied that the increase in the number of assesseees is

one of the main reasons for the increased pendency of assessments. They, however, intend to examine the matter in detail having regard to its importance."

11.31. It would be seen from the recountal above that while some of the legal remedies suggested by the Committee from 1969 onwards for reducing the ever-increasing arrears of Income-tax have been adopted only in 1975, the Central Board of Direct Taxes have still to tackle effectively a number of administrative problems such as, (i) fixation of an order of priorities concentrating, primarily, on big income cases, (ii) proper planning of the work of Income-tax Officers so as to complete the high income group assessments expeditiously, (iii) avoidance of overpitched and unrealistic assessments, (iv) ineffective working of the machinery set up to watch recovery of arrear demands of big magnitude, and (v) above all, creating a statistical organisation that can give reliable data. The position of arrear demands and arrear assessments is not likely to show any marked improvement unless the Ministry of Finance comes to grips with these fundamental problems.

## CHAPTER XII

### REMEDIAL MEASURES

12.1. As stated in the opening Chapter, the Committee have found *themselves constrained to make a review of the implementation by Government of their recommendations contained in the several Reports presented right from 1964. It will be seen from the Audit Reports of successive years and the recommendation of the Committee thereon that they are almost repetitive except, perhaps, for subtle changes in accent in their expressions of despair. It might even appear that there had been no earnest or purposeful effort on the part of Government to set its own Tax Administration apparatus on a plane of truly efficient and effective functioning. This is perhaps the only Department which has had over the years the benefit of the guidance of not only the recommendations of this Committee, but of several other expert bodies as well, right from the Tod Hunter Committee (1925) to the Wanchoo Committee (1973). If, in spite of the many recommendations made by these committees as well as by the Public Accounts Committee, 'the ills that beset' the Department continue to plague it, there must be something basically wrong either in the laws, rules and procedures devised for the levy and collection of Direct Taxes, or in the way these laws, rules and procedures are actually administered by the various authorities entrusted with the task. It has not been brought to the notice of the Committee by any of the official witnesses that the former is the cause. In fact, the Committee are not unaware of the annual spate of legislative amendments and the more frequent flood of rules and regulations designed for plugging various loopholes in the law. Enormous powers have also been placed in the hands of income-tax authorities even before the latest Taxation Laws (Amendment) Act, 1975. If the vigour with which searches and raids are being presently conducted and the amount of black money unearthed is any indication, it appears that if the normal duties of the Department had been properly and efficiently performed, there should have been a greater compliance by the tax-payers and higher realisation of receipts in proper time.*

12.2. Representatives of the Government have admitted and the Public Accounts Committee have pointed out in their successive Re-

ports that the mistakes detected by test audit are 'costly mistakes' (in one instance the amount involved was admittedly more than Rs. 2 crores) and have resulted in heavy loss of revenue to the Exchequer. What the total annual loss to the Exchequer on account of these mistakes would be is anybody's guess. However, if the mistakes highlighted by Statutory Audit are added to the mistakes pointed out by Internal Audit, imperfect though such audit is, the annual accretion to the exchequer would have been much more than what is borne as extra tax by the honest taxpayers. Unfortunately, the Income-tax Department appears to be managing its affairs by what might be dubbed the principle of 'Management by Crisis' rather than 'Management by Objectives'. This is by no means a happy situation.

12.3. The Committee cannot, however, rest content with a mere expression of disapproval and disappointment. They consider it their duty to point out certain important areas of deficiency where, if adequate remedies are attempted, there may well be hope of real improvement. In this Report, the Committee have confined their recommendations only to the more fundamental of the aforesaid areas so that there should not be any excuse for not implementing these on the ground of ancillary or incidental problems hindering implementation or on the ground that the recommendations were too many and too complex.

12.4. The first basic tool in the hands of any tax administration is an efficient statistical information system. Anyone entrusted with the management of the finances of a country should have at his disposal, upto date and complete data on all aspects of the taxes which he administers and particularly on the impact and incidence of proposed tax measures, so that timely changes may be made and a proper and purposeful guidance given to the policy makers. This information system has, most unfortunately, not been built up yet in the Income-tax Department, in spite of repeated recommendations by the Public Accounts Committee and other Commissions and Committees, and this failure has led to all the distortion in the tax administration, leading to ad-hoc solution, hasty amendments and cumbersome but ineffective procedures. The Working Group of the Administrative Reforms Commission on the Central Direct Taxes Administration, which submitted its report in the year 1968, had observed as follows on the still prevailing state of affairs:

"The tax, which the Department administers, affects the social and economic life of the country in a most powerful

way. No one knows or can know as much about the effect of the administration of the taxes as members of this Department, but we doubt if there is a machinery in the Department adequately equipped to give information on such matters."

12.5. In Chapter III of this Report, extracts of various recommendations of this Committee have been given in which the importance of strengthening the statistical machinery has been repeatedly stressed. The Committee would like particularly to draw attention to paragraphs 1.23 to 1.26 of their 51st Report (Fifth Lok Sabha). In these paragraphs, the Committee had deplored the failure of the Central Board of Direct Taxes to establish a proper machinery for furnishing upto-date statistics so as to ensure a more accurate forecast of revenues. However, apart from stating that a Committee had been set up, under the Chairmanship of a Joint Secretary of the Department of Statistics, to look into the statistical framework of the Income-tax Department and to make suitable recommendations for streamlining and systematizing it, no concrete steps appear to have been taken. This was clearly pointed out in paragraphs 1.9, 1.10 and 1.14 of the 150th Report (Fifth Lok Sabha). The latest All India Income-tax Statistics that is available in cyclostyled form relates to the year 1971-72 and this too is deficient in many respects. There has been, to the knowledge of the Committee, no All India Statistics in respect of other Direct Taxes. The Committee would, therefore, strongly urge Government to speed up action on the setting up of an efficient statistical organisation which should give all necessary data promptly and contemporaneously with the framing of the Budget, so that not only the Minister of Finance, but also the Members of Parliament, at the time of discussion of the Budget, could have the advantage of complete information in respect of all aspects of tax levy and collection. On several occasions, the Central Board of Direct Taxes were also unable to furnish promptly to the Committee complete and updated information relating to the statistical paragraphs included in Chapter I of the Volume of the Report of the Comptroller & Auditor General on Revenue Receipts relating to Direct Taxes, on account of the absence of a sound statistical base within the organisation. The statistical organisation when set up, as recommended by the Committee, should also be in a position to give all information in this regard required by the Committee.

