

THIRTY-THIRD REPORT
PUBLIC ACCOUNTS COMMITTEE
(1985-86)

(EIGHTH LOK SABHA)

IRREGULAR ALLOWANCE OF CONTRIBUTION
TO SCIENTIFIC RESEARCH

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

[Action Taken on 174th Report (Seventh Lok Sabha)]



Presented in Lok Sabha on _____ 3 FEB 1986

Laid in Rajya Sabha on _____

LOK SABHA SECRETARIAT
NEW DELHI

March, 1986/Phalguna, 1907 (S)

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CORRIGENDA TO 33RD REPORT OF THE
PUBLIC ACCOUNTS COMMITTEE (8TH LOK SABHA)

<u>Page</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
(iv)	8	Fiencial	Financial
1	24	interin	interim
2	21	sh ul d	should
		expendi- tiously	expedi- tiously
3	17	conside ed	considered
18	25	prosopal	proposal
21	10	Chokk	Chokka
24	8	Sundarosan	Sundaresan

CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE	... (iii)
INTRODUCTION	... (v)
CHAPTER I—Report	... 1
CHAPTER II—Recommendations/Observations that have been accepted by Government	... 4
CHAPTER III—Recommendations/Observations which the Committee do not desire to pursue in the light of the replies received from Government	... 15
CHAPTER IV—Recommendations/Observations replies to which have not been accepted by the Committee and which require reiteration	... 16
CHAPTER V—Recommendations/Observations in respect of which Government have furnished interim replies	... 17
APPENDIX —Statement of Recommendations and Observations	... 18

PART II

Minutes of sittings of the Public Accounts Committee (1985-86) held on.

8.1.1986	21
27.2.1986	23

PUBLIC ACCOUNTS COMMITTEE
(1985-86)

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Shri Erasu Ayyapu Reddy

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(iv)

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SECRETARIAT

1. Shri N. N. Mehra—*Joint Secretary*
2. Shri K. H. Chhaya—*Chief Financial Committee Officer*
3. Shri O. P. Babal—*Senior Financial Committee Officer*

INTRODUCTION

1. The Chairman of the Public Accounts Committee as authorised by the Committee, do present on their behalf this Thirty-Third Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 174th Report (Seventh Lok Sabha) relating to Irregular Allowance of Contribution to Scientific Research.

2. In the present Report, the Committee have highlighted the unduly long time of more than two years taken by the Ministry of Finance (Department of Revenue) to estimate the revenue implications of the tax concession under Section 35 of the Income Tax Act at Rs. 19.19 crores per annum. The Committee have found that the Departmental Study Team entrusted with the study of incentives provided for scientific research have suggested *inter alia* that if it was considered that the purpose for which the incentives have been given, had been served long enough they could be abolished altogether. The Committee have, therefore, desired that the Ministry of Finance (Department of Revenue) should finalise their action on the Departmental Committee's recommendations expeditiously.

3. The Committee have expressed their displeasure at the inordinate delay of 26 months on the part of the Ministry of Finance (Deptt. of Revenue) in furnishing action taken notes on one of their recommendations (S. No. 11, Para 1.53). The Committee have observed that this Committee has been constituted to give effect to Parliamentary control over collection of revenue and expenditure by the executive. It can do so effectively only if the Ministry/Department concerned acts with a sense of responsibility in respect of the recommendations/observations of the Committee. The Committee trust that there will never be a repetition of such a nature and indifferent attitude to the recommendations of the Public Accounts Committee.

4. The committee considered this Report at their sittings held on 8 January and 27 February, 1986. The committee adopted this Report at their sitting held on 27 February, 1986. Minutes of the sittings form Part II of the Report.

5. For facility of reference and convenience, the recommendations and observations of the Committee have been printed in thick type in the body

(vi)

of the Report and have also been reproduced in a consolidated form in the Appendix to the Report.

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

ERASU AYYAPU REDDY

NEW DELHI :

5 March, 1986

14 Phalgun, 1907 (S)

*Chairman,
Public Accounts Committee.*

CHAPTER I

REPORT

1.1 This Report of the Committee deals with the action taken by Government on the Committee's recommendations/observations contained in their 174th Report (Seventh Lok Sabha) on Paragraph 2.21 of the Report of the Comptroller and Auditor General of India for the year 1980-81, Union Government (Civil), Revenue Receipts, Volume-II, Direct Taxes relating to 'irregular allowance of contribution to scientific research'.

