

**PUBLIC ACCOUNTS COMMITTEE
(1967-68)**

SEVENTEENTH REPORT

(FOURTH LOK SABHA)

[Paras 59 and 60 of Audit Report (Civil) on Revenue Receipts, 1966 and paras 51, 56, 57, 58, 59 and 60 of Audit Report (Civil) on Revenue Receipts, 1967 relating to Income Tax]

पुस्तक संख्या 28942 (5)
आवक संख्या 28942 (5)
दिनांक 20-2-1968



**LOK SABHA SECRETARIAT
NEW DELHI**

February, 1968

Magha, 1889 (Saka)

Price : Rs. 1.30

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CORRIGENDA TO SEVENTEENTH REPORT OF PAC (1967-68)

PRESENTED TO LOK SABHA ON 16.2.1968

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
4	1.9	4	completed/	completed. Further
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			Commissioner	Commissioners
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PART II*

Minutes of the sittings of the Public Accounts Committee
held on 16-10-1967 (A. N.) 1-2-1968 (F. N.) 3-2-1968 (A. N.)

*Not printed. One cyclostyled copy laid on the Table of the House and five copies placed in the Parliament Library.

PUBLIC ACCOUNTS COMMITTEE

(1967-68)

MEMBERS

Shri M. R. Masani.

MEMBERS

- *2. Shri Syed Ahmed Aga
3. Shri C. K. Bhattacharyya
4. Sardar Buta Singh
5. Shri Shivajirao S. Deshmukh
6. Shri R. Muthu Gounder
7. Shri D. K. Kunte
8. Shri N. R. Laskar
9. Shri V. Viswanatha Menon
10. Shri K. K. Nayar
11. Shri Narendra Kumar Salve
12. Shri Yogendra Sharma
13. Shri Sheo Narain
14. Shrimati Tarkeshwari Sinha
15. Shri P. Viswambharan
16. Shrimati Devaki Gopidas
17. Shri P. K. Kumaran
18. Shri Om Mehta
19. Shri Gaure Murahari
20. Shri M. C. Shah
21. Dr. M. M. Siddhu
22. Shri B. K. P. Sinha

*Declared elected on the 30th November, 1967 *vice* Shri Mohammed Yumus Saleem ceased to be a Member of the Committee on his appointment as Deputy Minister.

(iv)

SECRETARIAT

Shri N. N. Mallya—*Joint Secretary.*

Shri Avtar Singh Rikhy—*Deputy Secretary.*

Shri R. M. Bhargava—*Under Secretary.*

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Seventeenth Report. In this Report, the Committee have dealt with a few selected Audit paragraphs relating to Income-Tax, viz. paras 59* and 60* of Audit Report (Civil) on Revenue Receipts, 1966 and paras 51, 56, 57, 58, 59 and 60 of Audit Report (Civil) on Revenue Receipts, 1967.

2. The above mentioned Audit Reports were laid on the Table of the House on the 28th April, 1966 and 30th May, 1967 respectively.

3. The Public Accounts Committee considered the above mentioned paragraphs at their sitting held on the 16th October, 1967 (AN). The Report was considered and approved by the Committee at their sittings held on 1st and 3rd February, 1968. The minutes of these sittings form part of the Report (Part II)**

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 conclusions/recommendations of the Committee is appended to the Report (Appendix V).

5. The Committee place on record their appreciation of the assistance rendered to them in their examination of these paragraphs by the Comptroller & Auditor General of India.

They would also like to express their thanks to the officers of the Ministry of Finance (Department of Revenue) and Central Board of Direct Taxes, for the co-operation extended by them in giving information to the Committee during the course of evidence.

NEW DELHI;
February 12, 1968
Magha 23, 1889 (Saka).

M. R. MASANI,
Chairman,
Public Accounts Committee.

*The Public Accounts Committee (1966-67) had appointed a sub-Committee to consider paras 59 and 60 of Audit Report (Civil) on Revenue Receipts, 1966. The Sub-Committee could not take any evidence as the Lok Sabha was dissolved on 3rd March, 1967.

**Not printed (one cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library.)

INCOME TAX

Arrears of Assessments—Para 58 of Audit Report (Civil) on Revenue Receipts, 1967.

As on 31st March, 1966, 21.70 lakhs cases were outstanding with Income-tax Officers pending assessment. The approximate tax involved in these cases is about Rs. 65 crores. The number of cases pending for the corresponding period last year was 17.85 lakhs. The year-wise break-up of the outstanding cases is shown below:—

Year	No. of assessments.
1961-62 & earlier years	20,445
1962-63	1,12,335
1963-64	2,18,503
1964-65	6,01,100
1965-66	12,08,146
TOTAL	21,69,529

1.2. Category-wise break-up of the cases that are pending is as follows:—

(i) Business cases having income over Rs. 25,000	1,20,185
(ii) Business cases having over Rs. 15,000 but not exceeding Rs. 25,000	1,14,435
(iii) Business cases having income of over Rs. 7,500 but not exceeding Rs. 15,000	2,99,353
(iv) All other cases except those mentioned in category (v) and refund cases.	12,39,888
(v) Small income scheme cases, Government salary cases and non-Government salary cases below Rs. 18,000	3,95,668
TOTAL	21,69,529

1.3. Status-wise break-up of the pending cases is indicated below:—

(i) Individuals	17,34,536
(ii) Hindu undivided Families	1,38,008
(iii) Other association of persons	13,414
(iv) Companies	31,516
(v) Firms	2,52,055
TOTAL	21,69,529

1.4. The number of assessments completed out of the arrear assessments and out of current assessments during the past five years are given below:—

Financial year	Number of assessments for disposal	No. of Assessments completed			%	No. of Assessments pending at the end of the year
		Out of current	Out of arrears	Total		
1	2	3	4	5	6	7
1961-62	20,21,330	8,06,265	5,02,658	13,08,923	64.8	7,12,407
1962-63	22,18,376	7,96,815	5,12,902	13,09,717	59.4	9,08,659
1963-64	27,09,107	9,22,670	5,60,031	14,82,701	54.7	12,26,406
1964-65	36,26,144	11,54,834	6,86,795	18,41,629	50.8	17,84,515
1965-66	45,58,556	14,59,776	9,29,251	23,89,027	52.4	21,69,529

(The percentage in column 6 represents cases disposed of total number of assessments for disposal).

1.5. Though in terms of percentage, arrears have registered a shortfall, in absolute terms the arrears have gone up.

1.6. The following details about the assessments completed in the month of March, during the years 1963-64, 1964-65 and 1965-66 have been furnished by the Ministry.

	1963-64	1964-65	1965-66
(i) Total number of assessments completed	14,82,701	18,41,629	23,89,027
(ii) Amount of tax demand involved in (i) above	Rs. 272.87 crores	Rs. 327.42 crores	Rs. 365.97 crores
(iii) Total number of assessments completed in the month of March	2,04,022	2,74,762	2,94,146
(iv) Amount of tax involved in (iii) above	Rs. 61.02 crores	Rs. 86.78 crores	Rs. 106.54 crores
(v) Total number of Assessments completed in last 7 days of March each year	47,058	66,889	63,645
(vi) Amount of tax involved in the same	Rs. 26.29 crores (approx.)	Rs. 30.15 crores (approx.)	Rs. 43.30 crores (approx.)

1.7. Referring to the large number of assessments (2,94,146) involving tax of Rs. 106.54 crores completed in March, 1966 the Committee asked about the measures taken by the Department to ensure that big cases involving large amounts were completed well ahead of date of limitation to avoid hurried assessments. The Chairman, Central Board of Direct Taxes stated, "We have issued instructions that the income-tax officers should plan their programmes. The latest instruction that we have issued is that in all important cases, in respect of which nearly 70 to 75 per cent of tax is recovered, the arrear assessments should be brought up-to-date and that the arrear assessment should be liquidated before 31st March, 1969." The witness added that it was expected that half the arrears assessments would be liquidated by 31st March, 1968.

1.8. The Committee are concerned to note that the number of assessments pending has increased from 7,12,407 in 1961-62 to 21,69,529 in 1965-66. The Committee also note that during the last three years the percentage of assessments completed out of the total number of assessments for disposal varied from 50.8 per cent to 54.7 per cent

which means that nearly half the total number of assessments remain pending. What causes the Committee greater concern is the fact that the numbers of business cases involving an income of over Rs. 25,000, which were pending on 31st March, 1966, was 1,20,185. The Committee note that it is only lately that the Department has addressed itself to the task of taking up important assessments on a priority basis. The Committee are a little doubtful whether the targets of 31st March, 1968, for bringing up to date the assessment of 50 per cent of the important cases and of the remaining 50 per cent by 31st March, 1969, will be achieved. The Committee cannot too strongly stress upon Government the need to pay special attention to the speedy finalisation of pending assessments and in particular business cases involving an income of over Rs. 25,000 and of ensuring that in future all such assessments are given due priority and are not allowed to remain pending at the end of the assessment year.

1.9. The Committee would like to draw special attention to the fact that the total value of assessments completed in the last month (March) of the financial year 1965-66 represented approximately 20 per cent of the total value of assessments completed further, nearly 40 per cent of the value of assessments in the last month were completed in the last seven days of March each year. This is clearly indicative of the fact that the Department is not planning its work properly and that a large number of cases are rushed through in the last month and indeed in the very last week of the financial year. The Committee would like Government to take effective measures to ensure that Income-tax Officers plan their programme in such a way that assessment of cases involving large incomes is not crowded into the last month and the last week of the year.

1.10. The Committee expect that the Income Tax Officers will be suitably instructed to ensure that no assessment is left incomplete, save under exceptional circumstances and with the prior approval of the Commissioner, beyond two years after the assessment year notwithstanding that the limitation for assessment is four years.

*Arrears of Tax Demands—Para 57 of Audit Report (Civil) 1967,
on Revenue Receipts.*

1.11. In a note furnished to the Committee, the Ministry have stated that the final figures of tax demands pending payment as at the end of March, 1966, amounted to Rs. 381.88 crores.

1.12. The break-up of the arrears according to major heads of accounts is as under:—

	(Rs. in crores)
III. Corporation Tax	87.33
IV. Taxes on income other than Corporation Tax	281.25
Interest	13.30
TOTAL	381.88

1.13. The Ministry have furnished the following year-wise break-up of these arrears;

(In thousands of Rupees)

Year	Corpora- tion Tax	Taxes on Income other than Corpora- tion Tax	Interest	Total
1955-56 and earlier years	48,783	4,29,398	14,822	4,93,003
1956-57 "	5,955	71,855	1,641	79,451
1957-58 "	7,575	8,19,992	3,081	92,648
1958-59 "	8,566	64,807	1,819	75,192
1959-60 "	8,321	67,923	2,468	78,712
1960-61 "	14,039	91,559	3,928	1,09,526
1961-62 "	26,498	1,08,764	7,352	1,42,614
1962-63 "	41,698	1,43,043	6,887	1,91,628
1963-64 "	69,440	3,15,584	16,289	4,01,313
1964-65 "	1,45,795	4,39,613	26,987	6,12,395
1965-66 "	4,96,684	9,97,980	47,692	15,42,356
Total amount outstanding to be collected	8,73,354	28,12,518	1,32,966	38,18,838

1.14. A statement showing the commissioner-wise break-up of the arrears is given in Appendix I.

1.15. Out of Rs. 381.88 crores, Maharashtra and West Bengal Charges account for Rs. 116 and Rs. 138 crores respectively.

1.16. Out of the gross arrears of Rs. 381.88 crores the effective arrears are stated to be Rs. 244.67 crores. A sum of Rs. 37.85 crores as per details given below is estimated to be irrecoverable.

(In crores of rupees)

(a) Due from persons who have left India leaving behind no assets.	6.61
(b) Due from companies under liquidation.	6.54
(c) Out of other arrears as estimated by the Commissioner	24.70
	37.85

1.17. In a note furnished to the Committee, the Ministry of Finance (Department of Revenue & Insurance) have stated that, on the basis of reports received from 9 Commissioners, there are 8 cases each involving irrecoverable arrears of Rs. 5 lakhs or more.

1.18. The position in respect of cases of arrears of demand involving an amount of Rs. 5 lakhs and more is as follows:

(Rs. in crores).

Arrear demand	No. of cases	(Rs. in crores)
Over Rs. 5 lakhs upto Rs. 10 lakhs in each case	509	35.43
Over Rs. 10 lakhs upto Rs. 25 lakhs in each case	294	44.18
Over Rs. 25 lakhs in each case	104	55.47
TOTAL	907	135.08

1.19. In a note furnished to the Committee subsequently, the Ministry have stated that the total number of cases in which the arrears of tax of over Rs. 25 lakhs each were outstanding as on 31st March, 1966 comes to 142 and not 104 as previously reported. The amount of the tax involved in these 142 cases is Rs. 79.10 crores. These cases relate to different groups of companies the largest amount due from a particular group of Companies is Rs. 6.10 crores.

1.20. The particulars of collections during 1965-66 out of the demands created in 1963-64 and earlier years, in 1964-65 and 1965-66 are

stated as below:

(In crores of Rs.)

<i>Particulars of arrears</i>	<i>Amount of collection during 1965-66</i>
Arrears pertaining to 1963-64 and earlier years	14.96
Arrears pertaining to 1964-65	48.91
Arrears pertaining to 1965-66	211.73
TOTAL	<u>275.60</u>

1.21. On his attention being drawn to the increase in the arrears of tax demands from Rs. 322.72 crores at the end of March, 1965 to Rs. 381.88 crores at the end of March, 1966, the Chairman, Central Board of Direct Taxes, stated that the problem of arrears had been recently examined at the Conference of Commissioners. The Board had laid down responsibilities for the collection of taxes upto a certain amount on certain officers. They had also laid down that the Commissioners of Income-tax should be personally responsible to collect arrears in those cases where the arrear was more than Rs. 5 lakhs. Accordingly arrears of Rs. 135 crores involved in 907 cases of over Rs. 5 lakhs, would be scrutinised by the Commissioners who would see that all steps were taken to recover these arrears. The Director of Inspection (Statistics) also looked into the arrears and issued directions as to the steps to be taken.

1.22. Referring to the arrears of tax, the Secretary, Revenue and Expenditure stated: "Again a qualitative approach is being attempted to screen out which are the cases under various court proceedings and we will have to take certain policy instruction as to how these cases are to be approached, because the intention is at least to the extent that assessments have been made, the collection should be effected more by taking over certain functions now left with the State Governments. But the problem really is not so much of collecting arrears—though it is important enough—as of being able to assess tax income which is escaping assessment. That is where I feel the department should increasingly disengage itself from the relatively unimportant cases and concentrate on areas where evasion is taking place."

1.23. The Committee also find from the reply given in Lok Sabha by the Minister of Finance to Starred Question No. 361 on the 30th

November, 1967 that the following decisions were taken at the last Commissioner's Conference held in August, 1967:—

- (i) Responsibility for appropriate action in cases where arrears are outstanding has been fixed on particular officers, viz:
- | | |
|-----------------------------------|--|
| Income-tax Officers: | Cases of arrears below Rs. 1 lakh |
| Inspecting Assistant Commissioner | Cases of arrears of over Rs. 1 lakh and below Rs. 5 lakhs. |
| Commissioners. | Cases of arrears of over Rs. 5 lakhs |
- (ii) In respect of demand locked up on account of Court proceedings, the Officers were asked to instruct the Departmental Counsels to take adequate steps to enable the recovery of arrears by early finalisation of the court matters.
- (iii) Action regarding taking over of recovery work from the State Governments should be expedited.
- (iv) The process of writing off of irrecoverable demands should be expedited.

1.24. The Committee have in their previous Reports expressed their great concern at the increase in the amount of arrears of income-tax from year to year. In this connection they would like to invite a reference to paras 1.257 and 1.258 of their 46th Report ((Third Lok Sabha) and paras 1.274 and 1.275 of their 3rd Report (Fourth Lok Sabha). The arrears have increased from Rs. 282.37 crores in 1963-64 to Rs. 322.72 crores in 1964-65 and Rs. 381.88 crores in 1965-66. This continuous rise in arrears of income-tax shows that the measures taken by the Board of Direct Taxes in the past have not resulted in any significant improvement.

1.25. The Committee feel that as with assessment cases, the attention of the Department has to be concentrated on cases of arrears of tax demands of Rs. 5 lakhs and above. The number of such cases is only 907 but the arrears of revenue arising from them is of the order of Rs. 1.35 crores. The Committee have no doubt that with the fixing of responsibilities at various levels by the Department for ensuring the collection of arrears, it would be possible to realise them in a reasonably short time. The Committee have also no doubt that the improvement in the realisation of arrears would not only augment Gov-

ernment's finances but would also find due reflection in the tax structure.

1.26. The Committee would like Government to pay particular attention to the arrears of tax from Companies so as to allay the apprehension that some of these companies may be holding back Government dues and utilising them for business purposes. The Committee feel that not only should dues be realised expeditiously but that penalties admissible under the rules should be imposed so as to act as a deterrent to others.

1.27. The Committee desire that Government make a thorough probe to ascertain whether the disparity in book figures of arrears of demand and effective demand is due to a tendency on the part of assessing officers to create high and unrealistic demands which, on the one hand, might lead to wasteful litigation and on the other fictitiously boost the demand figures with its other pernicious ramifications. The Committee would also like Government to examine all cases involving non-recovery of taxes of Rs. 1,00,000 and above out of the total irrecoverable amount of Rs. 37.85 crores. The Committee have no doubt that Government will take suitable action against the officers found responsible for neglect, if any, in respect of the irrecoverable demands mentioned above.

Pending Appeals and Revision Petitions

1.28. The number of appeal cases and revision petitions pending with the Appellate Assistant Commissioners and Commissioners of Income-tax for the period ending 30th June, 1965, 30th June, 1966 and 30th June, 1967 respectively with reference to the year of institution are indicated below:—

Year of Institution	Appeals with Appellate Assistant Commissioners			Revision petitions with Commissioners of Income-Tax		
	30-6-1965	30-6-1966	30-6-1967	30-6-1965	30-6-1966	30-6-1967
I	2	3	4	5	6	7
1953-54	2	1	1	..	..	..
1954-55	2	1	1	1	1	1
1955-56	11	9	8	6	5	5

1	2	3	4	5	6	7
1956-57	24	21	14	5	3	3
1957-58	36	23	17	19	13	10
1958-59	104	67	27	47	43	27
1959-60	182	127	50	73	51	34
1960-61	253	181	60	106	67	53
1961-62	786	431	162	146	88	37
1962-63	2,948	1,632	486	314	219	127
1963-64	10,433	3,986	1,301	931	513	299
1964-65	66,242	17,002	4,621	2,236	875	465
1965-66	39,713	89,155	16,744	876	2,686	1,126
1966-67	..	43,526	90,086	..	1,035	3,100
Total	1,20,736	1,56,162	1,13,578	4,760	5,599	5,287

1.29. In a note furnished to the Committee, the Ministry have furnished the following details of the number of appeals filed and the total number of appeals disposed of during the years 1962-63, 1963-64, 1964-65 and 1965-66.

(Income Tax assessments only)	1962-63	1963-64	1964-65	1965-66
(1) No. of regular assessments completed	1309717	1482701	1841629	2389027
and				
Demand raised (in lakhs) of rupees	280.87	268.37	330.91	361.62
(2) No. of cases in which appeals were filed with Appellate Assistant Commissioners and Appellate Tribunals out of assessments referred to in(1) above.				