12.6. The second area where immediate attention is required is the strengthening of the internal control and supervisory system, particularly at the middle management level. There are today, ac-

According to the information furnished to the Committee, about 3100 Income-tax Officers supervised by 260 Inspecting Assistant Commissioners. The Inspecting Assistant Commissioners form a very important link in the chain of transmission and implementation of the orders of the Board and of the Commissioners. All the mistakes which Audit has been pointing out repeatedly and which the Committee had to bring to the notice of the witnesses, could have been avoided, if there had been a more efficient supervision and internal control by these middle-level officers. As it is, there does not appear to be any effective management by the Inspecting Assistant Commissioners, for whom—except for certain statutory duties now vested under the Income-tax Act—no mandatory inspection and control obligations, alongwith provision for punishment in cases of failure, have been laid down. With no concrete responsibility in the matter of guidance and control, they appear to be acting almost entirely as channels of communication between the Income-tax Officer, who bears the entire brunt of the work, and the Commissioner and the Board, who issue the guidelines. Even the prescribed duties of inspection have not been apparently discharged efficiently, as is evident from the number of admitted mistakes in big cases which the Inspecting Assistant Commissioners, under existing instructions, are required to check. To several queries whether the Inspecting Assistant Commissioners had checked the assessments, in which mistakes had been brought to the notice of the Committee by Audit, a bare reply in the negative is all that is vouchsafed by the Ministry. If the Inspecting Assistant Commissioners are not to be thought of largely as a superfluous body of officers and are to justify themselves in the role for which it had been created viz. to effectively supervise and control the work of Income Tax Officers so that the rules and regulations are properly observed by them, then there should be a more positive part to be played by them. This the Board should ensure by issuing, if necessary, an 'Instructions Manual for IACs' prescribing periodical inspection duties, with adequate details as to the nature of checks to be exercised by them. One such check should be to ensure that all instructions issued by the Board are in fact observed and a certificate to that effect should ensue. The Inspecting Assistant Commissioner should also be required to conduct a general review of the survey, recovery and arrears of assessment and collection including outstanding refund claims, and to submit periodical Review Reports to the Board through the Commissioners. Government may consider the feasibility of ensuring that the work of the Inspecting Assistant Commissioner is superintended by one of the Directors of Inspection and a serious view taken of any dereliction of duty. If in future Audit Reports cases come to light of

**Inspecting Assistant Commissioners not having conducted inspection which they ought to have done, or had failed to notice an under-assessment in a case which they had scrutinised, the Committee would take serious note of such failure. The Committee desire that this should be impressed on all the Inspecting Assistant Commissioners suitably.**

**12.7. Another reason for the repetitive mistakes in big cases resulting in huge loss of revenue, is that assessment work is largely left in the hands of comparatively inexperienced Income-tax Officers, who have to match their wits in an often unequal battle against the best legal brains and expert Chartered Accountants. As has been admitted more than once in evidence by the Chairman, Central Board of Direct Taxes, it would be a very desirable step if some categorisation of cases is made, so that those involving more than Rs. 5 lakhs of returned income is assessed directly by the Inspecting Assistant Commissioners, rather than by Income-tax Officers. Adequate provisions have been in existence in this regard in the the Income-tax Act and it is said that these provisions have not been made full use of so far. It is hoped that if Assistant Commissioners of Income-tax are given assessment powers to assess directly cases of over Rs. 5 lakhs, which are not too many, the standard of performance will improve and the possibility of mistakes reduced. Appeals in such assessments, if preferred, would go straight to Commissioners of Income-tax, so that in bag cases officers just promoted as Appellate Assistant Commissioners are not saddled with powers of appellate relief which should be vested in higher levels so that the country's revenue is better safeguarded.**

**12.8. Closely connected with an efficient internal control system is an effective internal audit system. As will be seen from the preceding Chapters, it required almost a constant and persistent prod by the Public Accounts Committee for increasing the scope, extent and effectiveness of internal audit. In the Sixth Report of the Third Lok Sabha, the Committee had to make the following observations, after expressing their alarm at the large number of cases of under-assessment involving considerable amounts detected by the Test Audit of the Comptroller & Auditor General:**

**“The Committee feel that the situation calls for more effective internal audit of the old and new assessment cases, so that the mistakes can be rectified and recoveries made before these become time-barred. The Committee regret that in spite of the recommendations of the Direct Taxa-**

tion Enquiry Committee. no effective steps seem to have been taken to strengthen internal audit. This should be done without further delay."

Again, in the 29th Report of the Fourth Lok Sabha, the Committee requested the Government to pay serious attention to the strengthening of internal audit by having well qualified, experienced and trained people in the work of taxation to work in the internal audit, to be headed by a senior officer who should preferably work under the Central Board of Direct Taxes, so as to inspire the confidence that they can discharge their duty without fear or favour.

12.9. In the 117th Report, in paragraph 1.34, the Committee had to observe that the internal audit had not so far played an effective role in checking faulty assessments and to suggest certain measures for improving the quality, scope and extent of internal audit.

12.10. The matter came up again before the Committee and in paragraph 2.27 of their 51st Report (Fifth Lok Sabha), the Committee stressed the need for intensification of checks by internal audit. The Committee further suggested that an immediate review of the working of internal audit should be undertaken by the Board to find out how far they were carrying out the prescribed checks and bringing to the notice of Government cases of under or over-assessment requiring rectification.

12.11. In paragraph 2.9 of their 73rd Report (Fourth Lok Sabha) the Committee pointed out that even where the internal audit checked the assessments, a number of mistakes had escaped their notice, which pointed to the need for toning up their performance. Further, in the 150th Report of the Fifth Lok Sabha, the Committee felt that it was essential to have a comprehensive review by the Board, at least once in six months, of the working of internal audit with a view to improving its efficiency.

12.12. The foregoing observations underline the urgency and the need for restructuring and reorganising the internal audit, so as to make it efficient tool for tax management. The development of the Internal audit system has been very tardy in the Income-tax Department. Initially, the Internal Audit Parties were checking only the arithmetical accuracy of the assessments. In 1964, the Board extended the function of internal audit to finding out mistakes in law. The Internal Audit Party is headed only by a Supervisor and two Upper Division Clerks and is under the control of Chief Audi-



tors (of Income-tax Officer's grade) who do not add up to form an adequate team for the job. Except for placing in over-all charge an Inspecting Assistant Commissioner, who unfortunately does not appear to have been successful with the task of effective coordination of internal audit work, the composition of the internal audit parties has remain almost static during the span of a decade or so. Internal audit function is a specialised activity and requires a thorough knowledge of the law, the rules and procedures, so that it is enabled to play its effective role as an independent appraisal unit for reviewing the accounting, financial and other operations. It is a managerial tool of control and as such it has to have the requisite authority, responsibility and independence, as well as equipment adequate to the discharge of its duties.

12.13. As regards authority and responsibility, it has to be realised that internal audit is a staff function and the internal auditor should be free to review and appraise not only the arithmetical accuracy and the legal correctness of the assessments, but also to review the procedures, and should have the authority to suggest appropriate remedial measures and changes to the Board of Direct Taxes.

12.14. Perhaps a more fundamental requisite is the independence of Internal Audit. Unless this independence is assured, complete objectivity cannot be expected. The organisational status of the internal auditor and the support accorded to him by the management should, therefore, be such as would eliminate all fear of ill-will or anything of that sort on the part of officers whose assessments and work generally the internal auditor is called upon to scrutinise. This can only be done by having a kind of autonomous cadre, headed by a senior officer responsible to the administration at the highest level. The actual set up can be planned with a little careful thought.