1.2 The Committee's 174th Report (Seventh Lok Sabha) was presented to Lok Sabha on 22 December, 1983. It contains 12 recommendations/observations. Action Taken Notes on all recommendations/observations have been received from the Government and these have been broadly categorised as follows :

- (i) Recommendations/Observations that have been accepted by Government.

S. Nos. 1 to 12.

- (ii) Recommendations/Observations which the Committee do not desire to pursue in the light of the replies received from Government.

— Nil —

- (iii) Recommendations/Observations replies to which have not been accepted by the Committee and which require reiteration.

— Nil —

- (iv) Recommendations/Observations in respect of which Government have furnished interim replies.

— Nil —

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

Annual amount of revenue foregone on account of concessions under Section 35 (i), (ii) and (iii) and 35 (2A) of Income Tax Act.

(Serial No. 11, Para 1.53)

1.4 The Committee find that according to the time schedule fixed for furnishing action taken notes on the Committee's recommendations/observations, the notes indicating action taken by Government on the recommendations/observations contained in the Report, duly vetted by Audit, were required to be furnished to the Committee latest by 21 June, 1984, *i.e.* not later than six months from the date of presentation of the Report to the House on 22 December, 1983. Action taken notes on 11 out of 12 recommendations/observations of the Committee were received from the Ministry in batches by 3 November, 1985, *i.e.*, after a period of about 23 months, Reply to the remaining important recommendation at Sl. No. 11 (Para 1.53) was received as late as on 11.2.1986, after 26 months.

In respect of this last paragraph (S. No. 11 – Para 1.53), the Committee had observed that a proposal was under examination for entrusting a study to the National Institute of Public Finance and Policy, to see how far the objects underlying the tax exemption under Section 35 of the Income-Tax Act had been achieved. The Committee, therefore, recommended that a decision should be taken expeditiously and the Institute be asked to make an assessment of the annual amount of revenue foregone on account of various tax concessions given under Section 35 of the Act.

1.5 When the Committee considered this draft Report on 8 January, 1986, they expressed concern at the inordinate delay on the part of the Ministry in furnishing the action taken notes on this particular recommendation (S. No. 11, Para 1.53) and decided to take oral evidence of the representatives of the Ministry of Finance (Department of Revenue) on 30 January, 1986. The examination had to be postponed at the request of the Ministry till the first week of March, 1986. In the meantime, that is on 11th February 1986 the Ministry furnished their reply on this outstanding recommendation.

1.6 It will be seen that the Ministry furnished their observations on this recommendation even after 26 months only when the Committee decided to take their evidence in respect of the recommendation. The Committee record their displeasure at this inordinate delay. They trust that there will never be a repetition of such a nature and indifferent attitude to the recommendations of the Public Accounts Committee. This Committee has been constituted to give effect to Parliamentary control over the collection of revenue

and expenditure by the executive. It can do so effectively only if the Ministry/Department concerned acts with a sense of responsibility in respect of the recommendations/observations of the Committee. The Monitoring Cell of the Ministry of Finance, which acts as the coordinating agency, and the Financial Advisers attached to the Ministries concerned are also required to keep constant watch to ensure the timely furnishing of all the action taken notes. The Committee trust that the Ministry will act in a responsible manner hereafter.

1.7 The Committee are unhappy to observe that the Ministry of Finance (Department of Revenue) have taken more than two years to estimate the revenue implications of the tax concession under Section 35 of the Act at Rs. 19.19 crores per annum. It is noted that the Departmental Study Team entrusted with the study of incentives provided for scientific research have concluded that there was a good case for curbing the wayward tendency in business and industry for misuse of these provisions. The Departmental Committee have also suggested that if it was considered that the purpose for which the incentives have been given had been served long enough they could be abolished altogether. The Committee desire that the Ministry should expeditiously finalise action on the Departmental Committee's recommendation.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendations

1.43 Under the provisions of the Income Tax Act, 1961, in computing the business income of an assessee, any sum paid by him to a scientific research institution or to any other institution for scientific research is an admissible deduction provided that such association or institution is approved by the prescribed authority for the purpose. The Act was amended in 1974 to provide that if the contribution was to be used for specific research under-taken by an institution under a programme approved by the prescribed authority having regard to the social, economic and industrial needs of India, a deduction of a sum equal to one and one-third times of the contribution so paid, hereafter called 'weighted deduction', shall be allowed.