	62-63	63-64	64-65	65-66
(a) Appeals filed before Appellate Assistant Commissioners	105697	116746	143157	171540
(b) Appeals filed before Tribunal :				
(i) By Department .	2209	2847	3155	3286
(ii) By assesseees . . .	11000	14387	12879	13558
Total of (i) & (ii) .	13209	17234	16034	16844
(3) No. of cases disposed of by Appellate Assistant Commissioners and Appellate Tribunal out of appeals preferred on assessments completed in (as on 31-8-67).				
(a) Appeals disposed of by Appellate Asstt. Commissioners	113329	112304	114988	129979
(b) Appeals disposed of by Tribunal:				
(i) By Department .	1590	1790	1849	2229
(ii) By assesseees .	11353	10245	9242	9984
Total (i) & (ii) .	12943	12035	11091	12213
(4) Tax reduction made in cases (3) above (year-wise) (in lakhs)				
(a) Tax reduction allowed by Appellate Asstt. Commissioners.	1618	1186	1251	1478
(b) Tax reduction allowed by Tribunal.	468	292	278	265
(5) No. of appeals pending with Appellate Asstt. Commissioners and Appellate Tribunal as on 31-7-67 out of (2) above				
(i) Appeals pending before Appellate Asstts. Commissioners on 31-7-67.	458	1186	4247	14974

(ii) Appeals pending before
income-tax Appellate
Tribunal on 31-7-67
(latest available)

(a) By Department . Total pending on 31-7-67=10360

(b) By Assessecs . Total pending on 31-7-67=37890

1.30. Explaining the reasons for the increase in pending appeals as on 30th June, 1966, the witness stated that the number of assessments completed had increased from 18.41 lakhs in 1964-65 to 23.89 lakhs in 1965-66 and 28.18 lakhs in 1966-67. The number of appeals instituted was 1,43,157 (7.7 per cent of the assessments) in 1964-65; 1,71,540 (7.2 per cent) in 1965-66 and 1,85,385 (7.6 per cent) in 1966-67. The percentage of appeals to assessments which had slightly come down in 1965-66 as compared to 1964-65 had again risen in 1966-67.

1.31. The Committee asked if any steps had been taken to check the tendency on the part of Income-tax Officers to overpitch assessments. The Secretary, Revenue & Expenditure, stated: "A suggestion has been posed to the Board whether we should not apply efficiency test also. Efficiency being interpreted to mean as to the number of cases in which the assessments made by the Income-Tax Officers stood the scrutiny of appellate courts. Government are aware that there is a tendency to pitch up assessments—not in all cases but in quite a few cases—leaving assesseees no other course but to go in appeal. This tendency needs to be corrected. We have a much increased quantum of work to cope with. The Department is just pressurised. If we have to maintain accountability to the public and also to discharge our duties efficiently, I feel that there will have, to be, in certain respects, some radical departures from some of the past practices."

1.32. The witness added "a number of sanctions has been given for additional staff in the categories where assistance was closely needed. Secondly instructions have been issued on behalf of Government which means that where the Commissioners or the Income Tax Officers were hesitant to act because discretion had been given to them, they would now act unhesitatingly on the basis of those instructions. Thirdly instruction to demarcate the responsibility and

to restore priorities with regard to the number of assesseees, quantum of tax etc. has been issued."

1.33. The Committee note that the number of appeals and revision petitions as on 30th June, 1967 has gone down to 1,13,578 and 5,287 from 1,56,162 and 5,599 respectively as on 30th June, 1966. They hope that efforts will continue to be made to liquidate the outstanding appeals and revision petitions and avoid such accumulation in future. They also desire that special attention should be paid to the old appeals and revision petitions relating to the period prior to 1964-65 which numbered 2,127 and 596 respectively as on 30th June, 1967.

1.34. The Committee hope that necessary action will be taken by the Department to check the tendency on the part of income tax officers to over-pitch assessments. They were informed by the Secretary, Revenue and Expenditure that a suggestion had been made to the Board that the efficiency of the Income Tax Officers might be judged from the number of cases in which the assessments made by them stood the scrutiny of appellate courts. The Committee feel that such a step would be helpful in checking the tendency on the part of Income Tax Officers to over-pitch assessments. They would like to know the final decision taken in this regard.

1.35. The Committee also feel that an evaluation of the work done by the assessing officers should be undertaken when large reliefs are given in appeal. The Committee would like to the Board of Direct-Taxes to look into cases of the past four years in which aggregate relief to an assessee in one year in appeals and references is in excess of 50 per cent of the relief sought, with a view to evaluating the work of the assessing officers. The Committee should be informed of the action taken against the officers who are found to have overpitched assessments, particularly in cases where the Tribunal, High Court or the Supreme Court might have passed strictures against such assessments.

1.36. The Committee feel that, while it is the duty of the assessing officers to guard realously the interests of the public revenues, it is equally their duty to deal justly with the tax in the exercise of the wide authority conferred on them by the Taxation laws.

Annuity Deposits, Para—51 of Audit Report (Civil) on Revenue Receipts, 1967.

1.37. Upto the year 1965-66 all resident assesseees (excluding Companies, Co-operative Societies, Corporations, established by a Central or Provincial Act etc.) whose total income exceeded Rs. 15,000

were liable to make annuity deposit at the prescribed rate. Persons who exercised the option provided in the Act, need not, however, make any deposits but they were liable to an additional amount of income-tax as prescribed in the Act.

1.38. The annuity deposit required to be made by an assessee was allowable as a deduction in computing total assessable income for the assessment year in respect of which the deposit was to be made. The deduction from total income was allowable irrespective of whether an assessee had actually made a deposit or not by the time of completion of assessment. If any person who was liable to make an annuity deposit failed to make such deposit within the time specified therefor, the Income-tax Officer might levy by way of penalty an amount not exceeding one half of the annuity deposit which he was liable to make.

(a) It was noticed that in 144 cases in thirteen Commissioners charges, Annuity deposit required to be made by assesseees was not deducted in computing total income chargeable to tax and this has resulted in over-assessment of tax of Rs. 1,16,456. Demand for Annuity deposit of Rs. 2,58,736 was not also raised against 141 assesseees.

(b) In eleven cases in a Commissioner's charge, though credit for Annuity Deposit of Rs. 19,085 was correctly allowed, demand was not raised for the Annuity deposit of Rs. 19,085 due to be made by the assesseees.

(c) The recovery of the following Annuity deposit, demand for which was raised by the Department is in arrears in 27 Commissioners' charges:—

(Figures in crores of rupees).

As on	Arrears out of regular assessments.	Arrears out of advance annuity deposits	Arrears out of provisional assessments	Total
31-3-65	5.43	18.90	1.19	25.52
31-3-66	11.16	33.67	2.07	46.90

The figure of Rs. 46.90 crores outstanding on 31st March, 1966 includes part of arrears outstanding on 31st March, 1965, which were not collected during the financial year 1965-66. The total amount of the arrears pertaining to 1964-65, 1965-66 outstanding as on 31st March, 1967 was Rs. 32.30 crores

1.39. The Committee asked about the cost of collection of annuity deposits through the Reserve Bank of India and whether the benefits of the scheme were commensurate with the cost of collection. The witness stated that so far as the Income-Tax Department was concerned, they did not incur any cost; the annuity deposit were paid in the Reserve Bank.

1.40. The Committee desired to be furnished with a note stating the total cost (including that of Board) of implementing the Annuity Deposits Scheme year-wise since its introduction. In their note (Appendix II), the Ministry have stated that no study of cost of collection and maintenance of the scheme has been made by the Ministry. The following remuneration is paid to the Reserve Bank for the management of the scheme:—

(a) *For issue of the Certificates:*

- (i) Fee @ Rs. 1,000 per crore:
- (ii) Actual expenses on account of advertisements, telegrams, trunk calls and printing incurred by the Bank in connection with the scheme; and
- (iii) Commission @ 1/16 per cent paid by the Reserve Bank of India to the State Bank of India and its subsidiary banks on the deposits received by them.

(b) *For management of the Scheme:*

- (i) Commission @ Rs. 2,000 per crore; per annum on the decreasing principal amount of annuity deposit certificates;
- (ii) Establishment charges, cost of stationery, miscellaneous and out of pocket expenses actually incurred.

1.41. The amount paid to the Reserve Bank and payable to the State Bank and its subsidiaries for the period 1st October, 1964 to 31st March, 1967 are as under:—

Year	Reserve Bank		State Bank and its Subsidiaries		Total Rs.
	Issue of Certificates Rs.	Management charges Rs.	Commission Charges Rs.	Service charges Rs.	
1964-65 .	87,678·54	2,36,963·66	3,51,046·63	29,253·89	7,04,942·72
1965-66 .	121,532·14	17,05,024·30	3,18,718·42	105,776·72	22,51,051·58
1966-67 .	105,344·19	25,72,551·09	3,25,708·17	148,898·66	31,52,502·11
	314,554·87	45,14,539·05	9,95,473·22	283,929·27	61,08,496·41

1.42. The figures in respect of the State Bank and its subsidiary banks do not include actual expenses on telegram, postage, stationery and other out of pocket expenses due to non-receipt of any claim from them so far.

1.43. In so far as the Department of Economic Affairs is concerned, no extra cost has been incurred on this account.

1.44. As regards the cost incurred by the Income-tax Department and the Central Board of Direct Taxes, no separate statistics are available. The provisions of the Annuity Deposit Scheme are administered by the Income-tax Officer in the normal course along with the assessments under all Direct Taxes.

1.45. The Committee find that the management charges for the Annuity Deposits Scheme paid to the Reserve Bank have been from Rs. 2·36 lakhs in 1964-65 to Rs. 25·72 lakhs in 1966-67.

It is evident that if the scheme is continued the management charges will increase heavily.

1.46. The first Interim Report on Rationalisation and Simplification of Direct Taxation Laws has summed up the position thus:

“On merits, the case for the continuance of the Scheme as a part of the permanent structure of public finance is very weak. As observed earlier, it is essentially a method

of raising loans. Viewed from that angle, the question is whether the complications involved all round are worth while for the sake of obtaining comparatively short-term loans on terms not particularly favourable. Viewed from the larger perspective, the amount obtained by Government as loan in this form is not considerable. In any case, the net amounts will progressively decline as the liability for repayment of the older deposits increases. At the end of ten years what is paid out will be nearly equal to what comes in and sometimes may even be a bit more. It is therefore, clear that even from the point of view of raising comparatively short-term resources, the value of the Scheme is not particularly great. I would, therefore, strongly recommend that the Scheme be abolished with effect from the current year."

1.47. The Committee have no doubt that Government will consider this recommendation with all the seriousness it deserves and hope that Government will find it possible to discontinue the Scheme at the end of the current financial year.

1.48. Referring to the omissions referred to in the Audit para, the Committee asked whether the machinery for the collection of the annuity deposits was effective. The Chairman, Central Board of Direct Taxes, stated that the machinery for collection of the income-tax and the annuity deposits was the same. They had instructed the Commissioners to put into effect all steps which could be taken for collection of arrears of taxation in relation to annuity deposits. The arrears were partly due to the fact that by the time instructions were issued it was October, 1964. Obviously, the income-tax officers did not initiate proper measures at the appropriate time for the recovery of the annuity deposits as arrears of income-tax

1.49. The Secretary, Revenue and Expenditure, stated: "It looks that the annuity deposit scheme started with inadequate preparations and there was a substantial time-lag in the supply of forms and other things.....We will take it up for serious consideration as to what method should be employed to bring down the arrears in the collection of annuity deposits. I would like the position in law like that either the annuity deposit obligation is discharged by such and such date or the penal rate of tax is automatically applied." The Chairman, Central Board of Direct Taxes stated that at present the position was that "once a person has opted to pay annuity deposit, the Department has no right to levy penal tax. We will have to amend the law for that purpose."

1.50. The Committee not with concern that a heavy amount of annuity deposits amounting to Rs. 32.30 crores relating to the years 1964-65 and 1965-66 was outstanding for recovery as on 31st March, 1967. There were also omissions in the collection of annuity deposits as disclosed in the Audit para. According to the admission of the Secretary, Revenue and Expenditure, "it looks that the annuity deposit scheme started with inadequate preparation and there was a substantial time lag in the supply of forms and other things". The Committee desire that serious thought should be given to the question of liquidating the arrears.

1.51. The Committee also hope that, in launching new schemes under the taxation laws in future adequate consideration is given to all aspects and implications of the proposal.

Schemes of Voluntary Disclosure—Para 59 of Audit Report (Civil) on Revenue Receipts, 1966.

First Scheme of Voluntary Disclosure

1.52. The Finance Act, (No. 1) 1965 introduced a Scheme of Voluntary Disclosure of Income. According to this Scheme, if an assessee who has omitted to return any part of the income filed a voluntary disclosure prior to 31st May, 1965, he would be entitled to have the income disclosed assessed at a flat rate of 60 per cent. If this disclosure was made prior to 31st March, 1965, and tax was also paid thereon or before that date, a concession of 3 per cent in tax was given. The following table shows the number of assessees who made voluntary disclosures, the total amount of income declared, the total amount of tax collected and outstanding upto 31st March, 1967:—

- (1) No. of Assessees who gave voluntary disclosures—2,001.
- (2) Total amount of income declared—Rs. 52,18,81,496.
- (3) Tax payable on the income declared—Rs. 30,80,33,220.
- (4) Tax collected—Rs. 30,12,71,111.
- (5) Balance of tax outstanding—Rs. 67,62,109.

Second Scheme of Voluntary Disclosure.

1.53. Finance (No. 2) Act 1965 provided another scheme of voluntary disclosure covering the period 19th August, 1965 to 31st March, 1966. Under the Scheme, an assessee was entitled to declare and surrender for taxation income which had not been taxed earlier and such declared income was to be taxed as though such income was the total income at the rates prescribed by the Finance Act, 1965. Any income already detected or deemed to have been deducted by the Income Tax Officer was to be reduced by the Commissioner of Income Tax from such total Income within 30 days of declaration and such excluded income charged to tax in the regular course

under the provisions of the Income Tax Act without the concessions in the scheme.

The tax was required to be paid within 35 days of the issue of the notice of demand under section 156 of the Income Tax Act. However, facility was allowed for payment of the tax in reasonable instalments over a period not exceeding 4 years from the date of declaration if not less than 10 per cent of the amount of tax demanded was paid within the time allowed in the notice of demand and security to the satisfaction by the Commissioner of Income Tax was furnished for the payment of the balance.

1.54. The income on which tax was payable under the above mentioned provisions was not to be included in the total income of the declarant for the purpose of any assessment to Income-Tax, Excess Profits Tax, Business Profits Tax, Super Profits Tax or Sur Tax under the relevant Acts.

1.55. The tax paid on the Income declared under the Scheme was not to be refunded in any circumstances. The declarant was also not be entitled to claim any relief or set-off in respect of the income on which tax is payable under the Scheme in any appeal, reference, revision or other proceedings relating to any assessment made in his case under the Income Tax Act, Excess Profits Tax Act etc.

1.56. The following table shows the number of assessees who gave voluntary disclosures, the total amount of income declared, the total amount of tax collected and outstanding:

(1) No. of Assessee who gave voluntary disclosures	1,14,226
(2) Total amount of income declared	Rs. 145 crores
(3) Tax payable on income declared	Rs. 19,44,99,894
(4) Tax collected	Rs. 12,27,93,875
(5) Balance of tax outstanding	Rs. 7,17,06,019

Circumstances leading to introduction of the schemes

1.57. The Committee asked about the circumstances and grounds which in the context of the tax pattern, justified such disclosure schemes. The Chairman, Central Board of Direct Taxes stated that the Finance Minister had made a statement while introducing sections 68 and 24 of Finance Acts (No. 1 & 2), 1965 that "these schemes were intended to bring out unaccounted money and also to encourage assessees, who for some reasons had not adopted the right path, to adopt the path of rectitude."

1.58. In his Budget Speech, the Finance Minister stated on 27th February, 1965 "Proper monetary management in the country has been rendered difficult for some time by the existance of unaccounted income and wealth in the country. This unaccounted income and

wealth which is derived mainly from tax evasion and from violations of price control measures has been responsible to a considerable extent for speculative activity and for bidding up the prices of goods and property in general." Referring to the Voluntary Disclosures Schemes, he stated "I have attempted to devise a solution bearing in mind all the complex economic, social and moral considerations, that underline the phenomenon of unaccounted income and wealth. I can only hope that honest tax-payers will not be aggrieved by what I propose to do and that those who have been misled in the past would find in it reason enough to return to the path of civic responsibility."

1.59. The Committee asked whether one of the causes for introducing the Voluntary Disclosure Scheme was "harsh or excessive taxation" and the extent to which the results had been borne out the objectives and aspirations of the Scheme. The Chairman, Central Board of Direct Taxes replied: "No statement was made by the Minister at any stage that the earlier system of taxation was harsh or contained anything which was an injustice to the citizen. Human frailty is such that tax evasion is common not only in this country but elsewhere too, and therefore, the Government felt, at that time, that they must give an inducement to persons who have departed from the path of rectitude. To the extent to which income has been declared under the scheme, I should say it has been a success. Under the first scheme the income declared was Rs. 52 crores and under the second scheme, the income declared was Rs. 145 crores. The number of persons under the first scheme was 2,001 and under the second scheme, the number was 1,14,266."

1.60. The Committee asked "Whether it is due to your structural weakness of tax collection system that he (tax evader) has been able to get away with tax evasion and has given declaration under the Voluntary Disclosure Scheme." The Chairman, Central Board of Direct Taxes replied, "There is no structural weakness in the system as there is an integrated tax structure, the Wealth Tax, the Expenditure Tax, the Gift Tax and all that.....By a comparison of wealth at two different points of time, we can easily find out whether the income has escaped assessment..... But as it often happens, some expenditure is incurred outside the books which it is difficult for the Department to establish by evidence which will be acceptable to a court of law. There, some wealth is sometimes acquired "benami" in the name of 'X' or 'Y' or 'Z'. Here again the onus is on the Department to establish it. It is only in cases of that kind that we find it difficult to establish that a person has been assessed on a proper income. In other cases we have no difficulty."

Measure of success achieved by the Schemes

1.61. The Committee asked the Secretary, Revenue and Insurance, "Have you ever tried to make any evaluation or assessment of your success in respect of this scheme for the two very pious and lofty objectives which the Minister had in mind namely, the unearthing of black money and bringing the people to civic sense." The Secretary, Revenue & Expenditure stated, "Here, there are certain inconvenient facts of life with which one has to deal with. We know, and it is accepted, that from year to year there is an accumulation in the tax evaded amount. We are also accused that our income tax form returns have become much too elaborate and complicated asking for a whole lot of information which would enable the Income-Tax Officers to make a probe in different directions. It is also being said that very wide powers have been given and occasionally these powers are not being to judiciously used. Despite all this, we recognise that the tax-evaders are using their ingenuity to put away sums in black money. And if this accumulation is playing havoc with the economy of the country, the question is whether some inducements are to be given or not to be given. I admit that the solution is not a very moral one. But what does one do? The advantage of immediate concession is at least that one is able to make certain parts of the suppressed money legitimate and to bring them within legitimate investment which will be available for broadening the base of taxation next year. So I would not at all share the view that these Voluntary Disclosure Schemes have been very great success in absolute terms. It is true that some amounts have been disclosed and that a good sum of money was made available to assist the resources position of the State. But no one has any near precise estimate of how much is floating around us as black money. But judging by whatever impression one can form, I am inclined to think that the amounts that are disclosed are far less as compared to the amount which may be in circulation as black money." The witness added, "So far as the functioning of the Department goes, whatever measures occur to us by eliciting public opinion or by consulting high-power committees are introduced and there is a certain follow up of these instructions and yet one cannot say that a certain portion of the income is not escaping taxation."

Steps taken to avoid the need for Voluntary Disclosure Schemes in future.

1.62. The Committee asked whether any measures had been taken to avoid the introduction of more voluntary schemes. The Chairman, Central Board of Direct Taxes, stated: "We have strengthened our investigation wing by establishing an Intelligence Directorate with a Deputy Director and five Assistant Directors in

four centres—Madras, Bombay Calcutta and Delhi..... Similarly we have strengthened our Central Circles also." Asked if there was any inducement for the tax evader disclosing concealed income, the Chairman, Central Board of Direct Taxes stated that under Section 271(4A) of Income-Tax Act 1961 if a person made a declaration, the Income Tax Officer had the power to waive the penalty if he was satisfied that the declaration was complete and had been made before the income had been detected.