12.15. The other requisite of equipment and qualification has been neglected all these years and should be attended to immediately. The Internal Audit Parties should be Inspector-oriented and not UDC-oriented. Each party should consist of an Income-tax Officer assisted by two Inspectors and not, as at present, a Supervisor and two Upper Division Clerks, whose knowledge unhappily is too often little and training less. The Inspecting Assistant Commissioner of Income-tax incharge of Internal Audit should have a more manageable range of supervision than it at present and should devote him-

self more seriously to the primary task of laying down programmes for internal audit, receiving reports of internal audit, getting quicker compliance from the formations whose work the internal audit has commented upon, preparing a consolidated report half-yearly or annually for the Director of Internal Audit, who would then submit his comments to the Board with a view to the latter initiating appropriate action.

12.16. The Committee cannot help referring to the peculiar administrative climate prevailing today in the Income-tax Department, where the entire force of Income-tax Officers is divided into two seemingly rival camps, spending most of their time and energy in fighting in courts seniority issues relating to more than two decades, neglecting, in the process, their primary duty of assessment and collection. In this connection the Committee would like to refer to paras 125 to 128 of the 16th Report (5th Lok Sabha) of the Committee on Subordinate Legislation (reproduced in Appendix II) and also to quote paragraph 74 of the Report of the Select Committee on the Taxation Laws (Amendment) Bill 1973:

“The Committee note with concern that the dispute between the officers directly recruited to Class I and those promoted to it has been pending settlement for a very long time. As a consequence, the parties had to go to the court. This was unfortunate for it seriously affected the efficiency of the Department. They feel that if the problem of black money and tax evasion is to be seriously dealt with, it is essential that tax administration should be made effective and efficient. The dispute in which a large group of Income-tax personnel feel at the moment frustrated and demoralised is not conducive to efficient tax administration. They feel that the question of career prospects of Class II Income-tax Officers including the policies pursued by the Department in respect of their seniority and promotion should be reviewed expeditiously.”

This Committee feel equally that this is a matter which should be settled without losing any more time. The Committee had lately the opportunity of hearing representatives of the two aforesaid groups and the impression that is left with the Committee on hearing the evidence is that the question has to be tackled not on the basis of legalistic niceties alone, but also on broader grounds based on justice and equity. This can be brought about only in a manner

which the present climate in the country upholds, namely, an agreed settlement, in which purely legalistic grounds should not take precedence over sensible and practicable considerations. A solution must be found acceptable to all, or at least to the majority of officers concerned, so that forgetting the rancour, the ill will and the bitterness that have plagued the cadre for well over a decade, the officers can work together in a spirit of cooperation and dedication in the common endeavour to combat evasion and ensure a proper tax compliance.

NEW DELHI;

December 15, 1975

Agrahayana 24, 1897 (S)

H. N. MUKERJEE

Chairman, Public Accounts Committee.

## APPENDIX I

(Vide para 3.14, page 17 of the Report)

DO No. 3|15|73-DOMS|1975  
DIRECTORATE OF  
ORGANISATION & MANAGEMENT  
SERVICES (Income-tax)

H. D. BAHL  
Director

Aiwan-e-Ghalib, Mata Sundri Lane,  
New Delhi—110001,  
6th August, 1975.

My dear Mittal,

Need for preparing estimates of direct taxes—Recommendations of the P.A.C. in its 51st Report (1972-73) relating thereto—

Please refer to your D.O. letter F. No. 385 26|73-IT(B), dated 29th July 1975, on the above subject.

2. We had examined the publications and material received from the Board under Shri Nautial's D.O.F. No. 385 26|73-IT(B), dated 6th February, 1974 and Shri Nambiar's D.O.F. No. 385 26|73-IT(B), dated 19th October, 1974 and conveyed our comments in my D.O. of even number dated 8th November, 1974 (copy enclosed). Earlier we also had a quick look into the publications sent by Member (B) and conveyed our reactions in our U.O. of even number dated 27th November, 1973.

3. It will be seen from the data and comments contained in our above mentioned letters that variations between budget forecasts| estimates and actuals are fairly wide both in U.S.A. and U.K. (—13.34 per cent and —23.61 per cent in respect of Corporation Tax forecasts in 1970 and 1971 and —11.3 per cent and —11.2 per cent in respect of estimates of the same tax for the same two years in U.S.A. and —10.5 per cent, —16.6 per cent and +7.3 per cent in respect of Sur-tax, Corporation Tax and Capital Gain Tax for 1970-71 and 14 per cent +10 per cent and +47 per cent in respect of these three taxes for 1973-74, in U.K. The two countries, however, seem to be following distinct methodologies based on certain special statistics of income and taxes, compiled by the Revenue Departments and national income data compiled by other departments and Statistical models and sur-

veys. The nature of these statistics, models and surveys could not be ascertained from the material and publications made available to us. For filling the gaps in the understanding of various aspects of this methodology and for seeing how it works out in practice, an on-the-spot study in these two countries was suggested.

4. The position emerging from a study of the material and publications available to us can be reported to the PAC and if they still feel that an on-the-spot study is not necessary the idea may be dropped. In the meanwhile, we may wait for the final report of the Statistics Committee which is also considering improvements in our system of forecasting revenue receipts.

Yours Sincerely,  
Sd/- (H. D. Bahl)

Shri V. P. Mittal,  
Secretary, CBDT, New Delhi.  
Encl: As above.

(COPY)

H. D. BAHL,  
Director

DIRECTORATE OF  
O&M SERVICES (Income-tax)  
Aiwan-e-Ghalib, Mata Sundari Lane,  
New Delhi—110001,  
8th November, 1974.  
DOF No. 3/15-73-DOMS!  
Ph: 265776

My dear Nautial,

Variation between Budget Estimates and Actuals—Study regarding—

Kindly refer to the correspondence on the above subject, resting with Shri Nambiar's D.O.F. No. 385/26/73-IT(B), dated 19th October, 1974.

2 The books received under your D.O. letter F. No. 385/26/73-IT (B), dated 6th February, 1974 have filled some of the gaps and it has been possible to work out the percentage of variation between the Forecast and Actuals for 1970 and 1971 and the Budget Estimates and Actuals for the years 1969, 1970 and 1971. The required data is

set out in the enclosed statement. It will be seen that the variations are far from marginal. In fact, that variations between Forecast and Actuals in respect of Corporation Tax were as high (—) 13.34 per cent and (—) 23.61 per cent for 1970 and 1971 respectively. It may be pointed out that though one of the books received from the Board on 24th November, 1973, does describe the procedure adopted in U.S.A. for estimating revenue receipts, one is left with many question marks about such matters as:

- (i) "Statistics of income compiled by the Internal Revenue Service and utilised for forecasting individuals income taxes."
- (ii) "Tax model runs computing difference between current law and law in prior year,"
- (iii) "NIA data-corporate profits—Past and current quarterly data."