1.44 In the previous year relevant to the assessment year 1976-77, an industrial company, M/s. Carborandum Universal Limited, contributed a sum of Rs. 850,000 to two scientific research centres and Rs. 7,50,000 to A.M.M. Murugappa Chettiar Research Centre, Madras and Rs. 1,00,000 to Nehru Centre, Bombay—both of which were approved under section 35 (i), (ii) of the Income Tax Act by the Council of Scientific and Industrial Research, the prescribed authority. In the assessment completed in April, 1979, the Department allowed the assessee's claim for extra deduction of 33½ per cent of the contribution even though there was no approval for any sponsored research programme to be undertaken by the two institutions which was a pre-requisite for the grant of the 'weighted deduction'. The extra deduction of Rs. 2,83,333 being 33½ percent of the contribution, which was not admissible under the Act, resulted in short levy of Income tax and Surtax.

1.45 The Committee note that on the mistake being pointed out by Audit, an additional demand of Rs. 1,74,520 was raised by the Department which has since been collected. As regards Sur-tax, an additional demand of Rs. 31,920 was raised by the Department. Although this demand had not been collected, the assessee's counsel had agreed to withdraw his objection and make payment.

1.46 Although the Department has since collected the short-levy on account of Income-tax and is expected also to collect the short-levy on account of Sur-tax, the Committee cannot help observing that the Special Audit Party of the Income Tax Department which had also checked the assessment in the present case had failed to detect the mistake. The I.T.O. who had passed the original assessment order having since retired, the Department could not give a satisfactory explanation as to how the I.T.O. had allowed the weighted deduction in this case. Likewise the I.T.O. Special Audit Party who had checked the assessment having also retired, the Department could not also explain satisfactory as to why the Special Audit Party had not been able to detect the mistake. In any case, it is apparent to the Committee from the facts of the case that both the Income Tax Officer who had made the original assessment as also the Special Audit Party which had checked the assessment had failed to do their jobs properly.

1.47 The Committee observe that one of the institutions referred in the Audit Paragraph—A.M.M. Murugappa Chettiar Research Centre, Madras—to whom the assessee company (M/s. Carborandum Universal Limited) had contributed Rs. 7.50,000 was floated by the Murugappa Chettiar group who have a substantial interest in M/s. Carborandum Universal Limited. The second institution—Nehru Centre, Bombay—to whom the assessee company had contributed Rs. one lakh, had, from the date of its approval in April 1974 to 1978, not done any research work. This leads the Committee to the general question as to how far the huge exemptions given under the Income Tax Law for scientific research are being utilised for the intended purpose.

1.48 The Committee note that there are 1018 institutions (including renewals) approved for scientific research under Section 35 (i) (ii) and (iii) of the Income Tax Act, in addition to 126 specific approved programmes of scientific research under Section 35 (2A). Besides, there are over 800 inservice research institutions. As till recently, the prevailing system was to give long term/perpetual approvals and there were no periodical/annual reviews of the work done by approved institutions it is difficult for the Committee to say how far the exempted funds have been utilised for the intended purpose or diverted to other purposes. However, a statement of 40 institutions, whose approvals have been withdrawn in recent years, makes shocking revelations. From the statement, the Committee observe that some of the approved institutions which had enjoyed exemption under Section 35 for as many as 25 years or even more had not done any research work whatever. Some of the institutions, when asked to submit the annual return indicating the scientific research activities being conducted by them, had not given any reply. In case

of one institution—Research Institute of Ancient Scientific Studies, New Delhi (approved in February 1965 and derecognised in August 1960), the letter asking the Institute to submit the annual return indicating the scientific research activities conducted by it was returned by the postal authorities as no such Institute seemed to be existing.