1.63. The Secretary, Revenue and Expenditure stated: "A great deal more will have to be done..... Just now..... we are experimenting with the schemes of functional distribution of work. This has been now extended to 53 ranges. The departments recruitment problem, I think, has lagged behind the workload. That is one of the very big factors. Therefore, to say that by setting up directorates we have taken all possible steps we would really be claiming too much. Thoughts will have to be given to expedite the time-lag for finalisation of the assessments. Then there is the question of simplification of forms and rules. We are at the threshold of the problem. In order to extract black money out and to deal with tax evasion new scheme, punitive, positive and even incentive oriented may have to be thought of. I do not think that we have come to the end of the treatment of the problem."

1.64. Asked if the Ministry had made an assessment of the unaccounted money in the country and to what extent this had been confirmed by the Voluntary Disclosure Schemes, the Chairman, Central Board of Direct Taxes, stated, "We are only trying to find where and in whose hands the unaccounted money is and if we find it we tackle it..... We have not made an estimate....." The Secretary, Revenue and Expenditure stated, "I really don't know whether we can make any precise estimate of this." Elucidating his earlier remarks about unsatisfactory response to the schemes he stated, "The reason why I ventured to remark that what had been disclosed could be only a small fraction of unaccounted money is on the basis of reports of speculative transactions in land, building, farms and so on. Judging by the investment in sectors and by the high standards of consumption of certain sections of the community, one does feel that there should be a good deal of such evaded money in circulation. These are indirect evidence, incapable of quantification."

1.65. Asked what measures they were contemplating to bring out hidden income, the Chairman, Central Board of Direct Taxes stated, "We find that the hidden income is generally by undervaluation of properties. We are thinking of having a Valuation Unit to prevent understatement of income by undervaluation of properties."

1.66. Asked about action taken to simplify Income-tax return form, the Chairman, Central Board of Direct Taxes, stated that they had prescribed 3 different forms for 3 categories of assessees, namely, companies, persons having an income of Rs. 15,000 and above and persons having an income below Rs. 15,000. The form for persons with an income below Rs. 15,000 consisted of only two pages and was much simpler than the earlier form. This was applicable to 22 lakhs out of 27 lakhs assessees. The persons with an income above Rs. 15,000 were required to give the particulars in the new form to avoid having to attend the Income-Tax Office to give information. The witness added that the future pattern they were trying to evolve, was to accept returns of Income on the basis of the Information furnished in the return.

1.67. The Secretary, Revenues and Expenditure, stated: "With the frightening load of arrears and the prospect of a heavy addition every year, we have after a recent conference of Income Tax Commissioners taken a decision and circularised it that in respect of the small assessments, the assessees will not be required to attend our offices, the usual formalities of the income tax will be dispensed with, the return sent by them will ordinarily be accepted and there will be only a sample check of two to five per cent to see as to how the figures tally with the previous assessments. We are very much concerned with the problem of arrears and with the problem of inculcating a proper sense of priorities. With this end in view, certain instructions have gone categorical, unequivocal as to how income Tax Officers are to act in these cases. Henceforward they would not have to devote even a fraction of the time which they are giving now to the small assessees."

1.68. The Chairman, Central Board of Direct Taxes, stated: "So far as small tax payer is concerned, from the 16th October, the new scheme has taken effect and no time would be wasted on them. We have also given instructions to our Commissioners that all company cases and category I cases i.e. business income above 25,000 should be brought up-to-date by 31st March, 1969. For that purpose, they will divert the strength of Income-tax Officers to the completion of more fruitful cases and there is no scope for them to drag on the cases."

The Secretary, Revenue and Expenditure, stated that "a number of other measures will have to be taken before one could feel sure that there has been a definite shift in this connection."

1.69. The Committee note that the main objectives underlying the two Voluntary Disclosure Schemes were to bring out unaccounted income and encourage assesseees who for some reasons had not adopted the right path, to adopt the path of rectitude. The amounts of unaccounted income declared under the first and second schemes were Rs. 52 crores and Rs. 145 crores respectively. According to the Ministry, "no one has any precise estimate of how much is floating around us as black money . . . the amounts that are disclosed are far less compared to the amounts which may be in circulation as black money." The Committee, therefore, feel that the two Schemes have not gone far in achieving the objectives in view.

In view of the unsatisfactory results of the Voluntary Disclosure Scheme, the Committee feel that by its very nature and inherent weaknesses, no Voluntary Disclosure Scheme can ever be a real success. It is therefore essential to make a thorough probe into the grounds and factors which make evasion of taxes on a large scale so attractive as well as possible, so that Government is impelled to compromise with the tax evaders in the larger interest. While adopting adequate administrative safeguards to arrest tax evasion it would be well worthwhile to adopt measures which will make evasion unrewarding and unattractive. That would be to forestall the malady rather than to allow the malignancy of evasion to grow and then seek its cure by Voluntary Disclosure Schemes.

1.70. The Committee feel that the present system of levy of taxes is onerous and complicated and the collection of taxes has not been efficient. Otherwise there would have been no need to introduce Voluntary Disclosure Schemes. As a result of inefficient collection, the evader gets away with large amounts of money while the honest assessee has to suffer. In the opinion of the Committee a disproportionate amount of energy is spent on unimportant cases of honest and relatively small tax payers while tax evaders either go scot free or are afforded opportunities to make voluntary disclosures. The Committee note that the Department propose to take certain measures to divert time and energy at present devoted to small tax payers to dealing with tax evader. The Committee suggest that the matter should be kept under constant review and that further steps should be taken to improve and simplify the system of assessment and collection.

1.71. The Committee had desired to be furnished with a note stating (i) the modern fiscal methods of assessment, levy and collection-

of taxes and (ii) incentives for proper declaration of income and payment of taxes obtaining in countries which have successfully worked the Taxation laws such as West Germany, United States, Belgium, Holland, Norway, Sweden, Japan, Ireland, Nigeria and Malaysia and how the methods followed in these countries differed from those in India.

1.72. The note furnished by the Ministry of Finance (Department of Revenue and Insurance) is at Appendix III. The Ministry have stated in their note that an attempt has been made to furnish the information to the extent possible, from the publications available with them but the tax publications from which the information has been compiled are not up to date. Even so, the Committee find that the note deals with the pattern and structure of taxation in West Germany, U.S.A., Belgium, Netherlands, Norway, Sweden, Japan, Ireland and Malaysia. It has been stated that "our rates of tax on corporate as well as non-corporate income are generally higher than those in the foreign countries concerned."

1.73. Asked if apart from the administrative measures it was not considered necessary first to tackle the problem of tax pattern to make any further Voluntary Disclosure Schemes unnecessary, the Secretary, Revenue and Expenditure, stated: "I am sure that this constructive aspect must also engage the attention of the Government. But the problem all the time has been that a given order of resources has to be raised and one does not feel sure that by tinkering with or altering the taxation structure, one would be able to mobilise that order of resources. But the consideration is very much there. And at the time of the budget, this aspect is also gone into. That is where the dilemma comes in as to whether the alteration of the structure will give the order of the resources which are needed."

1.74. **The Committee desire that the Ministry should make a detailed study of all aspects of taxation in these foreign countries from up to date publications and also obtain the requisite information from these foreign Governments through our Missions abroad. The study should cover the administrative aspects of the system of assessment and collection and the measures adopted to check tax evasion and by comparison Government should examine, keeping the conditions of our country in view, to what extent it is necessary to modify and amend the present laws and levies of taxes to prevent large scale concealment of income.**

1.75. The Committee note that, according to the studies made by the Ministry, the rates of taxation on corporate as well as non-corporate income in India are generally higher than in the relevant foreign countries. The Committee do not think that, in their effort to raise adequate resources for developmental purposes, Government are justified in creating a situation where partly, as a result of excessive rates of taxation large amounts of unaccounted money are found to be floating and the entire economic atmosphere gets vitiated and in the process the growth in the rate of collection of Direct taxes is adversely affected. The Committee would, therefore, strongly urge that the entire tax structure of the country should be critically examined in the light of the evils that have resulted *inter alia* from the present excessive rates of taxation and that the practice of advanced countries should be followed in order to avoid further provocation and temptation to assesseees to evade their obligations to the public exchequer.

External Survey made by the Department:

1.76. According to a note furnished by the Ministry of Finance (Department of Revenue and Insurance), among the persons who have disclosed income under both the schemes are 77,221 declarants who were not assessed prior to the declaration. Referring to 77,221 declarants under both the Voluntary Disclosures Schemes who had not been assessed earlier, the Committee asked whether this did not indicate inefficiency of the external survey made in this regard by the departmental officials. The witness stated that so far as the external survey was concerned, the Department had done their best. In 1964 and 1965, 6,11,794 and 4,26,057 new assesseees, respectively, had been discovered. The Secretary, Revenue and Expenditure stated that the survey had really been meant to broaden the net of taxation by adding to the number of assesseees. He further stated, "the Revenue Department will accept the position that is far from foolproof. The fact of the matter is that this external survey has broadened our net to include a large number of marginal assesseees. There is no doubt that the bigger people who can use tricks have escaped coming in the taxation fold. That is how the figure of 77,000 comes in."

1.77. Asked if any comparison had been made between the amounts declared under the Voluntary Disclosure Schemes and that discovered by the external survey, the witness stated: "So far as the disclosures were concerned, they were made mostly under section 68 by persons who were already our assesseees. So, there is no question of discovering those persons. Since they are already on our registers, the

question of comparison does not arise. There is already an inbuilt scheme to discover whether a person discloses his income correctly or not because we have the wealth-tax return and we used to have the expenditure-tax return. By a comparison of the wealth at two different points of time we found out whether the income has been disclosed correctly or not."

1.78. Asked if any study of the cases of disclosures under the two Voluntary Disclosures Schemes had been made with a view to improve the system of external survey, the Chairman, Central Board of Direct Taxes stated that "there was no special study of the kind indicated."

1.79. The Committee note that as a result of an external survey by the Department, 6,11,794 and 4,26,057 new assesseees were discovered during the years 1964 and 1965 respectively. They also suggest that a study should be made of the disclosures made under the two Voluntary Disclosures Schemes in order to effect an improvement in the system of the Survey.

Disclosures made by the Members of the same families under the First Scheme:

1.80. In 358 cases, the disclosures were made under the first Voluntary Disclosure Scheme separately by members of the same families including ladies and minor children. Under the first scheme, the declarants have to furnish the details of income declared giving where available details of the financial year or years in which income was earned and the amount pertaining to each such year. The Committee asked whether before accepting the declarations, the Income-tax Officers had verified that ladies and children would have earned the income at all. The Chairman, Central Board of Direct taxes stated, "So far as declarations made under section 68 are concerned, the declaration was made by the declarant that this was his income. We accepted his declaration and he paid 60 per cent. If we later on found that the income declared by the declarant belonged to another person, that nothing prevents us from including this income in the hands of the real owner of the income, that is, the person who earned the income."

1.81. The Committee desired to be furnished with a note stating how many of these cases had been reassessed and appropriate tax collected subsequent to accepting the declarations and whether the department had in any case initiated proceedings to assess the income

in the hands of the real owners. In their note (Appendix IV), the Ministry of Finance (Department of Revenue and Insurance) have stated that excluding West Bengal charges, from whom information has not yet been received, so far, attempts have been made to assess the income in the hands of real owners in 3 cases. In one case, assessment has been completed raising a demand of Rs. 57,430. A part of this has also been collected. In the other two cases, assessments are pending.

1.82. The Committee desire that all these 358 cases should be reviewed early and proceedings initiated to assess the income in the hands of the real owners. They would like to be informed of the progress made in assessing the income in the hands of the real owners and the amount of additional tax collected.

1.83. The Ministry of Finance have also informed in a note that under the Second Voluntary Disclosure Scheme (Finance Act No. 2, 1965) disclosures were made separately by the members of the same family including ladies and minor children in 11,611 cases out of which the incomes declared in 197 declarations were aggregated.

1.84. The Committee would like to know of the progress made in respect of the remaining cases.

Lacuna in drafting in the First Scheme:

1.85. The first Scheme enabled the declaration of undisclosed income (a) which a person has failed to disclose in any return of income failed by him upto 28th February 1965; or

(b) which has escaped assessment in any assessment made by the Income Tax Department upto 28th February, 1965; or

(c) income for the assessment of which no proceedings have been taken by the income-tax Department upto 28th February, 1965;

It was stated in the Ministry's note that:—

(i) 200 cases of declarants were assesseees but reassessment proceedings had already been initiated by the department to reassess the escaped income which is subsequently disclosed under the first scheme.

(ii) 289 cases where voluntary disclosures were made under the First Scheme, information was already in possession of the Income-tax Department relating to the whole or part of concealment so declared.

1.86. The Committee asked about the justification for accepting voluntary disclosures in the above 489 cases under the First Scheme inspite of the fact that they did not fulfil the three conditions laid down in this behalf. The Chairman, Central Board of Direct Taxes:

stated, "All these cases pertained to Section 68 of the Finance Act, 1965. I would very humbly submit that on a proper construction of Section 68(1), if a declarant has satisfied any one of the conditions mentioned therein, he will be entitled to the benefit of the scheme. The reason is that the wording used between the conditions is 'or' and not the conjunction 'and'. It the intention of the Legislature is that all conditions should be fulfilled, then they would have used 'and'. But, they have used the word 'or'.

If a declarant fulfils any one of the conditions, he is entitled to the benefit of this scheme." On his attention being drawn to the lacuna in drafting the law, the Secretary, Revenue & Expenditure stated, "This scheme was very soon re-placed after about 5 months or so because it was discovered that this kind of transaction which was qualifying as declared income should not have been qualified." The Chairman, Central Board of Direct Taxes stated that under the second scheme, where income had already been detected by the Income-Tax authorities, declaration was not permitted under Section 24 of the Finance Act (No. 2), 1965.

1.87. Asked if the lacuna in the first scheme was deliberate the witness stated: "This is the first scheme which came in. So the question of how the scheme has worked and whether there would be any lacuna etc. did not occur to Government at that time. So they put it in this way."

1.88. The Committee feel that if the objectives had been clearly grasped at the time of drafting the first Voluntary Disclosure Scheme, the lacuna mentioned above could have been avoided. The Committee hope that, learning from this experience, Government will ensure that before giving legal shape to a fiscal measure its objectives are clearly spelt out so that difficulties of the nature experienced in implementing the first Voluntary Disclosure Scheme do not recur.

Frauds and evasions—Para 60 (a) of Audit Report (Civil) on Revenue Receipts, 1966 and para 60(a) of Audit Report (Civil) on Revenue Receipts, 1967.

1.89. The following table shows the total concealed income detected and the amount of tax demanded and penalty levied for the five years 1961-62 to 1965-66:—

Year	No. of cases	Concealed income detected (in crores)	Amount of penalty levied (in crores)	Amount of tax demanded (in crores)
1961-62	4511	7.12	0.71	2.32
1962-63	3750	5.97	0.85	1.97
1963-64	6678	13.49	1.57	2.19
1964-65	13666	17.67	4.01	6.51
1965-66	24165	20.76	4.59	7.01

1.90. A comparative table showing the number of cases in which prosecutions were launched during the last five years is given below:—

Year	No. of Cases
1961-62	1 (since compounded)
1962-63	2
1963-64	Nil
1964-65	28
1965-66	Nil

1.91. The following table shows the details about the number of cases of concealed income detected, prosecutions launched, penalties levied, extra tax demanded, etc. during the years 1964-65 and 1965-66:—

	1964-65	1965-66
1. Number of cases in which penalty under section 28(1)(c)/271(1)(c) was levied	13,666	24,165
2. Number of cases in which prosecution for concealment of income was launched	28	Nil
3. Number of cases in which composition was effected without launching prosecution	Nil	Nil
4. Concealed income involved in (1) to (3)	Rs. 17,67,38,375	Rs. 20,76,35,490
5. Total amount of penalty levied on (1)	Rs. 4,01,50,988	Rs. 4,59,28,541
6. Penalty recovered out of (5)	Rs. 1,05,61,766	Rs. 49,03,154
7. Extra tax demanded on concealed income in item (4)	Rs. 6,50,51,881	Rs. 7,60,51,804
8. Tax recovered	Rs. 2,18,34,729	Rs. 1,21,44,010
9. Cases out of (2) in which convictions were obtained	Nil	Nil
10. Composition money levied in respect of cases in (3)	Nil	Nil
11. Nature of punishment in respect of (9)	Nil	Nil

1.92. In a note the Ministry of Finance (Department of Revenue & Insurance) furnished the following position with regard to 28 cases for which prosecutions were launched in 1964-65:—

-
- | | |
|---|---|
| 8 cases of Andhra Pradesh charge | The judgment was delivered on 27-12-65 acquitting all the accused. An appeal to High Court has been filed and is pending. |
| 1 case of Delhi charge. | Prosecution proceedings have been stayed as a result of writ petition filed by the accused. |
| 18 prosecutions relating to Delhi (Central) charge. | In one case the Magistrate has passed orders acquitting the accused. In the remaining cases, orders are awaited. |

(The remaining one case is reported to have been compounded)

1.93. The Committee drew attention to their earlier recommendations regarding launching of prosecutions in clear and glaring cases of deliberate large scale tax evasion (21st and 28th Reports) and asked about the action taken in this regard. The Chairman, Central Board of Direct Taxes stated that the Board had issued instructions to the Commissioners emphasizing the need to invoke the prosecution provisions in as many cases as possible having regard to the type of offence which was likely to be acceptable by a criminal court. The Committee pointed out that no prosecution was launched in 1965-66, although the number of cases of concealed income had increased from 13,666 in 1964-65 to 24,165 in 1965-66. The Chairman, Central Board of Direct Taxes stated that during 1966-67, prosecutions had been launched in 9 cases. He added that during the calendar year 1966 and 1967 (up to 30-9-1967), they had approved 22 and 25 cases, respectively, for prosecution.

1.94. Asked about the difficulties in launching prosecutions, the Chairman, Central Board of Direct Taxes stated that "for an assessment under the Income-Tax Act, the onus would be upon the assessee. Under the new provision, if the income returned is less than 80 per cent of the income assessed, then the assessee has to establish that it is not concealed income. But when we go to a criminal court, the onus is on the department which prosecutes, and the prosecutor has to establish it." The witness added that before the amendment of Section 271, even for income-tax purposes, the

courts and tribunals had held that unless the Department established the positive sources of income, they were not prepared even to confirm the penalty imposed. That was why it was amended. But so far as the criminal courts were concerned, they were governed by the Evidence Act. The witness added that they had preferred appeals to the High Court in all the cases where the lower courts had acquitted the accused.

1.95. The Committee have been repeatedly stressing the desirability of launching prosecutions in clear and glaring cases of deliberate large scale tax evasion in preference to the imposition of penalties. They were informed* in 1965-66 that two experts from the United States of America were helping the Board to look into the question of introducing organisational and legal changes to make prosecution effective and that some officers had also been sent to the United States of America for training in this particular aspect. The Committee note, however, that although the number of cases of concealed income detected during 1965-66 increased to 24,165 from 13,666 in 1964-65, no prosecutions were launched. They, therefore, feel that little headway has been made by the Department in this regard. They suggest that the question should be further examined and necessary legal and organisational changes made to make prosecutions effective in clear and glaring cases of deliberate large scale tax evasion.

1.96. The Committee also desire that the recovery of the tax demanded and the penalty imposed in these cases should be expedited.

1.97. The Committee feel disturbed at the Income-Tax Department levying penalties and feeling satisfied with this action without making out a case for successful prosecution. Proper and adequate investigation would undoubtedly enable the Department to get culpable assesseees furnished in a Court of Law.

The Committee consider that a penalty should not be imposed to augment tax collection in a routine manner by taking advantage of the relaxation made in law in 1964 but only after full and careful consideration so that it is imposed on really guilty assesseees and acts as a deterrent to tax evaders. The Committee would like to be informed of the instructions issued by Government in the matter.