It is also necessary to see how these procedures work out in practice and how the basic data used for estimating revenue receipts is compiled.

3. We have also gone through the letter addressed by Inland Revenue, Statistics Division, London giving the data regarding Budget Estimates and Actuals from 1969-70 to 1973-74 and describing how Budget Estimates are framed. The data shows that percentage of variations between Actuals and Budget Estimates during this 5 year period have ranged between 0.1 to 3.5 although the variation in respect of individual taxes are somewhat higher e.g. 16.6 per cent for corporation tax for 1970-71. The description of the procedure for framing budget estimates is rather terse and one is left with many questions and doubts about such matters, as:

- (i) "Forecasts of the main macro-economic aggregates supplied by the Treasury as part of their regular National Income Forecast, derived from a complex statistical model which projects the economy some two years ahead," and
- (ii) "Model of the distribution of income and of the various tax reliefs and allowances,"
- (iii) "Extensive survey of personal incomes made on the basis of a sample of income records."

4. We feel that there is no substitute for an on-the-spot study of the system prevalent in U.K. (and if necessary in U.S.A.) for a correct and complete understanding of the system for forecasting revenue receipts.

Yours sincerely,  
Sd/- (H. D. BAHL)

Shri S. N. Nautial,  
Director,  
Central Board of Direct Taxes,  
New Delhi.

**DIRECTORATE OF O&M SERVICES (IT), NEW DELHI**

Variation between Budget estimates and actuals—Study regarding—

The following publications of the Internal Revenue Service of the U.S.A. were received on the 24th November, 1973 from Member (B), CBDT, who directed that these may be quickly examined in order to see whether any useful information was available in regard to the above mentioned study.

1. Statistics of Income 1964, 1965, 1966 Foreign Income and Taxes Corporation Income Tax Returns.
2. Statistics of Income 1968 Corporation Income Tax Returns.
3. Statistics of Income 1970 Individual Income Tax Returns.
4. Economic Report of the President January, 1972.
5. Statistical Appendix to Annual Report of the Secretary of the Treasury on the state of finance for the fiscal year ended 30th June, 1972.
6. 1972 Commissioners Annual Report.
7. The Budget of the United States Government—Fiscal year 1973.
8. Special Analysis of the United States Government—Fiscal year 1973.
9. Report of the U.S. Treasury regarding revenue for the years 1954—61.

Within the short time at our disposal it has not been possible to look into this literature thoroughly but a cursory examination has shown the following results:—

- (i) The publications at Sl. Nos. 1 to 4, although, containing detailed statistical data on so many aspects of Internal Revenue Service working in USA, do not appear to contain any information regarding variations in budget estimates and actuals.
- (ii) Some figures are available in regard to the budget estimates and actual receipts for the fiscal year 1972 from the publications at Sl. Nos. 5 and 8 but there is some inconsistency in the figures mentioned in the different publications and it has not been found possible to reconcile these so that even for this one year there is no finality about the figures available.
- (iii) The publication at Sl. No. 9 appears to be concerned with the variations in the budget estimates and actual receipts pertaining to the years 1954 to 1961 and also contains a note on the techniques of forecasting revenue receipts. The latest statistics are not available in this publication. However, a detailed examination of this report has not been possible in the limited time at our disposal. It is also felt that for a proper understanding of this report, some basic knowledge of the tax structure and the techniques and procedure of work of the Inland Revenue Service in USA is necessary.

The proposed study may be able to make progress provided the basic knowledge referred to in the preceding para is acquired and relevant literature relating to a number of consecutive years, preferably the latest ones, is available.

The books have been retained in this Directorate and may be sent for by the Board, if requested.

Sd/- (H. D.BAHL)

Director of O & M Services (IT).

27-11-1973.

Member (B), CBDT, New Delhi

Date of O&M's F.No. 10(22)/73-DOMS/2070

Daetd 27-11-1973.



*Variation between Budget Forecast/Estimates and Actuals  
U.S.A.*

(Amount in Million)

| Year | Individual Income Tax |           |         |  |           | Corporation Tax |           |         |  |           |
|------|-----------------------|-----------|---------|--|-----------|-----------------|-----------|---------|--|-----------|
|      | Forecast              | Estimates | Actuals | Percentage of variations between actuals & |           | Forecast        | Estimates | Actuals | Percentage of variations between Actuals & |           |
|      |                       |           |         | Forecast                                   | Estimates |                 |           |         | Forecast                                   | Estimates |
|      |                       |           |         |  |           |                 |           |         |  |           |
| 1969 | x                     | 84400     | 87249   | x  | (+)-3.3   | x               | 33100     | 36878   | x  | (-)-3.8   |
| 1970 | 90400                 | 92200     | 90412   | (+)-0.01                                   | (-)-1.9   | 37900           | 37000     | 32829   | (-)-13.3                                   | (-)-11.3  |
| 1971 | 91000                 | 88300     | 86230   | (-)-5.24                                   | (-)-2.3   | 35000           | 30100     | 26725   | (-)-23.6                                   | (-)-11.2  |
| 1972 | 93700                 | 86500     | x       | x  | x         | 36700           | 30100     | x       | x  | x         |
| 1973 | 93900                 | x         | x       | x  | x         | 35700           | x         | x       | x  | x         |

x not available.

*Variations between budget estimates and actuals  
U.K.*

(Amount in million)  
1970-71

| Head       | 1969-70   |         |           |                         | 1970-71   |         |            |                         |
|------------|-----------|---------|-----------|-------------------------|-----------|---------|------------|-------------------------|
|            | Estimates | Actuals | Variation | Percentage of variation | Estimates | Actuals | Variations | Percentage of variation |
| 1          | 2         | 3       | 4         | 5                       | 6         | 7       | 8          | 9                       |
| Income Tax | 4881      | 4907    | (+)-26    | 0.5                     | 5653      | 5731    | (+)-78     | 1.4                     |
| Surtax     | 240       | 255     | (+)-15    | 6.2                     | 277       | 248     | (-)-29     | 10.5                    |

| 1                          | 2           | 3           | 4            | 5          | 6           | 7           | 8            | 9          |
|----------------------------|-------------|-------------|--------------|------------|-------------|-------------|--------------|------------|
| Corporation . . . . .      | 1805        | 1697        | (—)108       | 6.2        | 1900        | 1583        | (—)317       | 16.6       |
| Capital gain tax . . . . . | 136         | 128         | (—)8         | 6.0        | 150         | 139         | (—)11        | 7.3        |
| Death duties . . . . .     | 380         | 365         | ..           | ..         | 371         | 357         | ..           | ..         |
| Stamp duties . . . . .     | 120         | 120         | ..           | ..         | 119         | 117         | ..           | ..         |
| Others . . . . .           | 28          | 20          | ..           | ..         | 5           | 5           | ..           | ..         |
| <b>TOTAL : . . . . .</b>   | <b>7590</b> | <b>7492</b> | <b>(—)98</b> | <b>1.3</b> | <b>8475</b> | <b>8180</b> | <b>(—)29</b> | <b>3.5</b> |