1.49 A tax exemption involves loss of public revenue. This tax expenditure is justified only if the purpose behind it is really achieved. A heavy responsibility is therefore cast on the authorities granting exemption to evolve proper checks and procedures to ensue this. This Committee observe with distress that in the case of exemptions for scientific research, the authorities concerned had, after giving longterm/perpetual approvals, done precious little in this regard in the past. In para 1.32 of their 187th Report (Fifth Lok Sabha) presented to the House on 29 January 1976, the Public Accounts Committee were surprised to find that the Central Board of Direct Taxes had not even considered necessary to issue guidelines to assessing officers on what constitutes "expenditure on scientific research". In para 1.16 of their 31st Report (Sixth Lok Sabha), the Committee reiterated their impression that the checks and controls exercised till then had been perfunctory. In para 1.4.24 of their Final Report (September, 1978), the Direct Tax Laws Committee observed that "hardly any attempts were made in the past to ensure that the huge sums paid to research institutions by big business houses were spent usefully and effectively or to ascertain the nature of the research activities carried on with the aid of such funds and the results achieved". The Committee observe that it is only very recently that a system of time-bound approvals and annual reviews has been evolved.

[S. No. 1 to 7 (Paras 1.43 to 1.49) of Appendix III to 174th Report of the P.A.C. (7th Lok Sabha)].

Action Taken

Paras 1.43 to 1.49 broadly deal with the background of the Carborandum Universal case and also on the working of section 35 (i), (ii) and Sec. 35 (2A) of the I.T. Act and about the desirability of having better checks and control. These comments have been noted by the Ministry.

(Approved by the Additional Secretary to the Government of India)

[Ministry of Finance (Deptt. of Revenue) F. No. 241/1/84-A&PAC-II
dated 30.7.1984]

Recommendations

The Committee note that there are 51 scientific research institutions connected with large industrial houses. In addition, there are about 110-120 in-house research institutions connected with large industrial houses. In para 1.33 of their 187th Report presented to the House on 29.1.76, the Committee had expressed an apprehension that the provisions of the law were rather ambiguous and there was a tendency on the part of some big industrial houses to sponsor so-called scientific research associations with a view to claiming deductions from taxable income. The Committee had desired that loopholes in the Act should be plugged. In Para 16 of their 51st Report (Sixth Lok Sabha), the Committee reiterated their earlier recommendation. The Committee are glad to note that Government have recently taken an important step to de-link the financial interests of scientific research institutions from those of industrial houses and thereby to prevent diversion of funds to unintended purposes. By the Finance Act, 1983, Section 10 (21) of the Income Tax Act, which lays down that the income of an approved scientific research association is exempted from tax to the extent it is applied solely for the purposes of the association, has been amended to regulate the investments. The Committee hope that the amendment will go a long way to prevent mis-application of the resources of approved associations. They further trust that Government would make an in-depth study of the problem and take such further measures, legal or procedural as might be necessary to effectively prevent mis-application of resources of scientific research institutions for non-research purposes.

[S. No. 8 (Para 1.50) of Appendix III to 174th Report of PAC (7th Lok Sabha)]

Action Taken

A Research Review Group is functioning in the Office of the prescribed authority, namely the Secretary, Department of Science & Technology, New Delhi, for purposes of section 35 of the Income-tax Act, 1961. It reviews the activities of approved scientific research institutions on the basis of annual returns submitted by these institutions in the prescribed form.

The Central Board of Direct Taxes have also appointed a Committee, to study the various aspects relating to Section 35 (1) (ii), 35 (1) (iii) and also Section 35 (2A) of the I. T. Act, 1961.

3. It is proposed in the Finance Bill, 1984, to discontinue the Tax concessions available under section 35 (2A) and 35 (2B) of the I. T. Act, 1961.

(Approved by the Additional Secretary to the Govt. of India)

[Ministry of Finance (Deptt. of Revenue) F. No. 241/1/84-A&PAC II
F. No. 228/3/83-ITA II Dated 22.6.1984]

Further Action Taken by Government

Reference is invited to Lok Sabha Secretariat's Office Memorandum No. 20/24/5/82-PAC dated 20th November, 1985 on the above subject.