*para 1-286 of 46th Report of the B.A.C. (Third Lok Sabha)

Searches and seizures—para 60(b) of Audit Report (Civil) on Revenue Receipts, 1966 and para 60(b) of Audit Report (Civil) on Revenue Receipts, 1967.

1.98. The following table shows the number of searches ordered by the Department during 1964-65 and 1965-66 the total value of jewellery, cash etc. seized, the number of assessments completed and the amount of concealed income involved:—

	1964-65	1965-66 (up to 31-8-65)	1-9-1965 to 31-8-66
1. Total number of cases in which searches and seizures were made	339	157	221
2. Total value of Jewellery, cash, currency notes, negotiable instruments, valuable articles, etc., seized	Rs. 147 lakhs	Rs. 56 lakhs	Rs. 95.22 lakhs
3. Total number of cases in which assessments were completed	77	164	12
4. Amounts concealed in cases referred to in Item (3)	Rs. 339.60 lakhs	Rs. 178.09 lakhs	Rs. 11.66 lakhs
5. Tax involved in item (4)	Rs. 126.76 lakhs	Rs. 75.24 lakhs	Rs. 4.23 lakhs
6. Penalty levied in cases in which assessments were completed	Rs. 461,522	Rs. 90,822	Rs. 90,389

7. Number of cases in which prosecutions were launched out of cases in item (3)	Nil	Nil	Nil
8. Results of prosecution	Nil	Nil	Nil

1.99. To a question "To what extent your raids and searches have contributed to the discovery and elimination of frauds and evasions", the then Chairman of the Board had stated before the Committee in 1965-66, "Our estimate of concealed income involved in these cases of searches is about Rs. 100 crores."

1.100. The Committee desired a detailed note reconciling this figure with the figures given in para 60 (b) of Audit Report, 1966. In a note furnished to the Committee, the Ministry gave the following details of incomes voluntarily surrendered and assessed in normal course out of the estimated concealed income of Rs. 100 crores in "hundi" racket as on 31-3-1967:—

	No. of Assesseees	Amount surrendered
1. Under Section 68 of Finance Act No. 1, 1965	1,047	23,74,81,115
2. Under Section 24 of Finance Act, No. 2, 1965	3,450	11,12,38,722
3. Under Section 271 (4A) of Income Tax Act, 1961	1,900	21,75,48,598
4. Normal assessments	1,389	17,00,82,446
	<u>7,786</u>	<u>73,63,50,881</u>

1.101. The Committee asked how this amount of Rupees 73.63 crores could be said to have been detected as a result of search and raids when it included disclosures under Section 271(4A) (Rs. 21.75 crores). The Chairman, Central Board of Direct Taxes stated, "What we meant when we made that statement (in 1965-66) was that as a result of this "hundi" racket being broken we expect that roughly about Rs. 100 crores has been brought in by way of unaccounted money in the various books by way of bogus loans, and that would probably be roughly the amount of concealed income in this form. That is all." Referring to the original estimate of Rs. 100 crores made by the Department, the witness stated, "I would say that we were entirely wrong in having made an estimate because when we are able to estimate unaccounted money we were in a less easier position in making an estimate of the unaccounted money in the form of 'hundi' loans."

1.102. The Committee are unable to understand how the Ministry could give an estimate of Rs. 100 crores involved in the cases of searches and raids in 1965-66.

1.103. The Committee note that during the period 1964-65 and 1965-66 (upto 31st August, 1966), 777 searches and raids were made by the Department in respect of which assessments have been completed only in 253 cases. They desire that efforts should be made to complete the assessments in the remaining cases.

1.104. The Committee are surprised that no prosecution has yet been launched in the cases of concealed income detected as a result of searches and raids during 1964-65 and 1965-66.

1.105. Asked whether there was any case where the court had passed strictures against the officers using excessive authority in making raids, the Chairman, Central Board of Direct Taxes stated that he knew of one case in which the *bonafides* of the officer had been questioned, and the matter was now before the Supreme Court. He also stated that "the power of search in the Income Tax Act is subject to its being approved by the Income Tax Commissioner. No search could be undertaken except with the approval of the head of the Department".

1.106. The Committee would like to know the outcome of this case which is before the Supreme Court. They also desire that the Ministry should examine the present procedure of searches and raids in order to ensure that the officers do not use arbitrarily the wide authority given to them.

Income-tax Demand written off by the Revenue Department during the year 1965-66—Para 56 of Audit Report (Civil) on Revenue Receipts, 1967.

1.107. During the year 1965-66, the Income-tax department have written off a demand of Rs. 37,65,004 in 467 cases. Of this, Rs. 8,72,282 related to 32 companies and the balance of Rs. 28,92,722 relates to 435 assesses other than companies. The reasons for write-off as furnished by the Ministry, in the case of both companies and non-companies are as follows:—

	Companies		Non-Companies		Total	
	No.	Amount Rs.	No.	Amount Rs.	No.	Amount Rs.
I. Assessee having died leaving behind no assets or have gone into liquidation or become insolvent						
(a) Assessee having died leaving behind no assets	..	..	40	2,69,055	40	2,69,055
(b) Assessee having gone into liquidation	14	4,10,033	..	..	14	4,10,033
(c) Assessee having become insolvent	..	..	11	42,412	11	42,412
Total I	14	4,10,033	51	3,11,467	65	7,21,500
II. Assessee being untraceable	11	67,098	148	1,92,448	159	2,59,546
III. Assessee having left India	..	..	25	1,05,938	25	1,05,938
IV. For other reasons :						
(i) Assessee who are alive but have no attachable assets	5	3,64,911	125	14,01,218	130	17,66,129
(ii) Amount being petty etc.	1	50	49	162	50	212

(iii) Amount written off as a result of settlement with assesseees	1	30,190	7	8,44,675	8	8,74,865
(iv) Demands rendered unserviceable by subsequent developments such as duplicate demands wrongly made, demands being protective etc. . . . .	..	..	28	36,801	28	36,801
Total IV	7	3,95,151	209	22,82,856	216	26,78,007
V. Amounts written off on grounds of equity or as a matter of international courtesy or where the time, labour and expense involved in legal remedies for realisation are considered disproportionate to the amount for recovery . . . . .	..	..	2	13	2	15
GRAND TOTAL	32	8,72,282	435	28,92,722	467	37,65,004

1.108. The Committee desired to be furnished with a note giving details of the cases of the 14 companies in the case of which a demand of Rs. 4,10,033 was written off. The note furnished by the Ministry gave details of only one case in respect of which complete information was available with the Ministry. The demands in this case were raised after the company had gone into liquidation. The Committee note that the demands for the assessment years 1945-46, 1946-47, and 1947-48 were completed on 31st March, 1950, 29th March, 1951 and 27th March, 1952 respectively, while the company wound up on 15th February, 1949.

1.109. The Committee regret to observe that there was a delay of four years in completing the assessments of the company for the years 1945-46 to 1947-48. They desire that the reasons for the delay should be looked into.

1.110. The Committee regret that information had not been furnished in respect of the remaining 13 cases where arrears of taxes have been written off. They would like Government to examine each of these cases critically with a view to finding out whether there was any inordinate delay in finalising the assessment or in issuing demand notices or in resorting to other measures available for the collection of tax due before the amount was written off. They would also like the Board of Direct Taxes to initiate remedial measures in the light of the study in order to avoid recurrence of such cases.

1.111. In their note the Ministry also furnished the details of an amount of Rs. 3,64,911 relating to five companies, which was written off as assesseees who were alive but had no attachable assets.

1.112. During evidence the Committee asked (i) what were the dates on which the assessment proceedings were started and completed; (ii) steps taken, if any, on the assesseees committing a default; prior to issue of certificates under section 46(2); and (iii) time-lag between the date of demand and the institution of recovery proceedings. The Chairman, Central Board of Direct Taxes stated that out of these 5 cases in one case the penalty under section 46(1) had been levied. In the second case, an attempt was made to recover the tax from the Public Works Department but they did not succeed. In the third case, an attempt was made to recover the tax from another company, its successor, but that again was however not upheld in the appeal. In the fourth case, the assessee was a non-resident company which had no agent and which had no assets, therefore, the Department could not collect the tax. In the fifth case, a notice was issued attaching the debt due to the company. The witness promised to furnish a note giving the detailed information desired by the Committee. The Ministry have furnished a note giving details of the case.

1.113. The note furnished by the Ministry shows the following details about the time-lag in completion of the assessment proceedings and institution of recovery proceedings:

S. No.	No. of case and the amount written off	Assessment Year	Date of commencement of assessment proceedings	Date of completion of assessment proceedings	Date of commencement of recovery proceedings u/s. 46	Time-lag between the date of demand and institution of recovery proceedings	Steps taken for recovery prior to the issue of notice u/s. 46(2)
1	2	3	4	5	6	7	8
1	First case (Rs. 6,932.73)	1952-53 1953-54 1954-55 1955-56 1956-57 1957-58 1958-59	30-6-52 31-7-53 8-11-54 2-7-55 14-7-56 27-5-57 16-7-58	8-12-53 6-9-54 20-1-55 28-2-57 28-2-57 27-6-59 27-6-59	26-8-54 6-3-56 6-3-56 18-9-57 18-9-57 8-3-61 8-3-61	8 months 17 " 12 " 6 " 6 " 20 " 20 "	Penalties u/s. 46 (1) were imposed.
2	Second case (Rs. 4931.62)	1948-49 Do.	7-9-48 Do.	28-11-48 26-9-49	7-2-50 7-2-50	15 months 5 "	The Company was carrying on construction work and ceased to function in June, 1949. It had no assets. Attempt was made to recover the tax from P.W.D. PEPSU, but nothing could be recovered as the payment was due to Sh..... in his individual capacity and not to the company.

1	2	3	4	5	6	7	8
3	Third case (Rs. 3958·75)	1955-56 1956-57	Exact dates not readily available	20-3-67 Do.	20-3-58 Do.	1 year Do.	Penalties under Section 46(1) were imposed on 24-5-1957.
4	Fourth case (Rs. 2,449·59)	1947-48 1948-49 1949-50 1950-51 1951-52 1952-53	31-3-54 Do. Do. Do. Do. Do. (By issue of notice u/s 34 for all years)	20-3-56 31-3-50 Do. Do. Do. 2-3-57			In the absence of assessee's legal agents in India no recovery action could be taken by issue of recovery certificate. How- ever, a letter dt. 2-3-57 was addressed to the assessee inti- mating the tax liability. Also a further letter dated 1-4-64 was addressed reminding the asses- see for payment of the out- standing dues.
5	Fifth case (Rs. 3,46,637·17)	1948-49 1949-50 1950-51 1951-52 1952-53 1953-54 1954-55 1955-56 1956-57	20-8-48 24-6-49 27-7-50 18-6-51 30-7-52 21-5-53 11-9-54 25-5-55 6-6-56	12-3-53 26-3-54 20-3-55 28-3-56 30-10-56 28-2-58 28-2-58 28-2-58 28-2-58	8-2-54 8-3-55 17-2-56 22-3-57 13-12-56 31-3-58 31-3-58 31-3-58 31-3-58	11 months 1 year 1 year 1 year 1½ months 1 month 1 month 1 month 1 month	Notices under Section 46 (5A) were issued to all the trade debtors, most of whom denied that they owned anything to the assessee-company. Some others were not traceable. The Company had no immovable or movable properties except furniture and machinery. The revenue authorities realised a sum of Rs. 253 by sale of furniture etc.

1.114. The Committee regret to find that there was inordinate delay in completion of the assessments in two cases out of five. They also find that in these cases the time-lag between the date of demand and the institution of recovery proceedings ranged up to twenty months. The Committee desire that the Ministry should ensure that such delays do not recur in completing assessment and in initiating recovery proceedings.

Refunds—Para 59 of Audit Report (Civil) on Revenue Receipts, 1967.

1.115. (a) The figures (relating to 21 out of 27 Commissioners' charges) furnished below show the number of refund applications outstanding on 1st April, 1965, number received and disposed of during the year 1965-66 and the number outstanding on 31st March, 1966. The amounts involved are also indicated:—

	No. of applications	Amount (Rs.)
(1) Number and amount of refund applications pending on 1st April, 1965	5,454	70,49,000
(2) Number and amount for which refund applications are received during the year 1965-66	72,665	2,87,60,000
(3) Number and amount of refunds made during 1965-66		
Out of (1)	4,880	51,26,000
Out of (2)	68,564	2,34,00,000
(4) Number of cases and amount of interest paid on refunds made during 1965-66		
Out of (1)	2	16.50
Out of (2)	19	245
(5) Number of cases and amount of refund made on which no interest was paid	73,423	2,85,25,000
(6) Number and amount of applications pending on 31st March, 1966	4,675	72,83,000

(b) The break-up of the refund applications (relating to 21 out of 27 Commissioners charges) with reference to the period of pendency is as follows :—

(in thousands of Rs.)

	No. of cases	Amount involved
(1) Refunds outstanding for less than a year as on 31-3-1966 .	4,343	5,761
(2) Refunds outstanding between 1 and 2 years as on 31-3-1966	288	1,291
(3) Refunds outstanding for 2 years and more as on 31-3-1966	44	231

1.116. In a note furnished to the Committee, the Ministry stated that the number of refund cases outstanding for two years and more as on 31st March, 1967 in all the Commissioners' charges was 93 involving an amount of Rs. 7,62,145 as per details given below:—

Year	No. of cases
1957-58	1
1958-59	1
1959-60	2
1960-61	10
1961-62	10
1962-63	15
1963-64	26
1964-65	28
Total	93

1.117. The Committee asked for the reasons for payment of an aggregate interest of Rs. 16.50 on an amount of refund of Rs. 51,26,000 paid in respect of refund applications pending on 1st April, 1965. The Chairman, Central Board of Direct Taxes stated that "there is no case, where interest has been claimed and is due and has been rejected. In all cases where interest is due, interest has to be paid voluntarily. We do not have to wait for an application from the assessee at all."

1.118. The Committee desired to be furnished with a note stating the circumstances in which only an interest of Rs. 16.50 was paid

on refunds amounting to Rs. 51,26,000 paid during 1965-66 in respect of applications received prior to April, 1965. The Ministry of Finance have stated in their note that "the refund of Rs. 51,26,000 is in 4,880 cases. Interest of Rs. 16.50 was paid only in 2 cases in which there was delay in issue of refund. The circumstances in which the delay occurred in these cases are not readily available. The Commissioner of Income-tax, Rajasthan, in whose jurisdiction these cases fall, has been asked to report the circumstances. The details will be furnished to the Public Accounts Committee on their receipt."*

1.119. The Committee also desired to be furnished with a note stating the amount of refund made in 1965-66 on appellate orders and the interest paid under Section 244 of the Income-tax Act. The information is awaited**

1.120. In para 1.280 of their 46th Report (Third Lok Sabha), the Committee had expressed concern over the delay in the disposal of applications for refund. The Committee note that there has been some improvement in the disposal of refund cases during 1965-66. The number of applications pending for more than a year has come down from 596 as on 31st March, 1965 to 332 as on 31st March, 1966. The Committee desire that old cases pending, for more than two years, which numbered 93 involving an amount of Rs. 7,62,145 as on 31st March, 1967 should be disposed of early and efforts should continue to be made to prevent this accumulation of arrears which involve liability on Government to pay interest on refund claims. The Board should look into the reasons for delay in the disposal of old cases one of which dates as far as back as 1957-58.

1.121. According to law interest is payable by Government if refunds are made in cases (i) where the total income of an assessee does not consist solely of income from interest on securities or dividends, beyond a period of three months from the date of which the total income is determined under the Act and (ii) in other cases within six months from the date on which the claim for refund is made. The Committee are surprised to learn that out of total refund of Rs. 285.26 lakhs in 73,444 cases during 1965-66, interest of Rs. 261.50 was paid in 21 cases only. The Committee would like to know whether in the remaining 73,423 cases refunds were made within the prescribed time limit. In this connection, the Committee

*In a note received from the Ministry of Finance (Department of Revenue & Insurance on 1st Feb., 1968 (Afternoon), it has been stated that the Commissioner has since reported that this amount of Rs. 16.50 represented interest payment under section 214 on excess payment of advance tax and not on delayed refunds under section 243 of the Income-tax Act, 1961. The interest paid on refunds was thus Nil. The Commissioners are being asked to see, during course of inspection if interest under section 244 has been wrongly denied in any case.

**In the note received from the Ministry of Finance (Department of Revenue and Insurance), it has been stated that the total amount of refund made during 1965-66 was a result of appellate orders was Rs. 7,72,42,000. The amount of interest paid under section 244 in respect of this refund also was nil.

would recommend that Government should ensure payment of interest on refunds due to assesses in all cases where the prescribed conditions in the Statute have been satisfied whether the assesses claim the interest or not.

NEW DELHI;
February 12, 1968.
Magha 23, 1889 (Saka).

M. R. MASANI,
Chairman,
Public Accounts Committee.

APPENDICES

APPENDIX I

I
(See para 1-14 of Report)

Charge-wise, Year-wise break up of the final figures outstanding as on 31st March, 1966—Information required for P.A.C.—Para 57 of the Audit Report, 1967.

(Amounts in 000)

Commissioners' Charge	Arrears out of current Demand 1965-66				One year old arrear i.e. 1964-65				Arrears of 1963-64			Arrears of 1962-63				
	III-Corp.	IV-Taxes	XVI Int.	Total	III-Corp.	IV-Taxes	XVI Int.	Total	III-Corp.	I - Taxes	XVI Int.	Total	III-Corp.	IV-Taxes	XVI Int.	Total
Andhra	2336	29116	971	32423	3901	16224	978	21103	230	9054	472	9756	149	3186	215	3550
Assam	1512	15094	671	17277	800	8287	357	9444	1882	5092	404	7378	93	1570	57	1720
Bihar & Orissa	6435	42361	1822	50618	2274	18098	953	21325	286	7937	602	8825	248	3751	211	4210
Bombay City I	80859	37764	1959	120582	10010	13965	642	24617	2398	8136	420	10954	2941	16264	589	19794
Bombay City II	11032	88271	1236	100539	5429	35890	753	42072	4453	42190	1675	48318	708	11399	280	12387
Bombay City III	43604	89356	2457	135417	4490	43723	1488	49701	540	33688	591	34819	553	9188	431	10172
Bombay Central	17645	53463	3566	74674	10603	26439	3110	40152	2152	10208	1589	13949	1907	8444	1452	11803
Poona	2033	43432	1333	46798	524	13744	277	14545	253	6660	91	7004	391	4236	19	4616
Delhi	43996	51414	1776	97186	2219	18527	1081	21827	344	7487	228	8059	188	4798	104	5090
Delhi Central	22546	37564	5686	65796	13166	19858	4315	37339	3424	10089	3136	16649	2625	3962	197	6784
Rajasthan	1122	10229	647	11998	3460	2550	492	6502	132	2209	275	2616	120	1804	84	2008
Gujarat-I	1111	15551	363	17025	561	4569	154	5284	367	2615	140	3122	7	679	78	764
Gujarat-II	992	17298	439	18729	487	3392	224	4103	376	7028	159	7563	112	1735	59	1906
Kerala	876	18223	936	20035	536	4705	313	5554	300	2070	58	2428	136	1358	65	1559
Madhya Pradesh	6763	35178	1724	43665	2042	26342	1672	30056	531	6204	427	7162	589	3433	219	4241
Madras-I	4714	26460	622	31796	529	8747	388	9664	307	3753	143	4203	194	1995	20	2209
Madras-II	3277	17689	591	21557	470	6834	158	7462	300	2952	341	3583	123	1104	22	1249
Madras Central	5646	13024	2190	20860	1288	8293	416	9997	347	4426	456	5229	313	2547	174	3034
Mysore	3394	16200	199	19793	224	2786	93	3103	221	3429	104	3754	340	1456	133	1909
Punjab	7672	35099	2457	45228	1281	11255	481	13017	147	6060	414	6621	258	2884	91	3233
Uttar Pr.-I	3609	23292	1302	28203	8507	11824	2177	22508	1893	5757	1208	8858	1716	4265	297	6278
Uttar Pr.-II	1296	17959	1064	20319	671	8246	456	9373	257	1294	69	1620	102	749	19	870
West Bengal-I	107267	60223	2739	170229	28763	31755	1316	61834	25202	71629	579	97410	8754	8174	334	17262
W. Bengal II	32385	58593	2189	93167	10529	19912	550	30991	2622	12665	350	15637	3563	9680	465	13708
W. Bengal III	38261	84087	2782	125130	6794	36499	1692	44985	5041	21835	493	27369	10040	13430	389	23859
Calcutta Central	46301	61040	5971	113312	26237	37149	2451	65837	15435	21117	1865	38417	5558	20952	883	27393
TOTAL	496684	997980	47692	1542356	145795	439613	26987	612395	69440	315584	16289	401313	41698	143043	6887	191638