|                            | 1971—72     |             |              |            | 1972—73     |             |               |            |
|----------------------------|-------------|-------------|--------------|------------|-------------|-------------|---------------|------------|
| Income Tax . . . . .       | 6491        | 6432        | (—)59        | 0.9        | 6645        | 6477        | (—)169        | 2.5        |
| Surtax . . . . .           | 360         | 348         | (—)12        | 3.3        | 352         | 341         | (—)11         | 2.7        |
| Corporation . . . . .      | 1620        | 1554        | (—)66        | 4.1        | 1395        | 1533        | (—)138        | 9.8        |
| Capital gain tax . . . . . | 165         | 155         | (—)10        | 6.0        | 200         | 208         | (+ )8         | 4.0        |
| Death duties . . . . .     | 375         | 451         | ..           | ..         | 409         | 459         | ..            | ..         |
| Stamp duties . . . . .     | 108         | 166         | ..           | ..         | 170         | 228         | ..            | ..         |
| Others . . . . .           | 1           | 4           | ..           | ..         | 2           | 2           | ..            | ..         |
| <b>TOTAL : . . . . .</b>   | <b>9120</b> | <b>3110</b> | <b>(—)10</b> | <b>0.1</b> | <b>9174</b> | <b>9248</b> | <b>(+ )74</b> | <b>0.8</b> |

| Head                       | 1973-74      |              |               | Percentage<br>of varia-<br>tion |
|----------------------------|--------------|--------------|---------------|---------------------------------|
|                            | Estimates    | Actuals      | Variations    |                                 |
| Income Tax . . . . .       | 7233         | 7058         | (-- )175      | 2·4                             |
| Surtax . . . . .           | 360          | 305          | (-- )55       | 14·0                            |
| Corporation . . . . .      | 2045         | 2245         | (+ )200       | 10·0                            |
| Capital gain tax . . . . . | 225          | 320          | (+ )95        | 47·0                            |
| Death duties . . . . .     | 398          | 405          | ..            | ..                              |
| Stamp duties . . . . .     | 203          | 190          | ..            | ..                              |
| Others . . . . .           | ..           | 2            | ..            | ..                              |
| <b>TOTAL . . . . .</b>     | <b>10464</b> | <b>10525</b> | <b>(+ )61</b> | <b>0·57</b>                     |

## APPENDIX II

(Vide para 12.16, page 91 of the 186th Report (5th Lok Sabha)

Extracts from the Sixteenth Report of the Committee on Subordinate Legislation (Fifth Lok Sabha)—Paras 125—128, pp. 60-61.

\* \* \*

125. It is no doubt true that 209 officers promoted in 1971 and 1973 have gained in their placement by one or two years and correspondingly the direct recruits have been relegated. But the total number of promotees who have lost in their placement is more. The Committee are of the opinion that having promoted a large number of officers from time to time according to needs and exigencies of services, it was not proper for the Department to have relegated their placements. It is certainly the concern of the Government to determine what should be the ratio of intake from the direct recruitment and by promotion but the Committee cannot ignore the frustration caused to a section of employees who are told several years after their appointment that their placement stands relegated below the direct recruits who joined the Department after them.

126. On 9-10-1974, 62 promoted Assistant Commissioners were reverted. When asked during evidence whether these reversions were due to retrospective operation of the rules, the representative of the Ministry stated that it was not so. He further stated that they were clearly told in their appointment letter that their appointment was *ad hoc* and was subject to finalisation of the seniority list.

127. It cannot be denied that 62 Assistant Commissioners, who had been promoted in 1973, were reverted in 1974, on account of their placement below direct recruits who had joined the service later as Income-tax Officers (Class I). No doubt, they were warned that their appointments were *ad hoc* but this can at best be considered only an administrative safeguard in the hands of the Department. In the opinion of the Committee had the original placements not been disturbed, these 62 Assistant Commissioners would normally not have been reverted.

128. In their evidence before the Committee much stress has been laid by Government on legality. The Committee will like to

make it clear that in their approach to rules, they are concerned not merely with legality, but are also concerned that the rules framed by Government conform to the principles of natural justice. When a rule has the effect of hurting a section of the people from a back date, the Committee cannot remain indifferent. The Committee trust that the Ministry will give a serious thought as how to remove frustration and hardship among the promotee officers. The Committee hope that the Government would see that all the officers work happily for the good of the people and the country at large.

---

### APPENDIX III

#### *Summary of main Conclusions/Recommendations*

---

| Sl. No. | Para No. | Ministry/Deptt. concerned                                | Conclusions/Recommendations  |
|---------|----------|--|--|
| 1.      | 2 4      | Ministry of Finance<br>(Deptt. of Revenue and Insurance) | In respect of all these matters the Public Accounts Committee have been making recommendations repeatedly and the Government have been giving assurances. However, as can be seen from the following chapters, the assurances have, largely, remained unfulfilled. In a number of cases (cf. paragraphs 3.14, 4.7, 4.11, 5.13, 5.20, 6.13, 7.5, 7.13, 7.14, 9.17, 11.11, 11.14; 11.20 and 11.25 of this Report), there has been no finality as yet in respect of the action taken by Government on some of the important recommendations of the Committee, despite considerable time having elapsed. Unless the Government devise an adequate machinery to see that the recommendations of the Committee receive adequate and prompt attention and the assurances held out to the Committee are translated into positive action not only at the higher level in the Ministry of Finance and the Central Board of Direct Taxes but also by all those engaged, in some capacity or the other, in administering the Income-tax law and procedures the labours of the Committee over the past so many years shall have been in vain. |

---

| 1 | 2 | 3 | 4 |
|---|---|---|---|
|---|---|---|---|

|    |      |   |  |
|----|------|---|--|
| 2. | 3 15 | Ministry of Finance<br>(Deptt. of Revenue &<br>Insurance) | <p>While, on Government's own admission, the steps already taken by the Ministry have not produced any positive results, the Ministry does not seem to have taken any concrete action on the specific recommendations of the Committee made in their 51st Report (Fifth Lok Sabha) even after a lapse of three years. In the meantime, even for the years 1970 71 to 1972-73, the variations between the budget estimates and the actuals have continued to be far more than 3 to 4 per cent indicated earlier by the Committee and there has been again a persistent under-estimation of tax revenues to the extent of 8.34 per cent to 14.86 per cent under Corporation Tax and 7.28 per cent to 8.84 per cent under Income-tax. The conclusion that the recommendations of the Committee in this regard have not been acted upon in letter and spirit is, therefore, inescapable.</p> |
|----|------|---|--|

|   |      |     |   |
|---|------|-----|---|
| 3 | 4-12 | do. | <p>It would thus appear that, apart from the weakness of Internal Audit and the lack of pre-scrutiny of collaboration agreements, there are other, more basic, factors responsible for income escaping assessment. In the first place, there seems to be a chronic lack of co-ordination (i) among the assessing officers of the department itself, (ii) among the assessment records pertaining to different direct taxes, particularly income-tax and wealth-tax, (iii) among the Income-tax Department and the other tax collecting departments of the Central and State Governments and (iv) among the Central Board of Direct Taxes and the administrative Ministries entering into or approving foreign collaboration agreements.</p> |
|---|------|-----|---|

Better late than never, Special Circles have recently been set up in ten urban centres for dealing with 'professionals' like doctors, lawyers. etc. The Committee trust that work in these Special Circles, which will have a lot of leeway to make up, will be adequately performed and supervised.