2. Regarding the recommendation at Serial No. 8 (Para 1.50 of the 174th Report), the Report of the Committee appointed by the Department has not been received as the Chairman of the said Committee has gone on voluntary retirement and it is being reconstituted.

3. As regards the concessions under section 35 (2A) and 35 (2B) of the Income-tax Act these concessions have since been discontinued *vide* Finance Act, 1984.

[Ministry of Finance, Department of Revenue, Central Board of Direct Taxes O.M. No. 241/1/84-A&PAC-II dated 10 December, 1985]

Recommendations

The Committee feel that the problem cannot be wholly solved so long as the institutions getting approval under Section 35 know that they can get away with the past exempted funds not applied to the purpose allowed for. The Committee enquired whether the Central Board of Direct Taxes had issued any instructions that in cases where the approved institutions were subsequently de-recognised, the earlier assessments of such institutions should be re-opened. The Chairman, Central Board of Direct Taxes, stated that they had not issued such instructions but they took it that when an approval was withdrawn, all consequential action would be taken by the field officers. The Committee are surprised at this complacent approach of the Central Board of Direct Taxes. They desire that clear instructions should be issued by the Board that in case an institution approved under Section 35 is subsequently de-recognised for not having done any scientific research work, the assessing officers should re-open all the past assessments of the institution under the law, and recover the tax due.

[S. No. 9 (Para 1.51) of Appendix III to 174th Report of P.A.C. (7th Lok Sabha)]

Action Taken

The observations of the Public Accounts Committee have been noted. The Board, *vide* instruction No. 1565 dated 19th June, 1984, have impressed upon the Officers that appropriate remedial action may be taken against those institutions/associations where approvals under section 35 (1) (ii) of the Income-tax Act, 1961, have been subsequently withdrawn. A copy of the instruction is *enclosed* herewith.

(Approved by the Addl. Secretary to the Govt. of India)

[Ministry of Finance (Deptt. of Revenue) F. N. 241/1/84/-A&PAC II
F. No. 228/4/84-ITA-II dated 3.8.1984]

ENCLOSURE

Instruction No. 1565

F. No. 228/4/84-ITA. II

Government of India Ministry of Finance
Department of Revenue Central
Board of Direct Taxes

New Delhi, the 19th June, 1984.

To

All Commissioners of Income-Tax,

Sir,

Sub :—Reopening of the income-tax assessments consequent upon the withdrawal of the recognition under section 35 of the Income-tax Act, 1961—174th Report of the P.A.C. (1983-84)- (7th Lok Sabha)-Irregular allowance of contribution to scientific research.

Attention is invited to the provisions of section 35 of the Income-tax Act, 1961, under which deduction is allowed in computing the business income of an assessee of any sum paid to a scientific research association or to any other institution for scientific research provided such association or institution is approved by the prescribed authority for this purpose.

2. While examining the matter, the Public Accounts Committee has commented that in cases where approvals under sec. 35 (1) (ii) have been sub-

sequently withdrawn, consequential actions against such institutions have not been taken by the department though, on withdrawal of the approval, the benefit given under sec. 10 (21) of the Income-tax Act will be denied, and the income of the institution will become taxable.

3. It is therefore, impressed that appropriate remedial action may be taken against those institutions/associations where subsequently approvals u/s 35 (1) (ii) of the Income-tax Act, 1961, have been withdrawn.

4. These instructions may please be brought to the notice of all the officers working under you. Hindi version will follow shortly.

Your faithfully,

Sd/-xx

(P. Saxena)

Secretary, Central Board of Direct Taxes

Recommendation

In para 1.4.24 of their Final Report (September, 1978) the Direct Tax Laws Committee (Choksi Committee) expressed the view that while the Income Tax Department may be in a position to enquire into some of the peripheral aspects of activities of Scientific research associations such as maintenance of proper accounts of the sums collected and the utilisation of such sums, the Income Tax officer is hardly in a position to make an informed technical enquiry into the content and quality of the institution's research activities. This function belongs legitimately to the prescribed authority which grants the approval to the institution in the first instance and it should be in a position to make technical appraisal of the association's activities from the qualitative angle. The Committee appreciate the above view and desire that continued exemption should be subject to periodic appraisal of the activities of the associations by the prescribed authority to ensure the quality. The Committee would await the procedure evolved in this regard.