II

Charge-wise, Year-wise break-up of the final figures outstanding as on 31st March, 1966—Information required for P.A.C.—Para 57 of the Audit Report, 1967. (Amounts in (000))

Commissioner's Charges	Arrears of 1961-62				Arrears of 1960-61				Arrears of 1959-60				Arrears of 1958-59			
	III-Corp.	IV-Taxes	XVI-Int.	Total	III-Corp.	IV-Taxes	XVI-Int.	Total	III-Corp.	IV-Taxes	XVI-Int.	Total	III-Corp.	IV-Taxes	XVI-Int.	Total
Andhra	72	2727	56	2855	186	5674	18	5878	186	1099	19	1118	..	1326	15	1341
Assam	32	1442	37	1511	9	1025	114	1148	20	440	12	472	50	755	27	832
Bihar & Orissa	4	2625	71	2700	180	4453	313	3946	3	1106	5	1114	6	1446	26	1478
Bombay City I	5050	8940	685	14675	1021	9931	469	11421	1794	6399	285	8478	2111	4786	137	7034
Bombay City II	555	9413	288	10256	408	10164	207	10779	669	4480	119	5268	1189	8565	43	9797
Bombay City III	916	7726	387	9029	166	4342	115	4623	96	4995	120	5211	283	5893	87	6263
Bombay Central	1544	11135	1302	13981	860	4976	681	6517	73	2362	221	2656	162	1541	73	1776
Poona	6	2640	115	2761	140	1095	14	1249	5	610	10	625	18	1153	2	1173
Delhi	528	3097	124	3749	390	2022	70	2482	77	3607	53	3737	20	6893	50	6963
Delhi Central	2247	2558	302	5107	1052	2112	375	3539	1702	1034	137	2873	324	215	92	631
Rajasthan	110	1284	97	1491	150	602	48	800	305	2015	48	2368	240	309	25	574
Gujarat I	108	3865	588	4561	3	626	27	656	..	538	7	545	5	831	32	868
Gujarat I	125	1827	38	1990	..	289	13	302	..	337	4	341	..	604	48	652
Kerala	53	1016	35	1104	23	981	29	1033	35	4045	45	4125	161	1127	13	1301
Madhya Pradesh	719	3394	313	4426	101	7463	70	7634	48	1944	60	2052	52	1276	47	1375
Madras-I	95	1770	34	1899	164	560	25	749	5	667	7	679	..	1240	88	1328
Madras-II	23	1800	15	1838	10	1299	14	1323	..	1042	11	1053	..	993	16	1009
Madras Central	..	730	27	757	15	96	12	123	..	319	..	319	..	152	2	154
Mysore	108	1547	42	1697	11	553	10	574	62	1457	1	1520	23	441	18	482
Punjab	104	1256	21	1381	24	705	7	736	10	689	6	705	9	375	8	392
Uttar Prd. I	291	4338	252	4881	62	6840	72	6974	215	2373	75	2663	12	2278	43	2333
Uttar Prd. II	127	356	19	502	47	853	64	964	7	1065	22	1094	22	853	42	917
West Bengal-I	3360	7562	743	11665	2159	6032	443	8634	993	5529	471	6993	873	4909	413	6195
West Bengal-II	4005	7473	445	11923	1977	5363	278	7618	790	5666	135	6591	1136	6021	85	7242
West Bengal III	1941	8621	140	10702	336	7565	118	8019	273	9230	219	9722	500	7309	156	7965
Calcutta (Central)	4375	9622	1176	15173	4545	5938	322	10805	1139	4875	376	6390	1370	3516	231	5117
TOTAL	26498	108764	7352	142614	14039	91559	3928	109526	8321	67923	2468	78712	8566	64807	1819	75192

III

Charges-wise, year-wise, break-up of the Final Figures outstanding as on 31st March, 1966—Information required for P.A.C.—Para 57 of the Audit Report, 1967

Amounts in (000)

Commissioners' Charges	Arrears of 1957-58				Arrears of 1956-57			
	III Corp.	IV Taxes	XVI Int.	Total	III Corp.	IV Taxes	XVI Int.	Total
Andhra	23	1074	46	1,143	2	2,310	26	2,338
Assam	8	290	3	301	1	374	..	375
Bihar & Orissa	24	1,634	55	1,713	6	1,128	12	1,146
Bombay City I	211	6,349	456	7,061	336	4,301	65	4,702
Bombay City II	38	7,215	188	7,441	36	9,333	163	9,532
Bombay City III	175	5,811	134	6,120	141	6,322	76	6,539
Bombay Central	154	1,369	30	1,553	19	4,735	90	4,844
Poona	11	465	1	477	18	435	2	455
Delhi	14	2,810	41	2,865	60	3,556	17	3,633
Delhi Central	2,834	3,673	121	6,628	963	1,233	147	2,343
Rajasthan	132	524	28	684	66	805	57	928
Gujarat I	47	1,111	45	1,203	..	47	..	47
Gujarat II . . . . .	..	142	21	163	..	156	1	157
Kerala	15	594	28	637	18	456	16	490
Madhya Pradesh	1	6,327	18	6,346	20	3,995	8	4,023
Madras I	5	368	17	390	1	638	8	647
Madras II . . . . .	..	1,735	14	1,749	..	2,023	18	2,041
Madras Central . . . . .	..	242	..	242	..	39	..	39
Mysore	3	656	2	661	10	386	1	397
Punjab . . . . .	..	351	1	352	..	308	1	309
Uttar Pradesh I . . . . .	..	1,928	45	1,973	46	2,680	144	2,870
Uttar Pradesh II	46	1,893	157	2,096	62	5,967	37	6,066
West Bengal I	1,019	6,754	411	8,184	591	5,726	577	6,894
West Bengal II	579	5,644	71	6,294	1,967	4,200	80	6,247
West Bengal III	1,139	18,891	1,019	21,049	1,079	6,943	37	8,059
Calcutta Central	1,097	4,097	129	5,323	513	3,759	58	4,330
TOTAL	7,675	81,992	3,081	92,648	5,955	71,855	1,641	79,451

IV

Charge-wise, year-wise break-up of Final Figures outstanding as on 31st March, 1966—Information required for PAC—para 57 of the Audit Report 1967

Commissioners' Charges	Arrears of 1955-56 and earlier years				Total amount outstanding remain- ing to be uncollected.			
	III Corp.	IV Taxes	XVI Int.	Total	III Corp.	IV Taxes	XVI Int.	Total
Andhra	129	5,181	187	5,497	7,028	76,971	3,003	87,002
Assam	5	2,353	48	2,406	4,412	36,722	1,730	42,864
Bihar & Orissa	49	6,324	76	6,449	9,515	90,863	4,146	1,04,524
Bombay City I	11,270	19,786	560	31,616	1,18,001	1,36,666	6,267	2,60,934
Bombay City II	94	76,480	864	77,438	24,611	3,03,400	5,816	3,33,827
Bombay City III	4,141	30,401	508	35,050	55,105	2,41,445	6,394	3,02,944
Bombay Central . . . . .	..	2,344	4	2,348	35,119	1,27,016	12,118	1,74,253
Poona	219	9,397	65	9,681	3,588	83,867	1,929	89,384
Delhi	835	31,113	2,012	33,960	48,671	1,35,324	5,556	1,89,551
Delhi Central	6,100	537	1,155	7,792	56,983	82,835	15,663	1,55,481
Rajasthan	201	6,201	1,261	766	6,038	28,532	3,062	37,632
Gujarat I	6	436	4	446	2,215	30,868	1,438	34,521
Gujarat II . . . . .	..	731	15	746	2,092	33,539	1,021	36,652
Madhya Pradesh	254	3,622	42	3,918	11,120	99,178	4,600	1,14,908
Kerala	113	4,835	51	4,999	2,266	39,410	1,589	43,265
Madras I	7	5,663	296	5,966	6,021	51,861	1,648	59,530
Madras II	7	9,870	16	9,893	4,210	47,341	1,216	52,767
Madras Central . . . . .	..	84	..	84	7,609	29,952	3,277	40,838
Mysore	30	2,478	11	2,519	4,426	31,389	614	36,429
Punjab	144	6,522	739	7,405	9,649	65,504	4,226	79,379
Uttar Pradesh I	347	15,406	1,098	16,851	16,698	80,981	6,713	1,04,392
Uttar Pradesh II	283	13,638	421	14,342	2,920	52,873	2,370	58,163
West Bengal I	3,345	72,550	4,274	80,169	1,82,326	2,80,843	12,300	4,75,469
West Bengal II	7,758	38,728	141	46,627	67,311	1,73,945	4,789	2,46,045
West Bengal III	11,987	57,931	435	70,353	77,391	2,72,341	7,480	3,57,212
Calcutta Central	1,459	6,787	539	8,785	1,08,029	1,78,852	14,001	3,00,882
TOTAL	48,783	4,29,398	14,822	4,93,003	8,73,354	28,12,518	1,32,96	638,18,838

APPENDIX II

(See para 1.40 of Report)

Points on which further information was required by the Public Accounts Committee at their sitting held on 16th October, 1967.

MINISTRY OF FINANCE

(DEPARTMENT OF REVENUE & INSURANCE)

Para 51 of Audit Report (Civil) of Revenue Receipts 1967—Annuity Deposits:

Question No. 6

A note may please be furnished stating the total cost (including that of Boards) of implementing the Annuity Deposits Scheme year-wise since its introduction.

Reply of the Ministry:

No study of the cost of collection and maintenance of the above Scheme has been made by the Ministry.

It has been ascertained from the Department of Economic Affairs that the following remuneration is paid to the Reserve Bank for the management of the Scheme:—

(a) *For issue of the Certificates:*

(i) Fee at Rs. 1,000 per crore;

(ii) Actual expenses on account of advertisements, telegrams, trunk calls and printing incurred by the Bank in connection with the Scheme; and

(iii) Commission at 1/16 per cent paid by the Reserve Bank of India to the State Bank of India and its subsidiary banks on the deposits received by them.

(b) *For management of the Scheme:*

(i) Commission @ Rs. 2,000 per crore per annum on the decreasing principal amount of annuity deposit certificates;

(ii) Establishment charges, cost of stationery, miscellaneous and out of pocket expenses actually incurred.

The amounts paid to the Reserve Bank and payable to the State Bank and its subsidiaries for the period 1st October, 1964 to 31st March, 1967 are as under:—

Year	Reserve Bank		State Bank and its subsidiaries		Total Rs.
	Issue of Cer- tificates	Management charges	Commission charges	Service charges	
	Rs.	Rs.	Rs.	Rs.	
1964-65	187,678·54	2,36,963·66	3,51,046·63	29,253·89	7,04,942·72
1965-66	1,21,532·14	17,05,024·30	3,18,718·42	1,05,776·72	22,51,051·58
1966-67	1,05,344·19	25,72,551·09	3,25,708·17	1,48,898·66	31,52,502·11
	<u>3,14,554·87</u>	<u>45,14,539·05</u>	<u>9,95,473·22</u>	<u>2,83,929·27</u>	<u>61,08,496·41</u>

The figures in respect of State Bank and its subsidiary banks do not include actual expenses on telegram, postage, stationery and other out of pocket expenses due to non-receipt of any claim from them so far.

The above figures would show that the total cost incurred in so far as the Reserve Bank and State Banks are concerned, amounted to a little over Rs. 61 lakhs up to the end of 1966-67.

In so far as Department of Economic Affairs is concerned, no extra cost has been incurred on this account.

As regards the cost incurred by the Income-tax Department and the Central Board of Direct Taxes, no separate statistics are available. The provisions of the Annuity Deposit Scheme are administered by the Income-tax Officer in the normal course along with the assessments under all Direct Taxes.

Sd/-G. S. SRIVASTAVA,

Joint Secretary to the Government of India.

APPENDIX III

(See para 1.72 of Report)

MINISTRY OF FINANCE

(DEPARTMENT OF REVENUE)

Information asked for by the Public Accounts Committee.

Para 59 of the Audit Report (Civil) on Revenue Receipts—1966—
Scheme of voluntary disclosure.

2. A note may please be furnished stating (i) the modern fiscal methods of assessment, levy and collection of taxes and (ii) incentives for proper declaration and payment of taxes obtaining in West Germany, United States, Belgium, Holland, Norway, Sweden, Japan, Ireland, Nigeria and Malaysia. It must also be indicated how the methods followed in these countries differ from those in India.

Reply to the Ministry.

The published tax literature available with us in the case of the countries referred to above (except Nigeria, for which we do not have any literature) does not contain material required for furnishing adequate information regarding the fiscal methods of assessment, levy and collection of taxes and incentives for proper declaration of income and payment of taxes. An attempt has been made, in the enclosed note, to furnish information, to the extent possible, from the publications available with us. It may be mentioned that the tax publications from which we have compiled this note are not upto date.

Sd/-G. S. SRIVASTAVA,

Joint Secretary to the Government of India.

Lok Sabha Secretariat

Min. of Fin. (Deptt. of Rev. & Ins.) U.O. Dy. No. 4230/67 TPL
dt. 8-12-1967

(Not yet vetted by Audit)

**NOTE INDICATING HOW THE FISCAL METHODS OF ASSESSMENT,
LEVY AND COLLECTION OF TAXES IN THE FOREIGN COUNTRIES
WHOSE TAXATION SYSTEM HAS BEEN OUTLINED IN THE NOTES
BELOW DIFFER FROM THOSE IN INDIA.**

1. In India, the States are not entitled to levy any tax on incomes and profits except on agricultural incomes. Agricultural incomes are

outside the purview of the Central income-tax. In the foreign countries concerned, agricultural incomes are also taxed along with non-agricultural incomes and profits.

2. In India, the assessment year is the 12-month period commencing on April 1, and ending on March 31. The income chargeable to tax for an assessment year is the income earned during the 'previous year', which is, ordinarily, the financial year immediately preceding the assessment year, and, in the case of businesses or professions, any other accounting year followed by the taxpayer. In the foreign countries concerned, the assessment year is, generally the calendar year. Further, in the case of individuals, the income year (i.e. the year of which the income is charged to tax during the tax year) is the calendar year and not the accounting year of the choice of the individual taxpayer.

3. In the foreign countries concerned, the Tax Laws, generally, provide for the clubbing of the income of husband and wife, subject to certain reliefs in respect of the income of the wife. In our country, the income of the wife is clubbed with that of the husband only where it arises from assets transferred by him to her (without adequate consideration or without any agreement for living apart) or where the husband and wife, both, are partners in the same partnership concern.

4. In several of the foreign countries concerned, inter-corporate dividends (dividends received by domestic companies from any other domestic company) are either wholly exempt from tax in the hands of the recipient company or are charged to tax at an effective rate of tax which is lower than that in our country.

5. In some of the foreign countries concerned, individuals receiving dividends from domestic companies are allowed tax credit at a specified percentage of their dividend income, irrespective of the magnitude of their dividend income. In our country, Indian company dividends are exempted from tax only where the total dividend income of the taxpayer does not exceed Rs. 500.

6. In our country, no distinction is made in the matter of rates of corporation tax as between distributed and undistributed profits of companies, except that domestic companies of certain categories which distribute dividends in excess of 10 per cent of their paid-up equity capital are charged an additional amount of income-tax at 7.5 per cent of the excess distribution. In some of the foreign countries concerned, the rate of tax on undistributed profits is higher than that on distributed profits of the company.

7. In our country, closely-held domestic companies (with certain exceptions) are chargeable to tax on their total income at a rate higher than that applicable to widely-held domestic companies. In the foreign countries concerned, there is no such differential rate of taxation.

8. In our country, partnership firms are treated as taxable entities. Unregistered firms are charged to tax on their total income at the progressive rates of tax applicable in the case of individuals and associations of persons, but no further tax is charged in respect of the firms income in the hands of its partners. In the case of registered firms, tax is chargeable in the hands of the firm as well as its partners, the tax payable by the firm being comparatively lower. In the foreign countries concerned, partnership firms are not treated as separate taxable entities. Their partners are chargeable to tax directly on their respective shares in the income of the firm.

9. Our rates of tax on corporate as well as non-corporate incomes are generally higher than those in the foreign countries concerned.

TAXATION IN FEDERAL REPUBLIC OF GERMANY

The taxation system under the Federal Republic of Germany provides for two kinds of taxes viz. the National Income-tax and the Local Taxes.

National Income Tax

Corporation Tax.—The general rate of tax on resident joint stock companies is 51 per cent on undistributed profits, and 15 per cent on distributed profits. Corporations with assets of D.M. 5,000,000 or less, the shares of which are held by individuals to the extent of at least 76 per cent of the nominal capital, and which are not dealt in on a stock exchange, pay tax at 26.5 per cent on distributed profits, and at the following rates on the undistributed profits:—

1st DM 10,000	..	39%
DM 10,000 to DM20,000	..	44%
DM20,000 to DM30,000	..	49%
DM30,000 to DM40,000	..	54%
DM40,000 to DM50,000	..	59%
Over DM 50,000	..	49%

(Re. 1-0.53 DM)

Non-resident companies, which are liable to tax only on profits from certain specified sources in Germany pay Corporation Tax at

the rate of 49 per cent on both distributed and undistributed profits. Germany legal entities other than companies, as for example, unincorporated associations, also pay Corporation Tax at a uniform rate of 49 per cent.

Taxation of Individuals

Dividends form part of an individual's total income for Income-tax and of the recipient company's profits for Corporation Tax. Where a resident recipient company owns 25 per cent or more of the share capital of a resident paying company, the dividend income is left out of account in computing the taxable income of the recipient company.

One-third of the value of the capital investment in under-developed countries is deducted from taxable profits in the year of investment. After three years, the amount is brought to charge for tax in five annual instalments.

Taxation of Individuals

Income-tax is payable by individuals at the following rates:—

- (i) Income up to DM 8,000 (single persons) and upto DM 16,000 (married persons) at the rate of 20 per cent.
- (ii) Income between DM 8,000 and 1.10,000 is taxed at progressive rates.
- (iii) Income of DM 1.10,000 and over is taxed at the rate of 53 per cent.

Deductions and Allowances in Computing Income

Two types of allowances are deductible from income. The first consists of deductions admissible on equitable principles, as for example, on premiums in respect of life, sickness, accident and unemployment insurance, on expenditure for the furtherance of charitable, religious and scientific objects, and on losses carried over. Also, deductible under this category are certain local taxes and taxes on capital, deposits in buildings' savings accounts, and, exceptionally, medical expenses. The second type of allowances are personal allowances, which are permitted under varying rate schedules and subject to various conditions. Some of these allowances are given below:

- (i) An allowance of DM 900 is granted for the first child, allowance of DM 1,680 for the second child, and DM 1,800 for the other children.

- (ii) **Persons over 50 living alone are granted an allowance of DM 840. Single tax-payers over 70 are granted an allowance of DM 1,200, and married couples over 70 who are jointly assessed are granted an allowance of DM 2,400.**
- (iii) **Allowances are also granted for expenditure incurred in providing for old age pensions and for items of expenditure which represent an exceptional burden on the taxpayer beyond what he could be expected to pay out of his own resources.**

Partnerships

Partnerships are not liable to Income-tax as such. The profits are deemed to be apportioned and are taxed on the recipients, to Income-tax in the case of individuals and to Company Tax in the case of corporate bodies.