4. 5.21 do.

It would appear from the above that while on the one hand there is still much to be desired in the implementation of the instructions issued by the Board, on the other, the Ministry has yet to take firm and effective steps to ensure proper planning of the work of the Income-tax Officers so as to avoid the assessments, at least in big income cases. being rushed through towards the end of the year or the end of the limitation period and to ensure that the computation of income and the assessment orders themselves are checked and counter-checked so as to avoid careless and costly mistakes.

5. 6.14 do.

It is clear from a summary of the position that the implementation of the specific suggestions of the Public Accounts Committee, whether in the matter of simplification or rationalisation of the rules and procedures or in the matter of improving the efficiency and check by Internal Audit and the Inspecting Assistant Commissioners, has been half-hearted, and as a result the situation has not improved at all.

6. 7.15 do.

It is apparent, thus, that on the subject of levying additional tax on companies more than on any other, there has been what might

---



be called a kind of a consistency of in-action and delay. The review of all past assessments suggested by the Committee in the interest of revenue has not been completed, while the recommendation of the Committee about the abolition of the subtle distinction between public companies and closely held public companies has been "under consideration" for as long as six years. Compliance, if any, with the specific suggestions made by the Committee during the last three years remains yet to be reported.

7.

9.18

Ministry of Finance  
(Deptt. of Revenue  
and Insurance)

In spite of various exhortation and recommendations of the Public Accounts Committee, the Ministry of Finance has still not come to grips with the problem relating to the failure to levy interest and has consistently failed to fulfil the assurances held out. Even where action is taken on a special suggestion of the Committee, it is so tardy that the Committee feel that the Ministry has to be goaded time and again. For instance, their suggestion regarding the simplification of interest calculation had been accepted as long back as November 1969; powers to frame rules for the purpose were acquired in April, 1971 by amending the Income-tax Act, while the rules were actually framed and notified in December, 1974, effective only from the 1st January, 1975. It is disconcerting that the Ministry should have taken six long years to implement this simple suggestion. Similarly, though in pursuance of the Committee's suggestion the target date for a general review of all cases of completed assessments for

more than Rs. 50,000 with a view to ensuring enforcement of penal provisions, had been fixed as 31st October, 1974 by the Central Board of Direct Taxes itself, the results of this review are still not available to the Committee.

8            10.5            do.

It would appear that the mistakes in giving effect to appellate orders continue to occur, first, because the Ministry has not been able to ensure a proper spacing of work with the result that the rush of work at the end of the year has become a recurring phenomenon, and secondly, because the Central Board of Direct Taxes has not been able to secure compliance even with their own instructions, issued at the instance of the Public Accounts Committee.

9            11.31            do.

It would be seen from the recountal above that while some of the legal remedies suggested by the Committee from 1969 onwards for reducing the ever-increasing arrears of Income-tax have been adopted only in 1975, the Central Board of Direct Taxes have still to tackle effectively a number of administrative problems such as, (i) fixation of an order of priorities concentrating, primarily, on big income cases, (ii) proper planning of the work of Income-tax Officers so as to complete the high income group assessments expeditiously, (iii) avoidance of over-pitched and unrealistic assessments, (iv) ineffective working of the machinery set up to watch recovery of arrear demands of big magnitude, and (v) above all, creating a statistical organisation that can give reliable data. The position of arrear demands and arrear assessments is not likely to show any

marked improvement unless the Ministry of Finance comes to grips with these fundamental problems.

10

12 I

Ministry of Finance  
(Deptt. of Revenue &  
Insurance)

As stated in the opening Chapter, the Committee have found themselves constrained to make a review of the implementation by Government of their recommendations contained in the several Reports presented right from 1964. It will be seen from the Audit Reports of successive years and the recommendations of the Committee thereon that they are almost repetitive except, perhaps, for subtle changes in accent in their expressions of despair. It might even appear that there had been no earnest or purposeful effort on the part of Government to set its own Tax Administration apparatus on a plane of truly efficient and effective functioning. This is perhaps the only Department which has had over the years the benefit of the guidance of not only the recommendations of this Committee, but of several other expert bodies as well, right from the Tod Hunter Committee (1925) to the Wanchoo Committee (1973). If, in spite of the many recommendations made by these committees as well as by the Public Accounts Committee, 'the ills that beset' the Department continue to plague it, there must be something basically wrong either in the laws, rules and procedures devised for the levy and collection of Direct Taxes, or in the way these laws, rules and procedures are actually administered by the various authorities entrusted with the task. It has not been brought to the notice

of the Committee by any of the official witnesses that the former is the cause. In fact, the Committee are not unaware of the annual spate of legislative amendments and the more frequent flood of rules and regulations designed for plugging various loopholes in the law. Enormous powers have also been placed in the hands of income-tax authorities even before the latest Taxation Laws (Amendment) Act, 1975. If the vigour with which searches and raids are being presently conducted and the amount of black money unearthed is any indication, it appears that if the normal duties of the Department had been properly and efficiently performed, there should have been a greater compliance by the tax-payers and higher realisation of receipts in proper time.

11.

12.2

Do.

Representatives of the Government have admitted and the Public Accounts Committee have pointed out in their successive Reports that the mistakes detected by test audit are 'costly mistakes' (in one instance the amount involved was admittedly more than Rs. 2 crores) and have resulted in heavy loss of revenue to the Exchequer. What the total annual loss to the Exchequer on account of these mistakes would be is anybody's guess. However, if the mistakes highlighted by statutory Audit are added to the mistakes pointed out by Internal Audit, imperfect though such audit is, the annual accretion to the exchequer would have been much more than what is borne as extra tax by the honest tax-payers. Unfortunately, the Income-tax Department appears to be managing its affairs by what might be dubbed the principle of 'Management by Crisis' rather than 'Management by Objectives'. This is by no means a happy situation.