[Sl. No. 10 (Para 1.52) of Appendix III to 174th Report of P.A.C.
(7th Lok Sabha)]

Action Taken

The observation of the Committee was referred to the Department of Science and Technology for comments as the prescribed authority for approving scientific research associations, institutions, etc. and programme of

scientific research for purposes of section 35 of the Income-tax Act is the Secretary, Department of Science and Technology. Their comments on this para are as under :

It may be stated that at the time of sending recommendations related to the approval of scientific associations to CBDT, the prescribed authority normally imposes certain standard conditions. One of the conditions is that the scientific association has to submit the annual return to the prescribed authority for every financial year in the form as laid down and intimated to them. In this return they are required to submit information related to their infrastructural facilities in terms of land, building and equipments, particular of scientific staff employed, donations received, expenditure incurred, research achievements, research programmes in hand etc.

The prescribed authority has constituted a research review group in the Department of Science and Technology for evaluating these returns in terms of the scientific achievements made by the institutions, donations received and invested etc. The recommendations of the research review group are submitted to the prescribed authority for approval. The institutions/Associations should maintain steady programmes and utilise the amounts received for scientific research. Failure to under-take scientific research may lead to the withdrawal of the approval granted.

Thus it may be seen that a system has been laid down by the prescribed authority for periodic appraisal of the activities of such associations to ensure that the concessions granted are used for the purposes for which it was intended."

It is therefore, clear that even under the present procedure the continued exemption is subject to periodic appraisal as desired by the Public Accounts Committee.

(Approved by the Additional Secretary to the Govt. of India)

[Ministry of Finance (Deptt of Revenue) F. No. 241/1/84-A&P AC-II,
F. No. 154/14/84-1PL (Pt. II) dated 2.9.85]

Recommendations

1.53 The Committee note that the object underlying the tax exemptions under Section 35 was to encourage scientific research with the aim of developing indigenous technology and self-reliance in industry. Although the income-tax exemptions for scientific research have been existing from

pre-Independence days, the Ministry of Finance have not yet cared to conduct a study to see how far the object underlying the tax exemption has been achieved. The Committee understand that Government are now examining the question of entrusting a study to the National Institute of Public Finance and Policy regarding the impact of various tax concessions for scientific research under the Income-tax Act. The Committee desire that this should be done without any further delay. They also desire that the National Institute of Public Finance and Policy may also be asked to make an assessment of the annual amount of revenue foregone on account of various tax concessions given under Section 35 of the Act.

[SI No 11 (Para 1.53) of the Appendix III to 174th report of the P.A.C.
(7th Lok Sabha)]

Action Taken

The Board had proposed to entrust the study of the revenue implications of tax-concessions provided under Section 35 of the I.T. Act, 1961, alongwith certain other provisions of tax-concessions to the National Institute of Public Finance and Policy. During discussion with the concerned officials of the Institute, it transpired that the work was quite voluminous and, therefore, the study in respect of Section 35 of the Act may be undertaken separately and for which a separate Committee consisting of departmental officials may be constituted. The National Institute of Public Finance and Policy was therefore, entrusted the study of Section 32A, 35CC, 80HH and 80I and the study of Section 35 was entrusted to a separate departmental Committee consisting of two officers of the Directorate of Research, Statistics and Public Relations, one officer of the Department of Scientific and Industrial Research and an Income-tax Officer was co-opted. The Committee were also asked to make an assessment of the annual amount of revenue foregone on account of concessions given under section 35 (i) (ii) and (iii) and Section 35 (2A) of the Act.

2. The Committee have submitted their report on 20.1.198. The Committee have gone into the aspect of revenue implication and have estimated the annual amount of revenue foregone on account of concessions under section 35 (i), (ii) and (iii) and 35 (2A) of the Act at Rs. 19,19,00,000 (Rupees nineteen crores, nineteen lakhs only) approximately. The Commit-

tee's report is under consideration and appropriate measures will be taken in this regard at the earliest.

This issues with the approval of the F.M.