Deduction of Tax at Source

On certain items of income, as for example, salaries, wages and the principal types of investment income, tax is levied at source. The practice of deducting at source is widely applied to income arising from German sources to non-resident individuals, and has the effect of discharging them from further liability to Income-tax.

Tax Year and Basis of Assessment

The calendar year is tax year and the income of any accounting year ending within the tax year is charged to tax.

Definition of Income or Profits

Profit is defined statutorily as the difference between the total assets of a business at the end of the accounting year and its assets at the end of the previous accounting year, *plus* the value of any withdrawals *minus* the value of any investments. Withdrawals are all economic goods (cash, commercial goods, products, services) which have been devoted to any purpose not connected with the business. Investments are all economic goods which have been contributed to the business.

Capital Gains

Capital gains exceeding DM 10,000 and realised on assets on the sale, transfer or cessation of a business, or agricultural or professional

undertaking, are liable to tax at the normal rates, whether the seller is a corporation or an individual disposing of assets which form part of his business property. An individual selling his private holdings is not liable to tax, unless he sells shares representing more than 1 per cent of the nominal share capital of a corporation, and he (alone, or together with his family) controls, or has controlled in the preceding five years, more than 25 per cent of the capital of the company. In such cases, gains exceeding DM 20,000 are taxable. Individuals are also taxable on profits from the sale of real property held for two years or less, and from the sale of other assets held for six months or less.

Losses

Losses, including unabsorbed capital allowances, may be carried forward for five years. They cannot be carried back.

Local Taxes

Local tax on industry and trade consists of three elements, namely: Trade Income-tax, Trade Capital Tax and Pay Roll Tax. The starting base of the Trade income-tax is the income or profits as agreed for the purposes of income-tax or corporation tax, subject to certain adjustments. The principal additions are interest on debts, which have a business connection with the formation or acquisition of the enterprise; one-half of the rents and lease rentals which the enterprise has to pay in respect of fixed assets; and remuneration paid to any individual holding more than 25 per cent of the paying company's shares. The chief deductions are income arising abroad and 3 per cent of the taxable value of any real property owned by the business and used for it.

The adjusted taxable income is then reduced to the assessable income by the application of a percentage. In the case of sole traders, partnerships and limited partnerships, the percentage is on a sliding scale, ranging between 1 per cent to 5 per cent. In the case of corporate bodies, the percentage is 5 per cent on profits.

TAXATION SYSTEM IN THE UNITED STATES

Taxation of Individuals

The Federal income-tax on individuals is computed in accordance with schedules of progressive rates. These rates differ in application as respects individuals who are citizens or residents of the United States, dependent upon the tax-payer's family status.

Married Persons

Married persons are permitted to file joint income-tax returns. If a joint return is filed, the income of the husband and wife is computed in the aggregate. All items of gross income, deductions, and allowances are grouped together as if they belonged to one individual. Taxable income is then divided in half and a preliminary tax is computed thereon in accordance with the tax tables. This preliminary tax is then multiplied by two to produce the final total for husband and wife. The effect of this is to double the width of each income bracket in the structure of rates applicable to unmarried individuals, with the result that the income of married persons is generally subject to tax at a substantially lower rate than would apply if the spouses filed separate returns. A joint return can be filed even if the entire income is earned by the husband.

Head of Household

The "head of household" is a special category of tax-payer. In general, a head of household is a single person, either male or female, who maintains a household for the benefit of another individual who is dependent upon him or her for support. Since the position of a head of household is somewhat similar to that of a married person in that he is obliged to share his income with another, a portion of the tax relief allowed to married couples filing joint returns is extended to him. Accordingly, while his taxable income is determined in the same manner as that of other single tax-payers an individual who qualifies as a head of household computes his tax on a separate rate schedule, which is designed so as to make available approximately one-half of the tax benefits accorded to married persons filing joint returns.

Partnerships

Partnerships are not taxable entities and do not pay tax on their income. Instead, a partnership organisation is considered to be a conduit through which income passes into the hands of the several partners. Each partner is taxed individually on his share of annual partnership income, whether or not that income is actually distributed to him during the taxable year. Although not subject to tax, every partnership is required to file an annual information return. It is on the basis of this annual return that each partner determines his share of partnership income.

Taxation of Corporate Income

The term corporation includes associations, joint stock companies and insurance companies. The separate identity of a corporation may be disregarded under the U.S. Law if the corporation lacks a substantial business activity, or if it can be shown that it has been organised by the shareholders to avoid Federal Income-tax. A corporation created or organised in the U.S.A. or under the Law of the U.S.A. or of any State is a 'domestic' corporation. A corporation which is not a domestic corporation is a 'foreign' corporation. A domestic corporation is subject to U.S. Federal Income-tax on its worldwide income. A foreign corporation is taxed in the U.S.A. only on income from sources in the U.S.A. If a foreign corporation is not engaged in trade or business in the USA, it is subject to a withholding tax of 30 per cent on income (other than capital gains) derived from sources in the USA. If the foreign corporation is engaged in a trade or business in the USA, it is not subject to the 30 per cent withholding tax; it is then taxed on its net taxable income (including capital gains) from sources in the USA, in the same manner and at the same rates as a domestic corporation.

Concept of Taxable Income.

Federal Income-tax is imposed on net or "taxable income", which is generally computed in the same manner for all classes of taxpayers. The steps in the computation of the taxable income are (i) ascertainment of the gross profit from the trading operations; (ii) addition to the gross profit of any investment income received by the tax-payer (as for instance, dividends, interest, rent, royalties etc.); (iii) deduction from the gross income so computed of the normal operating expenses, viz. salaries, rents, advertising expenses, bad debts etc; and (iv) deduction from the income so computed of the unabsorbed business loss, if any, carried forward from the preceding five taxable years and carried back from the succeeding three taxable years. In the case of corporations, a further deduction of an amount equal to 85 per cent of dividends received from a domestic corporation is also allowed.

Capital Gains

Capital gains arising from the sale, transfer or exchange of capital assets are classified into two categories, viz. short-term capital gains relating to capital assets held by the tax-payer for not more than six months, and long-term capital gains, that is, the gains other than short-term capital gains. Short-term gains are charged to tax, both

in the case of a non-corporate and a corporate tax-payer as ordinary income. Long-term capital gains, however, receive a concessional treatment. In the case of an individual, 50 per cent of the long-term capital gains are allowed as a deduction in the computation of the taxable income, or, alternatively, tax is charged on the whole of the long-term capital gains at a flat rate of 25 per cent, whichever results in a lower tax to the tax-payer. However, in the case of a corporation, the whole of the long-term capital gains are charged to tax at a flat rate of 25 per cent.

Taxation of Dividends

Individuals are entitled to a deduction from their gross income of the first \$50 of the dividends received by them during any taxable year from a domestic corporation. Further, individuals are allowed a tax credit equal to 4 per cent of the balance of the dividends (in excess of the \$50 exclusion) received from a domestic corporation. The object of the above provisions is to reduce the so-called extra or double taxation of distributed corporate earnings, first at the corporate level when included in the corporations' taxable income, and again at the shareholder level when received as dividend.

Corporations are entitled to a deduction from their gross income of an amount equal to 85 per cent of the dividends received by them from other domestic corporations. Dividends received by a corporation from a foreign corporation also qualify for this deduction, if the foreign corporation paying the dividend is not a "foreign** personal holding company" and it has derived over 50 per cent of its gross income from the USA for an uninterrupted period of 36 months ending with the close of the taxable year in which the dividends are paid, while engaged in a trade or business in the USA. The effect of the deduction of 85 per cent of the amount of inter-corporate dividends from the taxable income is that under the existing U.S. corporate rate of tax of 48 per cent the effective rate of tax on such dividend works out to 7.2 per cent only.

***Foreign personal holding company.*—A corporation is treated as a foreign personal holding company if it satisfies the following two conditions:

- (i) That 50 per cent or more of its stock was held at any time during the latter half of the taxable year by 5 or fewer individuals who are citizens of or resident in the USA;
- (ii) That at least 80 per cent of the gross income of the company for the taxable year consists of "personal holding company income", which includes dividends, interest, royalties, personal service income, rents and rents from the sale of securities.

TAXATION IN BELGIUM

In accordance with the Tax Act of November 20, 1962, a new system of taxation was set up in Belgium. The new tax is characterised by the following features:—

- (i) A single tax on total income;
- (ii) Four different categories of taxpayers whose income is subject to a corresponding single tax, namely:—
 - (a) individuals residing in Belgium subject to the individual income-tax;
 - (b) corporations and profit-making organisations liable to the corporate income-tax;
 - (c) non-profit making organisations liable to the legal entity income-tax;
 - (d) non-residents, either individuals or companies, subject to the non-resident income-tax;
- (iii) a system of pre-payments credited against the single tax on total income and levied on four sources of income, namely, real property, personal property, remunerations and income from miscellaneous sources; and
- (iv) taxation incidence on total individual income must not exceed 50%.

Corporate Income Taxation:—

Taxable Base:—The Corporate Income-tax applies to the income of corporations and other organisations recognised as legal persons which have their legal suits, their principal administration establishment or their place of management in Belgium. Partnerships may, under certain conditions, elect that their profits should be taxed in the hands of the partners as individual income, in which case the partnership is not liable to taxation.

Gross Income:—Gross income includes all earnings resulting from the activities of the company or of the partnership. Deductible items consist of business expenses, such as rentals, interest on loans, wages, salaries, pensions, fees, commissions, compensations, capital, loans and amortisation.

In the case of income by way of dividends or income from invested capital, 85% of the net amount received by the company may be deducted in the determination of the taxable base.

Tax Rate:—The standard rate of corporate income-tax is 30%. The tax on undistributed profits is 25%. In the case of undistributed profits in excess of Fr. 5 lakhs, the tax rate is 35%. In addition, a supplementary tax equal to 5% of the corporate income-tax on income from Belgian sources is also levied.

Taxation of Dividends:—The shareholder is given a tax credit of 15% on the dividend income. This credit represents half of the corporate income-tax borne by the company.

Taxation on Interest, Royalties and other Income from Personal Property:—Interest, royalties and other income from personal property (such as loans, deposits on rentals) received by a corporation are included in corporate profits and subjected to the corporate income-tax.

Taxation of Capital Gains:—As a rule, capital gains are subject to the Corporate Income-tax. However, some capital gains are exempt from tax, if they fall into one of the following categories:—

- (a) Capital gains relating to land, buildings, equipment or stock, owned for more than 5 years, if they remain in the company, in so far as the selling price does not exceed the assets value adjusted on the basis of a legal coefficient, from which depreciation on such assets has been deducted. Capital gains exceeding this amount are taxed at 15%.
- (b) Capital gains realised in the course of the calendar year 1963 or the accounting year 1963-64, which are re-invested in fixed assets, equipment or stock for the purpose of creating a new company or for capital increase. Normally, four-fifths of these capital gains are exempted, but if the re-investment is made in a development area, the assessee gets a total exemption.

Individual Income Taxation:—Every inhabitant of the kingdom of Belgium is subject to individual income-tax on his income. An individual who is resident in Belgium or has a place of management of his property in Belgium, is considered to be an "inhabitant" of Belgium. The total net income from all sources and of all kinds, forms the taxable base. Incomes of spouses are combined for tax

purposes. There are four categories of income, namely, income from real property, income from personal property including capital, income from occupation and income from miscellaneous sources.

Some types of income are exempted from taxation such as, certain allowances and pensions of a social nature, re-imbusement to employees of expenses incurred in travelling from their home to their place of work, certain capital gains and certain reserves for "doubtful debts".

Deduction from Gross Income:—

- (a) Expenses incurred during the taxable period for the purpose of acquiring or preserving income derived from occupations, can be deducted;
- (b) Instead of deducting the actual expenses, a standard deduction may be taken as follows:—

In the case of employees and persons carrying on independent profit-making activities—

20% if the income does not exceed Fr. 92,500.

15% if the income falls between Fr. 92,500 and Fr. 3 lakhs.

10% if the income exceeds Fr. 3 lakhs.

The maximum deduction on this account cannot exceed Fr. 60,000.

- (c) Other items can also be deducted from gross income, under certain conditions and within certain limits. They include, *inter alia*:—
 - (i) premium payments on health and disability insurance;
 - (ii) premium payments on life insurance;
 - (iii) mortgage payments under certain conditions;
 - (iv) contributions to Belgium Universities and to organisations assisting newly development territories.

General Returns:—In the case of joint husband and wife returns, 40% of the wife's income derived from her occupation or business may be deducted. This deduction cannot exceed Fr. 27,000.

Minimum Taxable Income:—Income-tax is not payable by an individual if the total taxable income is below:—

Fr. 30,000 for taxpayers with no dependent;

Fr. 35,000 for taxpayers with one dependent;

Fr. 40,000 for taxpayers with two dependents;

- Fr. 45,000 for taxpayers with three dependents;**
Fr. 69,000 for taxpayers with four dependents;
Fr. 69,000 to which is added Fr. 34,000 for each dependent after the fourth.

[Re. 1-B. Fr. 6,50]

Tax Rate:—The tax is graduated according to a scale and ranges of income. The highest rate, namely, 60% is reached on that part of the total income which exceeds Fr. 4,000,000. However, as stated above, in no case, can the total tax exceed 50% of the taxable income.

Tax year and basis of assessment

The calendar year is the tax year. Tax-payers whose accounting year corresponds with the tax year are assessed on the profits of the 12 months preceding the tax year. Taxpayers whose accounting year does not correspond with the tax year are assessed on the profits of the last accounting period ending before 31st December.

TAXATION IN NETHERLANDS

The Netherlands Taxation Law provides for two kinds of taxes, viz. the National Income-tax and the Local Taxes. The National Income-tax plays a more important role than the Local Taxes

National Income Tax

The rates of National Income-tax on companies are as under:—

- | | | |
|---|---|--|
| (i) Where profits do not exceed f 40,000 | — | 42% |
| (ii) Where profits are between f 40,000 and f. 50,000 | — | First f. 40,000—42%
Balance thereof—57% |
| (iii) Where profits exceed f. 50,000 | — | 45% |

Income-tax is payable by individuals on their total income. The taxable profits of sole traders or partnerships, whether distributed or not, are subject to Income-tax. In the case of wages, salaries and similar payments, tax is withheld at source and credited against final liability. The earned income of a married woman is diminished by one-third for tax purposes. The minimum allowance on this account is f. 500 and the maximum f. 2,000.

Taxation of Dividend Income:

A withholding tax at the rate of 15 per cent is payable on income from shares, profit sharing notes and profit sharing debentures of limited liability companies and limited partnership with shares. This tax is deducted at source. The tax is not payable on distribution to limited liability companies, limited partnerships with shares or mutual insurance companies established in the Netherlands, which are direct shareholders in the distributing company to the extent of at least 25 per cent of the capital. This exemption also applies to holdings in foreign corporations liable to foreign tax corresponding to the Dutch Company Tax or Income Tax. The holdings of less than 25 per cent may, if the consent of the Minister of Finance is obtained, also qualify for this exemption.

"Portfolio" holding companies, that is, those companies whose major purpose is to buy, sell, hold or manage securities, are exempt on dividend received, irrespective of the size of their holding in the paying company. To obtain this exemption, however, at least 60 per cent of dividends received by the holding company in any year must be distributed to shareholders, or its shares must be quoted on the Amsterdam or Rotterdam Stock Exchanges.

Dividend tax paid may be set off against Income-tax or Company Tax.

Directors' Tax.

Fees paid to the supervisory Directors are subject to a special tax, which is also deducted at source. The progressive rates (as applicable to fees received from any one company in a calendar year) are as follows:—

First £1,000—	Nil
Next 7 4,000—	%
Over £ 5,000—	50%

The net amount of the fee, after deduction of Directors' Tax is included in the taxable income of the Director for the purpose of Income-tax.

Tax Year and Basis of Assessment.

For persons other than companies, the calendar year is a tax year. For companies, their accounting year is taken as the tax year. Both company and non-company assesseees are required to make advance payments by means of provisional assessments.

For the purposes of Income-tax as well as Company Tax, the taxable profit is the total profit of the business. The profit is calculated in accordance with the normal accounting principles with only minor exceptions.

Taxation of Capital Gains.

All capital gains arising to a company, or to an individual in the ordinary course of his business or profession, are taxable as income. The capital gains of an individual are not otherwise taxable, except for profits from the sale of shares by a tax-payer who, either by himself or together with his close relatives, has owned during the previous five years 25 per cent or more of the issued capital of the company concerned.

Carry forward and carry back of Business Losses.

Losses may be carried forward and set off against the profits of the following six years. Losses arising in the first six years by a business, however, may be carried forward indefinitely and set off against future profits. Losses may also be carried back and set off against the profits of the preceding year.

Tax Free Reserves.

Reserves may be made tax-free for the following purposes:

- (i) To spread regularly recurring costs over a number of years, as, for instance, maintenance costs of ships, costs of painting buildings etc.
- (ii) To cover uninsured risks against which it is usual to insure.
- (iii) To replace lost or damaged fixed assets, on the following basis:
 - (a) If compensation has been received in excess of the book value of the asset, so long as it is the intention to replace or repair the asset, the excess may be put to reserve tax free. This amount is deducted from the initial depreciable value of the asset on replacement or repair.
 - (b) On transfer or winding up of a business or profession, the reserve, referred to above, as well as hidden reserves (that is, the difference between the real value and the book value of the assets) and goodwill, are liable to tax. The first f. 1,500 is exempt, and the balance is taxed at a special rate which varies between 20 per cent and 40 per cent.

Local Taxes.

The taxing powers of Provinces and Municipalities are extremely limited and the amounts levied are not significant.

TAXATION IN NORWAY

The Norway Taxation Law provides for two kinds of income-tax, viz., the National Income-tax and the Local Income-tax. In Norway, the local taxes play more important part than in many other European countries.

National Income-Tax

Norwegian companies pay National Income-tax on the total profits at a flat rate of 30 per cent. Dividends received from other Norwegian companies, however, do not form part of the taxable income of a resident recipient company.

Individuals are taxed on the basis of their total income. Unlike resident companies, resident individuals are charged to tax on their dividend income as on their other income. Partnerships are not taxed as such. The individual partners are charged on their income plus the appropriate share of the increase in the partnership's net assets. The rates of tax, in the case of individuals, are as follows:—

On income without deduction:

On the first kr. 18,000	..	10%
On the next kr. 7,000	..	15%
On the next kr. 5,000	..	20%
On the next kr. 5,000	..	25%
On the next kr. 5,000	..	30%
On the next kr. 5,000	..	35%
On the next kr. 25,000	..	45%
On the excess	..	55%

[Re. 1 = 0.94 kr.]

From the tax amount thus calculated, the following deductions are to be made:

kr. 100 in scale number	0
kr. 400 in scale number	1
kr. 800 in scale number	2
kr. 1,100 in scale number	3
kr. 1,500 in scale number	4
kr. 2,000 in scale number	5
kr. 2,600 in scale number	6
kr. 3,300 in scale number	7
kr. 4,100 in scale number	8

(Scale = number of dependents).

An earned income allowance is given to a single taxpayer with dependent children and to a wife (jointly assessed with her husband) having earned income. The allowance varies with the number of children supported (maximum: kr. 2,000).

Married couples are entitled to claim that the income tax shall be calculated separately for both spouses, provided that both have had earned income or income from professional activities or from a business managed by the husband or wife during the year of assessment. If this condition is fulfilled, the lower income from work, profession or business is taxed separately, whereas the aggregate of all other income, including any capital gains, is taxed in the hands of the other spouse.

Tax Year and Basis of Assessment:—For the purposes of assessment, the calendar year is treated as the tax year. The profits of the calendar year preceding the tax year are charged to tax. There is a provision for advance payment of tax. In the case of wages, etc., this is affected by reduction of tax at source. On other income, the advance payment is based on the latest assessment and is payable on four equal instalments during the calendar year.