| 1  | 2    | 3   | 4  |
|----|------|---|--|
| 12 | 12.3 | Ministry of Finance<br>(Deptt. of Revenue &<br>Insurance) | <p>The Committee cannot, however, rest content with a mere expression of disapproval and disappointment. They consider it their duty to point out certain important areas of deficiency where, if adequate remedies are attempted, there may well be hope of real improvement. In this Report, the Committee have confined their recommendations only to the more fundamental of the aforesaid areas so that there should not be any excuse for not implementing these on the ground of ancillary or incidental problems hindering implementation or on the ground that the recommendations were too many and too complex.</p>   |
| 13 | 12.4 | Do.   | <p>The first basic tool in the hands of any tax administration is an efficient statistical information system. Anyone entrusted with the management of the finances of a country should have at his disposal, upto date and complete data on all aspects of the taxes which he administers and particularly on the impact and incidence of proposed tax measures, so that timely changes may be made and a proper and purposeful guidance given to the policy makers. This information system has, most unfortunately, not been built up yet in the Income-tax Department, in spite of repeated recommendations by the Public Accounts Committee and other Commissions and Committees, and this failure has led to all the distortion in the tax administration, leading to <i>ad-hoc</i> solutions, hasty amendments and cumbersome but ineffective procedures. The Working Group of the Administrative</p> |

Reforms Commission on the Central Direct Taxes Administration, which submitted its report in the year 1968, had observed as follows on the still prevailing state of affairs:

“The tax, which the Department administers, affects the social and economic life of the country in a most powerful way. No one knows or can know as much about the effect of the administration of the taxes as members of this Department, but we doubt if there is a machinery in the Department adequately equipped to give information on such matters.”

14

12.5

Do.

In Chapter III of this Report, extracts of various recommendations of this Committee have been given in which the importance of strengthening the statistical machinery has been repeatedly stressed. The Committee would like particularly to draw attention to paragraphs 1.23 to 1.26 of their 51st Report (Fifth Lok Sabha). In these paragraphs, the Committee had deplored the failure of the Central Board of Direct Taxes to establish a proper machinery for furnishing upto-date statistics so as to ensure a more accurate forecast of revenues. However, apart from stating that a Committee had been set up, under the Chairmanship of a Joint Secretary of the Department of Statistics, to look into the statistical framework of the Income-tax Department and to make suitable recommendations for streamlining and systematizing it, no concrete steps appear to have been taken. This was clearly pointed out in paragraphs 1.9, 1.10 and

III

1.14 of the 150th Report (Fifth Lok Sabha). The latest All India Income-tax Statistics that is available in cyclostyled form relates to the year 1971-72 and this too is deficient in many respects. There has been, to the knowledge of the Committee, no All India Statistics in respect of other Direct Taxes. The Committee, would, therefore, strongly urge Government to speed up action on the setting up of an efficient statistical organisation which should give all necessary data promptly and contemporaneously with the framing of the Budget, so that not only the Minister of Finance, but also the Members of Parliament, at the time of discussion of the Budget, could have the advantage of complete information in respect of all aspects of tax levy and collection. On several occasions, the Central Board of Direct Taxes were also unable to furnish promptly to the Committee complete and updated information relating to the statistical paragraphs included in Chapter I of the Volume of the Report of the Comptroller & Auditor General on Revenue Receipts relating to Direct Taxes, on account of the absence of a sound statistical base within the organisation. The statistical organisation when set up, as recommended by the Committee, should also be in a position to give all information in this regard required by the Committee.

15.

12.6

Ministry of Finance  
(Deptt. of Revenue &  
Insurance)

The second area where immediate attention is required is the strengthening of the internal control and supervisory system, particularly at the middle management level. There are today, accord-

ing to the information furnished to the Committee, about 3100 Income-tax Officers supervised by 260 Inspecting Assistant Commissioners. The Inspecting Assistant Commissioners form a very important link in the chain of transmission and implementation of the orders of the Board and of the Commissioners. All the mistakes which Audit has been pointing out repeatedly and which the Committee had to bring to the notice of the witnesses, could have been avoided, if there had been a more efficient supervision and internal control by these middle-level officers. As it is, there does not appear to be any effective management by the Inspecting Assistant Commissioners, for whom—except for certain statutory duties now vested under the Income-tax Act—no mandatory inspection and control obligations, alongwith provision for punishment in cases of failure, have been laid down. With no concrete responsibility in the matter of guidance and control, they appear to be acting almost entirely as channels of communication between the Income-tax Officer, who bears the entire brunt of the work, and the Commissioner and the Board, who issue the guidelines. Even the prescribed duties of inspection have not been apparently discharged efficiently, as is evident from the number of admitted mistakes in big cases which the Inspecting Assistant Commissioners, under existing instructions, are required to check. To several queries whether the Inspecting Assistant Commissioners had checked the assessments, in which mistakes had been brought to the notice of the Committee by Audit, a bare reply in the negative is all that is vouchsafed by the Ministry. If the Inspecting Assistant Commissioners are not to be thought of

---



15 (contd.)

-do-

Do.

largely as a superfluous body of officers and are to justify themselves in the role for which it had been created, viz., to effectively supervise and control the work of Income Tax Officers so that the rules and regulations are properly observed by them, then there should be a more positive part to be played by them. This the Board should ensure by issuing, if necessary, an 'Instructions Manual for IACs' prescribing periodical inspection duties, with adequate details as to the nature of checks to be exercised by them. One such check should be to ensure that all instructions issued by the Board are in fact observed and a certificate to that effect should ensue. The Inspecting Assistant Commissioner should also be required to conduct a general review of the survey, recovery and arrears of assessment and collection including outstanding refund claims, and to submit periodical Review Reports to the Board through the Commissioners. Government may consider the feasibility of ensuring that the work of the Inspecting Assistant Commissioner is superintended by one of the Directors of Inspection and a serious view taken of any dereliction of duty. If in future Audit Reports cases come to light of Inspecting Assistant Commissioners not having conducted inspection which they ought to have done, or had failed to notice an under-assessment in a case which they had scrutinised, the Committee would take serious note of such failure. The Committee desire that this should be impressed on all the Inspecting Assistant Commissioners suitably.

16 12.7

Do.

Another reason for the repetitive mistakes in big cases resulting in huge loss of revenue, is that assessment work is largely left in the hands of comparatively inexperienced Income-tax Officers, who have to match their wits in an often unequal battle against the best legal brains and expert Chartered Accountants. As has been admitted more than once in evidence by the Chairman, Central Board of Direct Taxes, it would be a very desirable step if some categorisation of cases is made, so that those involving more than Rs. 5 lakhs of returned income is assessed directly by the Inspecting Assistant Commissioners rather than by Income-tax Officers. Adequate provisions have been in existence in this regard in the Income-tax Act and it is said that these provisions have not been made full use of so far. It is hoped that if Assistant Commissioners of Income-tax are given assessment powers to assess directly cases of over Rs. 5 lakhs, which are not too many, the standard of performance will improve and the possibility of mistakes reduced. Appeals in such assessments, if preferred, would go straight to Commissioners of Income-tax, so that in big cases officers just promoted as Appellate Assistant Commissioners are not saddled with powers of appellate relief which should be vested in higher levels so that the country's revenue is better safeguarded.