[Ministry of Finance (Deptt. of Revenue) F. No. 241/1/84-A&PAC-II
F. No. 228/3/86-IT-AII. dated 11.2.1986]

Recommendations

The Committee note that the provisions on the subject are spread over in a number of sections, sub-sections, clauses and Explanations of the Income Tax Act. These are quite cumbersome and complex and frequent amendments have made them even more so. Section 35 alone has undergone as many as 11 amendments in the last few years. The Committee desire that in the interest of promotion of research and development activities in the country and also in the interest of revenue, early steps should be taken to rationalise and simplify these provisions. The Committee wish to emphasise that bona fide research institutions should be encouraged and that the legal and procedural devices employed in connection with the grant of exemption from tax of the funds collected and utilised by such institutions should be such as would help rather than hinder the pursuit of their objectives.

[Sl. No. 12 (Para 1.54) of Appendix III to 174th Report of the P.A.C.
(7th Lok Sabha)]

Action Taken

The observations have been noted.

It is, however, relevant to mention that the prescribed authority for approving scientific research associations, institutions, etc. and programmes of scientific research for purposes of section 35 of the Income-tax Act is the Secretary, Department of Science and Technology. The prescribed authority lays down certain standard conditions while according approval. One of the conditions is that the association/institution etc., should furnish an annual return showing, *inter alia*, the infrastructural facilities available such as, land, building, and equipments, particulars of scientific staff employed, research programmes in hand, donations received, expenditure incurred, research achievements, etc. The Research Review Group in the Department of Science and Technology evaluates the achievements of the association/insti-

tution, etc., to ensure that the concessions granted under section 35 of the Income tax Act are used for the purpose for which they are granted. The approved institutions are expected to maintain steady programmes and utilise the amounts received for scientific research. Failure to undertake research could lead to the withdrawal of the approval.

(Approved by the Additional Secretary to the Government of India)

[Ministry of Finance (Deptt. of Revenue) F. No. 241/1/84-A & PAC-II
F. No. 154(14) 84-TPL dated 16.1.85]

Further Action Taken

Kind attention of the Honble Committee is invited to reply in respect of above recommendation furnished vide this Ministry's O.M.F. No. 241/1/84-A & PAC-II, dated 16.1.85. On our reply, C & AG made the following comments.

"We have no comments to offer on the proposed reply of the Ministry in respect of Sl. No. 12 para No. 1.54 of 17th Report of the PAC (1983-84).

The Ministry is, however, requested to intimate categorically whether they are accepting the PAC's recommendations for rationalising the tax provisions and whether they would be proposing necessary amendments or they do not accept the recommendations."

Further reply of the Ministry of the above observations of the C & AG as under :—

- (a) The recommendations of the PAC to rationalise the provisions have been accepted in principle.
- (b) A committee of Commissioners of Income-tax has been constituted to consider simplification and rationalisation of all the provisions of direct taxes laws. The committee will be requested to suggest formulations keeping in view, *inter alia* these recommendations of the PAC.

(Approved by the Additional Secretary to the Government of India)

[Ministry of Finance (Deptt. of Revenue) F. No. 241/1/84-A & PAC-II
D.O.F. No. 154/14/84-IPL (pt.) dated 3.11.1985]

CHAPTER III

**RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE
DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES
RECEIVED FROM GOVERNMENT**

-NIL-

CHAPTER IV

**RECOMMENDATIONS/OBSERVATIONS REPLIES TO WHICH HAVE
NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH
REQUIRE REITERATION**

-NIL-

CHAPTER V

**RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH
GOVERNMENT HAVE FURNISHED INTERIM REPLIES**

—NIL—

NEW DELHI ;

5 March, 1986

14 Phalguna, 1917 (Saka)

ERASU AYYAPU REDDY,

Chairman,

Public Accounts Committee.