Definition of Income or Profits and their Computation:—According to the Norwegian Law, interest on capital, pensions and any advantage derived from property, work or activity, whether continuing or once and for all, constitutes income. Capital gains realized in the course of business are taxable, and so are gains made by an individual outside the course of business from the sale of assets (except security) within 10 years of their acquisition.

In practice, the taxpayers' accounts are adopted if they are prepared in accordance with the principles of proper business practice; if not, the accounts are disregarded and the assessment is based on estimate.

Carry-forward and carry back of Losses:—Losses may be carried forward for 10 years and when a company goes into liquidation they may be carried back for two years.

Special Allowances:—Firms commencing business, or investing in an industrial or other undertaking, in the three northern counties, are allowed to deduct from taxable income certain amounts to be set aside for future investment. Assets acquired out of the fund are written down by 75 per cent of the amount withdrawn. The firms are further entitled to special depreciation allowances. Enterprises operating in municipalities where there are special unemployment problems, and where the average income is exceptionally low, may deduct 10 per cent of their income in the municipality to form a reserve for approved investment in industrial plant. Assets acquired out of the fund are written down by 85 per cent of the amount withdrawn.

Local Income-Tax:

Local Income-tax is levied on the income of individuals and companies, excepting dividends from Norwegian joint stock companies. For individuals, tax free allowances are granted on the basis of any one of a number of prescribed scales. These vary in different districts from kr. 800 to kr. 1300 in respect of taxpayers with no dependents. The allowances increase with the number of dependents.

Local Sur-tax:—Income for the purposes of surtax is computed by making certain allowances from the total income as computed for the purposes of Local Income-tax. In the case of companies and persons domiciled abroad, there is a standard allowance of kr. 20,000. For resident individuals, the allowance varies according to the number of dependents between kr. 21,300 and kr. 36,700. On the balance, surtax is charged at the following rates:—

On the first kr. 20,000	..	at the rate of 3%
On the next kr. 30,000	..	at the rate of 4%
On the balance kr.	..	at the rate of 5%

TAXATION IN SWEDEN

The Swedish Tax Law provides for the kinds of income-tax, *viz.* the National Income-tax and the Local Income-tax.

National Income-Tax.

National Income-tax is payable by companies and individuals. The term "companies" under Swedish Revenue Law comprises (a) all Swedish legal entities (excluding a non-corporate Swedish body of persons); and (b) all foreign bodies of persons, corporate or non-corporate.

Taxation of Dividends:—Dividends paid out of tax profits are taxed again as income in the hands of the recipients, subject to the exception that dividends received by a Swedish company from shares in another Swedish company are, with a few exceptions, in principle, exempt from further liability to income-tax. During the years 1962-72, however, companies are liable to income-tax on dividends (except when the receiving company owns 25 per cent or more of all shares in the paying company) unless it can be shown that the receiving and paying companies are affiliated. Holding companies are subject to tax on dividends received only for that part which is not passed on to their share-holders. Investment holding companies are taxed on dividends received only on the part which exceeds 125 per cent of the dividends passed on to their share-holders.

Dividends paid on shares issued during 1961-66 are deductible from the gross income of a distributing company, up to an amount equal to 4 per cent of the amount paid for the shares. This deduction is available upto 6 years after the issue of the shares. The distributing company is not entitled to this deduction if more than 50 per cent of its shares are held by other corporations, unless the company receiving the dividend is a foreign corporation, or a Swedish corporation not entitled to inter-corporate dividend exemption.

Taxation of Individuals.—Individuals resident in Sweden are taxed on total income wherever arising. Individuals not resident in Sweden are taxed on income from property and certain other

sources in Sweden which arise in Sweden. For tax purposes, the profits of unlimited partnership are deemed to be wholly distributed and are taxed only in the hands of the recipient.

Rates of National Income-tax:—

For Companies:—

(i) Swedish companies with share capital :	
non-corporate Swedish insurance houses :	
Foreign legal persons	.. 40%
(ii) other Swedish economic societies	.. 32%
(iii) Savings Banks and certain other credit houses	.. 32%
(iv) Insurance houses in respect of life assurance	.. 10%
(v) Tax payers not included in (i)—(iv) above	.. 15%

Taxpayers other than Companies:—

Married taxpayers, family trusts and estates of deceased persons:

Taxable income

First 12,000 kr.	.. 10%
Next 4,000 kr.	.. 20%
Next 4,000 kr.	.. 30%
Next 10,000 kr.	.. 38%
Next 10,000 kr.	.. 43%
Next 20,000 kr.	.. 48%
Next 40,000 kr.	.. 54%
Next 50,000 kr.	.. 59%
Over 150,000 kr.	.. 65%

Single taxpayers :

Taxable income

First 6,000 kr.	.. 10%
Next 3,000 kr.	.. 20%
Next 3,000 kr.	.. 25%
Next 4,000 kr.	.. 30%
Next 4,000 kr.	.. 36%
Next 10,000 kr.	.. 41%
Next 10,000 kr.	.. 45%
Next 20,000 kr.	.. 49%
Next 40,000 kr.	.. 54%
Next 50,000 kr.	.. 59%
Over 150,000 kr.	.. 65%

[Re. 1—0·68 kr.]

*Other Taxes:—*Income-tax is supplemented by a number of other taxes designed to render the taxation of company profits effective and complete. Two of these taxes are as follows:—

(a) *Coupon tax:—*This tax is deducted at source by companies from dividends paid to (i) non-residents; (ii) recipients.

who have acquired the right to the dividend, other than by inheritance, but not the share on which it is paid; and (iii) nominee shareholders. This tax is levied at a flat rate of 30 per cent on the gross dividends.

- (b) *Special Tax on undistributed income of companies*:—This tax is payable only by Swedish companies or economic societies whose business consists in the holding or, or dealing in real property or of securities or other similar immovable property. This tax becomes payable if the company fails to distribute, by way of dividend, such part of its profits as is reasonably called for by its financial circumstances and there are factors suggesting that the principal reason for failing to do so was to avoid the incidence of tax in the hands of the individual shareholders. This tax is levied at the rate of 25% on that part of the profit for the year in question which could reasonably have been distributed, less any actual distribution made during that year. A refund of tax may be made, in certain circumstances, if the company actually makes a distribution at a later date.

Basis of assessment:—For the purposes of assessment, the calendar year is treated as the tax year. The profits of the calendar year preceding the tax year are charged to tax. Where the accounting period does not coincide with the calendar year, the accounting period of 12 months ending prior to the 1st March in the year of assessment, forms the basis of assessment. Taxpayers are required to pay advance tax on their current incomes.

Definition of Income or Profits and Method of Computation:—Taxable income is classified under six Schedules, as follows:—

Schedule A:—Income from agriculture.

Schedule B:—Income from the ownership of land other than by way of agriculture.

Schedule C:—Income from the pursuit of a trade, profession or vocation in Sweden.

Schedule D:—Income from an office or employment, including pensions and annuities.

Schedule E:—Income from sources not elsewhere specified (notably capital gains).

Schedule F:—Income from capital.

To be taxable, income must fall within one of the Schedules mentioned above; income is not defined by statute. All expense incurred for the purpose of earnings income may be set off against gross income under one of these Schedules. Income under Schedule C (profit from trade or business) is generally determined by

applying the ordinary principles of commercial accounting. There are special provisions in respect of depreciation and stock valuation.

Taxation of Capital Gains:—The liability on capital gains for Schedule E is determined on the following basis:

In principle, liability to tax arises where property acquired by way of purchase or exchange is sold, other than as part of a trade or profession, and the property has been in the ownership of the taxpayer for less than 10 years, in the case of real estate, or less than 5 years in the case of movable property. Any gain arising on the sale of property which has been held in excess of these periods is not taxable. If liability to tax arises, then the proportion of the capital gain realised which is treated as taxable income is determined in accordance with the following scales:—

<i>Period of ownership</i>	<i>Percentage of profit</i>
Less than 7 years	100%
7 years but less than 8 years	75%
8 years but less than 9 years	50%
9 years but less than 10 years	25%
<i>Property other than real estate:</i>	
Less than 2 years	100%
2 years but less than 3 years	75%
3 years but less than 4 years	50%
4 years but less than 5 years	25%

An exception to these general principles is the sale of rapids or water power rights where the period of ownership, to secure exemption, must be in excess of 15 years and a scale geared to 15 years applies.

Capital losses may only be set off against capital gains arising in the same year.

Carry forward of Losses:—Business losses can be carried forward for 6 years but they cannot be carried back.

Business cycle Equalisation Reserves:—Swedish companies and economic societies, in respect of income from agricultural property or from the conduct of a business, may create investment reserves free of tax. The limit to the annual allocation in the case of a reserve for forestry is 10 per cent of the gross revenue and, in the case of a reserve for business activities, 40 per cent of the profit of the accounting year.

For the appropriation to reserve to be allowed for tax purposes, 46 per cent of it must be paid into an account in the Riksbank (i.e. in

The case of a business, 18.4 per cent of the profit). The firm itself may invest the balance as it pleases.

After 5 years, the firm may withdraw up to a maximum of 30 per cent of the provisions without conditions. Otherwise, an investment reserve may only be utilised with the permission of the Royal Labour market Board and that permission is dependent on economic conditions and on the level of unemployment. The Government may permit future investment reserves to be utilised under the above-mentioned conditions.

If the reserve is utilised without consent, the sums withdrawn are brought back into charge for tax.

In the case of a reserve for business activities, the types of investment for which consent will be given are as follows: the purchase of business premises; contributions towards expenditure on workers' housing; the repair and maintenance of buildings; the acquisition of plant and machinery or ships; the creation of stocks of raw materials, finished goods or semi-manufactures; or expenditure on searching for minerals.

Assets, the acquisition of which is financed out of the investment reserve, are deemed to be written off for tax purposes to the extent so financed.

Local Income-Tax.

Liability to Local Income-tax is, in principle, determined in the same way as for National Income-tax. In general, the same allowances are claimable as for National Income-tax. Losses on activities in one locality are allowed for Local Income-tax only in that locality. Tax rates are separately determined by each local authority. Generally speaking, the rates vary between 12 per cent and 17 per cent. Local Income-tax is deductible from taxable income for National Income-tax. The National Income-tax cannot be deducted from taxable income for the purposes of Local Income-tax.

TAXATION IN JAPAN

In Japan, the taxes on income or profits are (a) the National Tax and (b) the Local Tax. The National Tax comprises income-tax on individuals and, in the case of companies, the Corporation Tax as also the income-tax withheld at source. The Local Tax consists of the Prefectural Tax [Prefectural Inhabitants' Tax and Enterprise Tax (Prefecture)] and the Municipal tax [Municipal Inhabitants' Tax (City, Town and Village)].

Local Tax

Prefectural Inhabitants' Tax.—This is levied on individuals as well as on corporations residing in or having a place of business in the Prefecture. The tax is levied both on a per capita and income bases.

The per capita tax for individuals is 100 Yen per person, per annum and, for corporations, 600 Yen per annum. The rate of this tax in respect of income in the case of individuals ranges from 2 per cent to 4 per cent and, in the case of corporations, it is 5.8 per cent of the National Corporation Tax.

Enterprise Tax.—This is levied on corporations having an office or place of business in Japan and, on individuals engaged in specified businesses or professions. For the purposes of this tax, income is computed almost on the same basis as for the National Tax for individuals and corporations, subject to certain modifications. The Enterprise tax is closely linked to the benefits given by local Governments. In the case of corporations, the rate of the Enterprise Tax ranges from 6% to 12%, depending on the magnitude of the income. In the case of individuals, the tax rates vary according to the type of business in which they are engaged. These rates range between 3% and 5%.

National Tax

Income-tax on individuals.—Individuals resident in Japan are taxable on their world-wide income. However, "non-permanent residents" (i.e., individuals who have not had uninterrupted residence or domicile in Japan for more than five years) are chargeable to tax only on income arising to or received by them in Japan. The taxable income is computed after allowing several deductions. These are a basic exemption of 137,500 Yen; exemption for spouse. (127,500 Yen); exemption for dependents (60,000 Yen for each dependent aged more than 13 years and 57,500 Yen for each dependent aged less than 13 years); deduction for casualty losses arising due to earthquakes, storms, fires, thefts, etc. (the loss in excess of 10% of the total income); deduction for medical or dental expenses for self or spouse or relatives living with the taxpayer (expenses in excess of 5% of the total income subject to a maximum of 300,000 Yen); deduction for premiums paid on the insurance of the life of the taxpayer, his spouse or other relatives (the first 25,000 Yen of the premiums plus one-half of the next 25,000 Yen, but where the premiums exceed 50,000 Yen the deduction is limited to 37,500 Yen); deduction for fire and casualties insurance premiums (20,000 Yen where the insurance term is less than 10 years and 10,000 Yen where the insurance term is more than 10 years); and deduction for social insurance premiums paid by the taxpayer on his own behalf or his spouse or other dependents living with him.

Capital gains arising to individuals are divided into two categories viz., short-term capital gains and long-term capital gains. Short-term

capital gains are gains arising from the transfer of capital asset **within** three years from the date of its acquisition. Gains arising from assets held for a longer period are long-term capital gains. A standard deduction (ranging between 300,000 Yen and 150,000 Yen) is allowed in computing the short-term capital gains and to the extent the amount of the standard deduction is not absorbed by the short-term capital gains. It is allowed to be set off against the long-term capital gains. The standard deduction in respect of long-term capital gains is 50% of such gains.

The rates of tax on individuals are as follows:

Taxable income		Tax rates%
Yen		
Not more than	100,000	8.5
More than	100,000	10
„	300,000	15
„	600,000	20
„	1,000,000	25
„	1,500,000	30
„	2,200,000	35
„	3,000,000	40
„	4,000,000	45
„	6,000,000	50
„	10,000,000	55
„	20,000,000	60
„	30,000,000	65
„	45,000,000	70
„	60,000,000	75

[47-66 Yen Re. 1/-]

Individuals are also entitled to certain tax credits against the income-tax payable on their total income. These tax credits include a credit of 6,000 Yen each for a physically handicapped person, for an old person aged more than 65 years, for a widow aged less than 65 years and with a dependent or dependents, and for a working student where his total income does not exceed 2,50,000 Yen; a credit of 15 per cent of the dividend income received from a domestic company subject to a limit of 7.5 per cent of the dividend where the total taxable income exceeds 10,000,000 Yen; and a credit for foreign taxes subject to certain limitations.

Income by way of interest as well as salaries, donations and remuneration for personal services are subject to deduction of tax at source.

The taxable income of individuals is computed in respect of the calendar year. Resident taxpayers are required to file their returns of income between February 16 and March 15 of the next following calendar year. They are required to pay the tax by March 15, of that year. Resident taxpayers are also required to make "estimated tax payments" in the nature of advance tax payments during the period from July to October of the income year. The advance tax so payable is taken to be the tax on the total income in the preceding year as reduced by any tax deducted at source.

Corporation (Income) Tax on domestic companies.—Companies having their head office or main office in Japan are treated as domestic companies. They are chargeable to corporation tax on their world-wide income. However, dividends received by a company from domestic companies are excluded from the taxable income except where the amount of the dividends received exceeds the amount of the dividends distributed by the company in its turn. In the latter case, 25% of the excess is included in the taxable income.

Capital gains arising to companies are normally taxed in the same manner as other ordinary income.

The rates of corporation tax are as follows:

Taxable income	Tax rate %
1. Corporation with capital of not more than 100 million yen	
Distributed income	income not more than 3,000,000 Yen 22
	income more than 3,000,000 Yen 26
Undistributed income	income not more than 3,000,000 Yen 28
	income more than 3,000,000 Yen 35

Taxable income	Tax rate
2. Corporation with capital of more than 100 million yen	%
Distributed income	26
Undistributed income	35

Family corporations (i.e., companies of the type which, under our law, are treated as 'closely-held' companies) are liable to pay a special additional tax on their undistributed profits in excess of a specified amount. The specified amount is (a) 1.5 million Yen; or (b) 30 per cent of the net income before tax; or (c) 25 per cent of the paid-up capital as reduced by reserves, whichever is the highest. The rates of this special additional tax range from 10 per cent to 20 per cent of the excess undistributed profits.

The taxable income of corporations is computed in respect of the accounting period followed by them. They are required to file their return of income within two months after the end of the accounting period subject to an extension of time in special cases. Corporations are required to pay the tax on their income before the time limit for filing the return, subject to an extension of time up to three months where more than half of the tax has been paid up to the due date.

TAXATION IN REPUBLIC OF IRELAND

The Income-tax system and the principles of taxation in Ireland are basically similar to those in the United Kingdom. Income-tax is payable by individuals and companies on their income or profits. Partnerships are not taxed as such, the profits being allocated to, and tax levied on the individual partners. The standard rate of income-tax is 6s 4d in the pound, that is, 31-2/3 per cent.

Individual taxpayers receive certain allowances as a deduction from income. The most important of these allowances are as follows:

- (i) *Earned Income Allowance*: This allowance is equal to one-fourth of the earned income, subject to a maximum allowance of £500.
- (ii) *Wife's earned Income Allowance*:—This allowance is equal to three-quarters of the wife's earned income up to a maximum of £45.
- (iii) *Personal Allowances*:—A single person gets a personal allowance of £234; a married person of £394; and a widower or a widow of £259. An additional allowance of £120 is granted for each child under 16 years of age.

- (iv) *Age Allowance*:—An age allowance in lieu of earned income allowance is granted in a case where the taxpayer or his wife is over 65 years of age and the total income of the taxpayer does not exceed £600.
- (v) *Dependent Relative Allowance*:—A deduction of £60 is granted from the taxable income if the income of the dependent relative does not exceed \$110.
- (vi) *Housekeeper Allowance*:—A deduction of £100 is allowed from the total income as housekeeper allowance.
- (vii) Deductions are also made in respect of life insurance and medical insurance premiums.

Corporation Profit Tax:—A corporation tax at the rate of 10% is payable by companies on profits in excess of £2,500. This tax is payable by companies incorporated under Irish Law and carrying on a trade or business and by foreign companies in respect of profits attributable to their trading operations in Ireland.

Surtax:—This is an additional tax on the income of individuals. It is chargeable on income which, after making certain deductions, are in excess of £2,500, at the following rates:—

	Rates of Surtax in the pounds
In respect of first £2,000 of the chargeable income	2s. 6d.
In respect of the next £3,000 of the chargeable income	5s. 0d.
In respect of the balance of the chargeable income	7s. 6d.

Tax Year and Basis of Assessment:—The Tax Year commences on 6th April and ends on 5th April. In Ireland, there are the same schedules and, in general, the same basis of assessment as in the United Kingdom. Income-tax on profits is normally assessed on a preceding year basis.

Definition of Income or Profits:—There is no general definition of income. Capital profits or gains are not taxable. Profits from a trade or business are generally determined by applying the ordinary principles of commercial accounting, subject to the statutory rule that any expenditure deductible from profits for tax purposes must be "wholly and exclusively laid out for the purpose of the trade".

Tax Concession in respect of Profits from Exports:—Profits attributable to increased export trade in Irish manufactured goods are

eligible for complete relief from income-tax and corporation profit tax for 10 consecutive years. In the case of a new company manufacturing in Ireland for the first time, exports would represent a 100% increase so that the tax relief would be applied to the whole of the profits attributable to export sales. A limit has been set to the period during which the full 10 years' relief can be claimed and the assessment year 1974-75 is the last year in which the 100% relief can be granted. Following the 10 years of full relief, a period of 5 years' partial relief is provided. In the first of these 5 years, the taxes payable on profits attributable to export trade in Irish manufactured goods will be reduced by 80% and in the second, third, fourth and fifth year, by 55%, 50%, 35% and 15% respectively. This relief is granted only to companies.

A company, which has obtained this relief, passes on a similar measure of relief from income-tax to shareholders when it distributes a dividend. For example, if one-half of the company's profits is attributable to export trade in Irish manufactured goods, tax will be deducted from dividends at only one-half of the standard rate and no further tax is payable by the shareholder. A similar measure of relief from surtax is also provided.