115

17 12.8

Do

Closely connected with an efficient internal control system is an effective internal audit system. As will be seen from the preceding Chapters, it required almost a constant and persistent prod by the Public Accounts Committee for increasing the scope, extent and

---

effectiveness of internal audit. In the Sixth Report of the Third Lok Sabha, the Committee had to make the following observations, after expressing their alarm at the large number of cases of under-assessment involving considerable amounts detected by the Test Audit of the Comptroller & Auditor General:

“The Committee feel that the situation calls for more effective internal audit of the old and new assessment cases, so that the mistakes can be rectified and recoveries made before these become time-barred. The Committee regret that in spite of the recommendations of the Direct Taxation Enquiry Committee, no effective steps seem to have been taken to strengthen internal audit. This should be done without further delay.”

Again, in the 29th Report of the Fourth Lok Sabha, the Committee requested the Government to pay serious attention to the strengthening of internal audit by having well qualified, experienced and trained people in the work of taxation to work in the internal audit, to be headed by a senior officer who should preferably work under the Central Board of Direct Taxes, so as to inspire the confidence that they can discharge their duty without fear or favour.

18. 12.9

Ministry of Finance  
(Deptt. of Revenue &  
Insurance)

In the 117th Report, in paragraph 1.34, the Committee had to observe that the internal audit had not so far played an effective

role in checking faulty assessments and to suggest certain measures for improving the quality, scope and extent of internal audit.

The matter came up again before the Committee and in paragraph 2.27 of their 51st Report (Fifth Lok Sabha), the Committee stressed the need for intensification of checks by internal audit. The Committee further suggested that an immediate review of the working of internal audit should be undertaken by the Board to find out how far they were carrying out the prescribed checks and bringing to the notice of Government cases of under or over-assessment requiring rectification.

19. 12.11

Do.

In paragraph 2.9 of their 73rd Report (Fourth Lok Sabha), the Committee pointed out that even where the internal audit checked the assessments, a number of mistakes had escaped their notice, which pointed to the need for toning up their performance. Further, in the 150th Report of the Fifth Lok Sabha, the Committee felt that it was essential to have a comprehensive review by the Board, at least once in six months, of the working of internal audit with a view to improving its efficiency.

117

20. 12.12

Do.

The foregoing observations underline the urgency and the need for restructuring and reorganising the internal audit, so as to make it an efficient tool for tax management. The development of the internal audit system has been very tardy in the Income-tax Department. Initially, the Internal Audit Parties were checking only the

---

arithmetical accuracy of the assessments. In 1964, the Board extended the function of internal audit to finding out mistakes in law. The Internal Audit Party is headed only by a Supervisor and two Upper Division Clerks and is under the control of Chief Auditors (of Income-tax Officer's grade) who do not add up to form an adequate team for the job. Except for placing in over-all charge an Inspecting Assistant Commissioner, who unfortunately does not appear to have been successful with the task of effective coordination of internal audit work, the composition of the internal audit parties has remained almost static during the span of a decade or so. Internal audit function is a specialised activity and requires a thorough knowledge of the law, the rules and procedures, so that it is enabled to play its effective role as an independent appraisal unit for reviewing the accounting, financial and other operations. It is a managerial tool of control and as such it has to have the requisite authority, responsibility and independence, as well as equipment adequate to the discharge of its duties.

Ministry of Finance  
(Deptt. of Finance  
& Insurance)

As regards authority and responsibility, it has to be realised that internal audit is a staff function and the internal auditor should be free to review and appraise not only the arithmetical accuracy and the legal correctness of the assessments, but also to review the procedures, and should have the authority to suggest appropriate remedial measures and changes to the Board of Direct Taxes.

22            12.14            —do—            Perhaps a more fundamental requisite is the independence of Internal Audit. Unless this independence is assured, complete objectivity cannot be expected. The organisational status of the internal auditor and the support accorded to him by the management should, therefore, be such as would eliminate all fear of ill-will or anything of that sort on the part of officers whose assessments and work generally the internal auditor is called upon to scrutinise. This can only be done by having a kind of autonomous cadre, headed by a senior officer responsible to the administration at the highest level. The actual set up can be planned with a little careful thought.

23            12.15            —do—            The other requisite of equipment and qualification has been neglected all these years and should be attended to immediately. The Internal Audit Parties should be Inspector-oriented and not UDC-oriented. Each party should consist of an Income-tax Officer assisted by two Inspectors and not, as at present, a Supervisor and two Upper Division Clerks, whose knowledge unhappily is too often little and training less. The Inspecting Assistant Commissioner of Income-tax incharge of Internal Audit should have a more manageable range of supervision than at present and should devote himself more seriously to the primary task of laying down programmes for internal audit, receiving reports of internal audit, getting quicker compliance from the formations whose work the internal audit has commented upon, preparing a consolidated report half-yearly or annually for the Director of Internal Audit, who would then submit

his comments to the Board with a view to the latter initiating appropriate action.

24

12.16

Ministry of Finance  
(Deptt. of Revenue  
and Insurance)

The Committee cannot help referring to the peculiar administrative climate prevailing today in the Income-tax Department, where the entire force of Income-tax Officers is divided into two seemingly rival camps, spending most of their time and energy in fighting in courts seniority issues relating to more than two decades, neglecting, in the process, their primary duty of assessment and collection. In this connection the Committee would like to refer to paras 125 to 128 of the 16th Report (5th Lok Sabha) of the Committee on subordinate Legislation (Reproduced in Appendix II) and also to quote paragraph 74 of the Report of the Select Committee on the Taxation Laws (Amendment) Bill 1973:

120

“The Committee note with concern that the dispute between the officers directly recruited to Class I and those promoted to it has been pending settlement for a very long time. As a consequence, the parties had to go to the court. This was unfortunate for it seriously affected the efficiency of the Department. They feel that if the problem of black money and tax evasion is to be seriously dealt with, it is essential that tax administration should be made effective and efficient. The dispute in which a

large group of Income-tax personnel feel at the moment frustrated and demoralised is not conducive to efficient tax administration. They feel that the question of career prospects of Class II Income-tax Officers including the policies pursued by the Department in respect of their seniority and promotion should be reviewed expeditiously."

This Committee feel equally that this is a matter which should be settled without losing any more time. The Committee had lately the opportunity of hearing representatives of the two aforesaid groups and the impression that is left with the Committee on hearing the evidence is that the question has to be tackled not on the basis of legalistic niceties alone, but also on broader grounds based on justice and equity. This can be brought about only in a manner which the present climate in the country upholds, namely, an agreed settlement, in which purely legalistic grounds should not take precedence over sensible and practicable considerations. A solution must be found acceptable to all, or at least to the majority of officers concerned, so that forgetting the rancour, the illwill and the bitterness that have plagued the cadre for well over a decade, the officers can work together in a spirit of cooperation and dedication in the common endeavour to combat evasion and ensure a proper tax compliance.