Carry forward of Losses:—Losses may be carried forward indefinitely until absorbed by future profits. They may not be carried back except on cessation of a business, when they can be carried back for 3 years.

TAXATION IN MALAYSIA

Malaysia levies a National Tax, namely, income-tax on the income or profits of individuals and companies.

Income-tax on individuals.—A resident taxpayer, i.e., who has his home in Malaya is chargeable to tax on his Malaysian income plus any foreign income which he receives in Malaya.

The total income of husband and wife is aggregated. In computing the taxable income, a deduction is allowed by way of earned income relief at one-tenth of the earned income (subject to a maximum deduction of M\$1000) and certain personal reliefs, these being, M\$ 2000 for the taxpayer, M\$ 1000 for the wife of the taxpayer, and deduction for dependent children up to a maximum of five children, ranging between M\$ 750 for the first child and M\$. 300 for the fourth and fifth child. Other deductions allowable are in respect of (i) compulsory contributions to provident funds or pension funds and premiums on life insurance policies, subject to a maximum of M\$. 3000 and (ii) donations to approved public institutions (schools, hospitals,

funds to relieve distress etc.). On the chargeable income after allowing the above deductions, tax is charged at the following rates:

		Taxable income	Tax rates%
First	M\$	2500 of chargeable income	5
Next	"	2500 "	9
"	"	2500 "	12
"	"	2500 "	15
"	"	5000 "	20
"	"	5000 "	23
"	"	5000 "	25
"	"	10000 "	30
"	"	15000 "	40
Exceeding	M\$. 50000	"	50

(Rc. 1/-—M\$. 0.40)

Individuals are entitled to certain tax credits against the tax chargeable on their total income. These are a credit of (a) 40% of the gross amount of dividends received from a company resident in Malaya or Singapore; (b) 50% of the tax charged on the taxpayer in a foreign country with which Malaya has a double taxation avoidance agreement, subject to variations in the amount of the credit with reference to the effective rate of tax in Malaya; and (c) in the case of a person who is a beneficiary of a trust and where the trustees have paid tax at 40% on the trust income, 40% of the income received by the beneficiary from the trust.

Tax is deducted at source only from interest paid to on-resident individuals and companies, at the rate of 40%.

Tax is charged in Malaya with reference to the year of assessment which coincides with the calendar year. The return of income is required to be filed within 21 days from the date of issue of the return form by the Income-tax office, subject to extension of time-limit. The return forms are generally issued in January or February. The tax is payable within one month of the service of the notice of assessment subject to extension of the time limit in suits—

ble cases. Employees and beneficiaries are allowed to pay their tax by instalments. A P.A.Y.E. scheme involving compulsory monthly deductions is being introduced in stages.

Income-tax on domestic companies.—A company is a 'domestic company' if its control and management are situate in Malaya. Domestic companies are chargeable to tax on their Malayan income as well as their foreign income received in Malaya. Non-resident companies (those which are not domestic companies) are chargeable to tax only on their Malayan income. The rate of tax in both cases is 40 per cent of the taxable income. Closely-held companies are not subject to any additional income-tax for failure to make distributions of dividends.

Tax is payable by companies in respect of the income of the assessment year which is usually measured by the income of the previous Calendar year or the company's accounting year ending within that year. Return forms are usually issued in February and are to be filed within 21 days. The tax is required to be paid within one month of the service of the notice of assessment. The assessment is made during the assessment year but there is no fixed date for making it.

Capital gains are not chargeable to tax under the Malaysian income-tax law.

APPENDIX IV

(See para 1.81 of Report)

*Para 59 of the Audit Report (Civil) on Revenue Receipts, 1966—
Scheme of Voluntary disclosure:*

Point No. 1:

In the Ministry's note it has been stated in reply to point 7 that in 358 cases, the disclosures were made separately by members of the same families including ladies and minor children. How many cases of these have been reassessed and appropriate tax collected subsequent to accepting the declarations? Have the Department in any case initiated proceedings to assess the income in the hands of the real owners?

ACTION TAKEN BY THE GOVERNMENT

Excluding West Bengal charges, from whom information has not yet been received, so far attempts have been made to assess the incomes in the hands of real owners in 3 cases. In one case assessment has been completed raising a demand of Rs. 57,430'. A part of this tax has also been collected. In the other two cases, assessments are pending.

APPENDIX V

Summary of main Conclusions/Recommendations

Sl. No.	Para No. of Report	Ministry Department Concerned	Conclusions Recommendations
1	2	3	4
1	1.8	<u>Finance</u> Deptt. of Revenue and Insurance	The Committee are concerned to note that the number of assessments pending has increased from 7,12,407 in 1961-62 to 21,69,529 in 1965-66. The Committee also note that during the last three years the percentage of assessments completed out of the total number of assessments for disposal varied from 50.8 per cent to 54.7 per cent which means that nearly half the total number of assessments remained pending. What causes the Committee greater concern is the fact that the numbers of business cases involving an income of over Rs. 25,000, which were pending on 31st March, 1966, was 1,20,185. The Committee note that it is only lately that the Department has addressed itself to the task of taking up important assessments on a priority basis. The Committee are a little doubtful whether the targets of 31st March, 1968, for bringing up to date the assessment of 50 per cent of the important cases and of the remaining 50 per cent by 31st March, 1969, will be achieved. The Commit-

1	2	3	4
			tee cannot too strongly stress upon Government the need to pay special attention to the speedy finalisation of pending assessments and in particular business cases involving an income of over Rs. 25,000 and of ensuring that in future all such assessments are given due priority and are not allowed to remain pending at the end of the assessment year.
2	1.9	<p style="text-align: center;">Finance</p> <hr/> <p style="text-align: center;">Deptt. of Revenue and Insurance</p>	<p>The Committee would like to draw special attention to the fact that the total value of assessments completed in the last month (March) of the financial year 1965-66 represented approximately 29 per cent of the total value of assessments completed. Further, nearly 40 per cent of the value of assessments in the last month were completed in the last seven days of March each year. This is clearly indicative of the fact that the Department is not planning its work properly and that a large number of cases are rushed through in the last month and indeed in the very last week of the financial year. The Committee would like Government to take effective measures to ensure that Income-tax Officers plan their programme in such a way that assessment of cases involving large incomes is not crowded into the last month and the last week of the year.</p>
3	1.10	—do—	<p>The Committee expect that the Income Tax Officers will be suitably instructed to ensure that no assessment is left incomplete,</p>

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save under exceptional circumstances and with the prior approval of the Commissioner, beyond two years after the assessment year notwithstanding that the limitation for assessment is four years.

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The Committee have in their previous Reports expressed their great concern at the increase in the amount of arrears of income-tax from year to year. In this connection they would like to invite a reference to paras 1.257 and 1.258 of their 46th Report (Third Lok Sabha) and paras 1.274 and 1.275 of their 3rd Report (Fourth Lok Sabha). The arrears have increased from Rs. 282.37 crores in 1963-64 to Rs. 322.72 crores in 1964-65 and Rs. 381.88 crores in 1965-66. This continuous rise in arrears of income-tax shows that the measures taken by the Board of Direct Taxes in the past have not resulted in any significant improvement.

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The Committee feel that as with assessment cases, the attention of the Department has to be concentrated on cases of arrears of tax demands of Rs. 5 lakhs and above. The number of such cases is only 907 but the arrears of revenue arising from them is of the order of Rs. 135 crores. The Committee have no doubt that with the fixing of responsibilities at various levels by the Department for ensuring the collection of arrears, it would be possible to realise them in a reasonably short time. The Committee have also no doubt that the improvement in the realisation of arrears would not only augment Government's finances but would also find due reflection in the tax structure.

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1	2	3	4
6	1.26	<p style="text-align: center;">Finance</p> <hr/> <p style="text-align: center;">Deptt. of Revenue and Insurance</p>	<p>The Committee would like Government to pay particular attention to the arrears of tax from Companies so as to allay the apprehension that some of these companies may be holding back Government dues and utilising them for business purposes. The Committee feel that not only should dues be realised expeditiously but that penalties admissible under the rules should be imposed so as to act as deterrent to others.</p>
7	1.27	—do—	<p>The Committee desire that Government make a thorough probe to ascertain whether the disparity in book figures of arrears of demand and effective demand is due to a tendency on the part of assessing officers to create high and unrealistic demands which, on the one hand might lead to wasteful litigation and on the other fictitiously boost the demand figures with its other pernicious ramifications. The Committee would also like Government to examine all cases involving non-recovery of taxes of Rs. 1,00,000 and above out of the total irrecoverable amount of Rs. 37.85 crores. The Committee have no doubt that Government will take suitable action against the officers found responsible for neglect, if any, in respect of the irrecoverable demands mentioned above.</p>
8	1.33	—do—	<p>The Committee note that the number of appeals and revision petitions as on 30th June, 1967 has gone down to 1,13,578 and 5,287 from 1,56,162 and 5,599 respectively as on 30th June, 1966. They hope</p>

that efforts will continue to be made to liquidate the outstanding appeals and revision petitions and avoid such accumulation in future. They also desire that special attention should be paid to the old appeals and revision petitions relating to the period prior to 1964-65 which numbered 2,127 and 596 respectively is on 30th June, 1967.

9 1.34 —do—

The Committee hope that necessary action will be taken by the Department to check the tendency on the part of income tax officers to over-pitch assessments. They were informed by the Secretary, Revenue & Expenditure that a suggestion had been made to the Board that the efficiency of the Income Tax Officers might be judged from the number of cases in which the assessments made by them stood the scrutiny of appellate courts. The Committee feel that such a step would be helpful in checking the tendency on the part of Income Tax Officers to over pitch assessments. They would like to know the final decision taken in this regard. 88

10 1.35 —do—

The Committee also feel that an evaluation of the work done by the assessing officers should be undertaken when large reliefs are given in appeal. The Committee would like the Board of Direct Taxes to look into cases of the past four years in which aggregate relief to an assessee in one year in appeals and references is in excess of 50 per cent of the relief sought, with a view to evaluating the work of the assessing officers. The Committee should be informed of the action taken against the officers who are found to have overpitched assessments, particularly in cases where the Tribunal, High Court or

the Supreme Court might have passed structures against such assessments.

The Committee feel that, while it is the duty of the assessing officers to guard zealously the interests of the public revenues, it is equally their duty to deal justly with the tax payer in the exercise of the wide authority conferred on them by the Taxation laws.

The Committee find that the management charges for the Annuity Deposits Scheme paid to the Reserve Bank have risen from Rs. 2.36 lakhs in 1964-65 to Rs. 25.72 lakhs in 1966-67.

It is evident that if the scheme is continued the management charges will increase heavily.

The Committee have no doubt that Government will consider this recommendation made in the first Interim report in Rationalisation and simplification of Direct Taxation Laws with all the seriousness it deserve and hope that Government will find it possible to discontinue the Scheme at the end of the current financial year.

The Committee note with concern that a heavy amount of annuity deposits amounting to Rs. 32.30 crores relating to the years 1964-65 and 1965-66 was outstanding for recovery as on 31st March, 1967. There were also omissions in the collection of annuity deposits as disclosed in the Audit para. According to the admission of the

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Finance

Deptt. of Revenue and Insurance

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Finance

Deptt. of Revenue and Insurance

Secretary, Revenue and Expenditure, "it look that the annuity deposit scheme started with inadequate preparation and there was a substantial time lags in the supply of forms and other things". The Committee desire that serious thought should be given to the question of liquidating the arrears.

15 1.51 Finance The Committee also hope that, in launching on new schemes under the taxation laws in future adequate consideration is given to all aspects and implications of the proposal.

16 1.69 Finance The Committee note that the main objectives underlying the two Voluntary Disclosure Schemes were to bring out unaccounted income and encourage assesses who for some reasons had not adopted the right path, to adopt the path of rectitude. The amounts of unaccounted income declared under the first and second schemes were Rs. 52 crores and Rs. 145 crores respectively. According to the Ministry "no one has any precise estimate of how much is floating around us as black money. The amounts that are disclosed are far less compared to the amounts which may be in circulation as black money." The Committee, therefore, feel that the two Schemes have not gone far in achieving the objectives in view.

In view of the unsatisfactory results of the Voluntary Disclosure Scheme, the Committee feel that by its very nature and inherent weaknesses, no Voluntary Disclosure Scheme can ever be a real success. It is therefore essential to make a thorough probe into the grounds and factors which make evasion of taxes on a large scale so

attractive as well as possible, that Government is impelled to compromise with the tax evaders in the larger interest. While adopting adequate administrative safeguards to arrest tax evasion, it would be well worth while to adopt measures which will make evasion unrewarding and unattractive. That would be to forestall the malady rather than to allow the malignancy of evasion to grow and then seek its cure by Voluntary Disclosure Schemes.

Finance

Deptt. of Revenue and
Insurance

The Committee feel that the present system of levy of taxes is onerous and complicated and the collection of taxes has not been efficient. Otherwise there would have been no need to introduce Voluntary Disclosures Schemes. As a result of inefficient collection, the evader gets away with large amounts of money while the honest assessee has to suffer. In the opinion of the Committee a disproportionate amount of energy is spent on unimportant cases of honest and relatively small tax payers while tax evaders either go scot free or are afforded opportunities to make voluntary disclosures. The Committee note that the Department propose to take certain measures to divert time and energy at present devoted to small tax payers to dealing with tax evader. The Committee suggest that the matter should be kept under constant review and that further steps should be taken to improve and simplify the system of assessment and collection.

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The Committee desire that the Ministry should make a detailed study of all aspects of taxation in these foreign countries from up to date publications and also obtain the requisite information from these foreign Governments through our Missions abroad. The study should cover the administrative aspects of the system of assessment and collection and the measures adopted to check tax evasion and by comparison Government should examine, keeping the conditions of our country in view, to what extent it is necessary to modify and amend the present laws and levies of taxes to prevent large scale concealment of income.

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The Committee note that, according to the studies made by the Ministry, the rates of taxation on corporate as well as non-corporate income in India are generally higher than in the relevant foreign countries. The Committee do not think that, in their effort to raise adequate resources for developmental purposes, Government are justified in creating a situation where, partly as a result of excessive rates of taxation large amounts of unaccounted money are found to be floating and the entire economic atmosphere gets vitiated and in the process the growth of the rate of collection of direct taxes is adversely affected. The Committee would, therefore, strongly urge that the entire tax structure of the country should be critically examined in the light of the evils that have resulted *inter alia* from the present excessive rates of taxation and that the practice of advanced countries should be followed in order to avoid further provo-

clearly spelt out so that difficulties of the nature experienced in implementing the first Voluntary Disclosure Scheme do not recur.

24 1.95 —do—

The Committee have been repeatedly stressing the desirability of launching prosecutions in clear and glaring cases of deliberate large scale tax evasion in preference to the imposition of penalties. They were informed in 1965-66 that two experts from the United States of America were helping the Board to look into the question of introducing organisational and legal changes to make prosecution effective and that some officers had also been sent to the United States of America for training in this particular aspect. The Committee note however that although the number of cases of concealed income detected during 1965-66 increased to 24,165 from 13,666 in 1964-65, no prosecutions were launched. They, therefore, feel that little headway has been made by the Department in this regard. They suggest that the question should be further examined and necessary legal and organisational changes made to make prosecutions effective in clear and glaring cases of deliberate large scale tax evasion.

25 1.96 —do—

The Committee also desire that the recovery of the tax demanded and the penalty imposed in these cases should be expedited.

26 1.97 —do—

The Committee feel disturbed at the Income Tax Department levying penalties and feeling satisfied with this action without making out a case for successful prosecution. Proper and adequate investigation would undoubtedly enable the Department to get culpable assessesees punished in a Court of Law.

The Committee consider that a penalty should not be imposed to augment tax collection in a routine manner by taking advantage of the relaxation made in law in 1964 but only after full and careful consideration so that it is imposed on really guilty assesseees and acts as a deterrent to tax evaders. The Committee would like to be informed of the instructions issued by Government in the matter.

27 I. 102 Finance
 Deptt. of Revenue and Insurance
 The Committee are unable to understand how the Ministry could give an estimate of Rs. 100 crores involved in the cases of searches and raids in 1965-66.

28 I. 103 —do—
 The Committee note that during the period 1964-65 and 1965-66 (upto 31.8.66), 777 searches and raids were made by the Department in respect of which assessments have been completed only in 253 cases. They desire that efforts should be made to complete the assessments in the remaining cases.

29 I. 104 —do—
 The Committee are surprised that no prosecution has yet been launched in the cases of concealed income detected as a result of searches and raids during 1964-65 and 1965-66.

30 I. 106 —do—
 The Committee would like to know the outcome of this case which is before the Supreme Court. They also desire that the Ministry should examine the present procedure of searches and raids in

order to ensure that the officers do not use arbitrarily the wide authority given to them.

The Committee regret to observe that there was a delay of four years in completing the assessments of the company for the years 1945-46 to 1947-48. They desire that the reasons for the delay should be looked into.

The Committee regret that information has not been furnished in respect of the remaining 13 cases where arrears of taxes have been written off. They would like the Government to examine each of these cases critically with a view to finding out whether there was any inordinate delay in finalising the assessment or in issuing demand notices or in resorting to other measures available for the collection of tax due before the amount was written off. They would also like the Board of Direct Taxes to initiate remedial measures in the light of the study in order to avoid recurrence of such cases.

The Committee regret to find that there was inordinate delay in completion of the assessments in two cases out of five. They also find that in these cases the time-lag between the date of demand and the institution of recovery proceedings ranged up to twenty months. The Committee desire that the Ministry should ensure that such delays do not recur in completing assessment and in initiating recovery proceedings.

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32 1.111

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33 1.114

Finance
Deputy of Revenue and
 Insurance

34 1.120

In para 1.280 of their 46th Report (Third Lok Sabha), the Committee had expressed concern over the delay in the disposal of applications for refund. The Committee note that there has been some improvement in the disposal of refund cases during 1965-66. The number of applications pending for more than a year has come down from 596 as on 31.3.1965 to 332 as on 31.3.1966. The Committee desire that old cases pending for more than two years, which numbered 93 involving an amount of Rs. 7,62,145 as on 31.3.1967 should be disposed of early and efforts should continue to be made to prevent the accumulation of arrears which involve liability on Government to pay interest on refund claims. The Board should look into the reasons for delay in the disposal of old cases one of which dates as far back as 1957-58.

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According to law, interest is payable by Government if refunds are made in cases (i) where the total income of an assessee does not consist solely of income from interest on securities or dividends, beyond a period of three months from the date on which the total income is determined under the Act and (ii) in other cases within six months from the date on which the claim for refund is made. The Committee are surprised to learn that out of total refund of Rs. 285.26 lakhs in 73,444 cases during 1965-66, interest of Rs. 261.50 was paid in 21 cases only. The Committee would like to know whether in the remaining 73,432 cases refunds were made within

the prescribed time-limit. In this connection, the Committee would recommend that Government should ensure payment of interest on refunds due to assesseees in all cases where the prescribed conditions in the statute have been satisfied whether the assesseees claim the interest or not.

Sl. No.	Name of Agent	Agency No.	Sl. No.	Name of Agent	Agency No.
27.	Bahree Brothers, 188, Lajpatrai Market, Delhi-6.	27	33.	Bookwell, 4, Sant Naran-kari Colony, Kingsway Camp, Delhi-9.	96
28.	Jayana Book Depot, Chap-parwala Kuan, Karol Bagh, New Delhi.	66	MANIPUR		
29.	Oxford Book & Stationery Company, Scindia House, Connaught Place, New Delhi-1.	68	34.	Shri N. Chaoba Singh, News Agent, Ramlal Paul High School Annex, Imphal.	77
30.	People's Publishing House, Rani Jhansi Road, New Delhi.	76	AGENTS IN FOREIGN COUNTRIES		
31.	The United Book Agency, 48, Amrit Kaur Market, Pahar Ganj, New Delhi.	88	35.	The Secretary, Establish-ment Department, The High Commission of India, India House, Aklwyck, LONDON, W.C.-2.	
32.	Hind Book House, 82, Janpath, New Delhi.	95			

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