APPENDIX

PART II Statement of Recommendations/Observations

S. No.	Para No.(s)	Ministry/Deptt. concerned	Recommendations/Observations
1	2	3	4
1	1.4 to 1.6	Ministry of Finance (Dep. of Revenue) Ministry of Finance (Dep. of Expenditure) (Monitoring Cell)	<p>The Committee find that according to the time schedule fixed for furnishing action taken notes on the Committee's recommendations/ observations, the notes indicating action taken by Government on the recommendations/ observations contained in the Report, duly vetted by Audit, were required to be finished to the Committee latest by 21 June, 1984 <i>i.e.</i> not later than six months from the date of presentation of the Report to the House on 22 December, 1983. Action Taken notes on 11 out of 12 recommendations/observations of the Committee were received from the Ministry in batches by 3 November 1985 <i>i.e.</i> after a period of about 23 months. Reply to the remaining important recommendation at Sl. No. 11 (Para 1.53) was received as late as on 11.2.1986, after 26 months.</p> <p>In respect of this last paragraph (S. No. 11, Para 1.53), the Committee had observed that a proposal was under examination for entrusting a study to the National Institute of Public Finance and Policy, to see how far the objects underlying the tax exemption under Section 35 of the Income Tax Act had been achieved. The Committee, therefore, recom-</p>

mended that a decision should be taken expeditiously and the Institute be asked to make an assessment of the annual amount of revenue foregone on account of various tax concessions given under Section 35 of the Act.

When the Committee considered this draft Report on 8 January, 1986, they expressed concern at the inordinate delay on the part of the Ministry in furnishing the action taken notes on this particular recommendation (S No 11, Para 1.54) and decided to take oral evidence of the representatives of the Ministry of Finance (Department of Revenue) on 30 January, 1986. The examination had to be postponed at the request of the Ministry till the first week of March, 1986. In the meantime, that is on 11th February 1986 the Ministry furnished their reply on this outstanding recommendation.

It will be seen that the Ministry furnished their observations on this recommendation even after 26 months only when the Committee decided to take their evidence in respect of the recommendation. The Committee record their displeasure at this inordinate delay. They trust that there will never be a repetition of such a nature and indifferent attitude to the recommendations of the Public Accounts Committee. This Committee has been constituted to give effect to Parliamentary control over the collection of revenue and expenditure by the executive. It can do so effectively only if the Ministry Department concerned acts with a sense of responsibility in respect of the recommendations, observations of the Committee. The Monitoring Cell of the Ministry of Finance

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which acts as the coordinating agency, and the Financial Advisers attached to the Ministries concerned are also required to keep constant watch to ensure the timely furnishing of all the action taken notes. The Committee trust that the Ministry will act in a responsible manner hereafter.

2 1.7 Ministry of
Finance (Deptt.
of Revenue)

The Committee are unhappy to observe that the Ministry of Finance (Department of Revenue) have taken more than two years to estimate the revenue implications of the tax concession under Section 35 of the Act at Rs. 19.19 crores per annum. It is noted that the Departmental Study Team entrusted with the study of incentives provided for scientific research have concluded that there was a good case for curbing the wayward tendency in business and industry for misuse of these provisions. The Departmental Committee have also suggested that if it was considered that the purpose for which the incentives have been given had been served long enough they could be abolished altogether. The Committee desire that the Ministry should expeditiously finalise action on the Departmental Committee's recommendation.

PART II

MINUTES OF 37TH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON 8 JANUARY, 1986

The Committee sat from 11.00 hrs. to 13.30 hrs. in Committee Room No. 53, Parliament House, New Delhi.

PRESENT

Shri E. Ayyapu Reddy—*Chairman*

MEMBERS

Lok Sabha

1. Shri J. Chokk. Rao
2. Shri Amal Datta
3. Shri Ranjit Singh Gaekwad
4. Shrimati Prabhawati Gupta
5. Shri Rajmangal Pande
6. Shri H.M. Patel
7. Shri Simon Tigga
8. Shri Girdhari Lal Vyas

Rajya Sabha

9. Shri Nirmal Chatterjee
10. Shri Ghulam Rasool Kar
11. Shri Ramanand Yadav

SECRETARIAT

1. Shri K.H. Chhaya—*Chief Financial Committee Officer*
2. Shri Brahmanand—*Senior Financial Committee Officer*

REPRESENTATIVES OF THE OFFICE OF C AND AG OF INDIA

1. Shri T.M. George—*Additional Deputy Comptroller and Auditor General of India.*
2. Shri C.P. Mitta—*D.A. CW&M, New Delhi.*
3. Shri D.K. Chakravarty—*DACR, New Delhi.*
4. Shri V. Sundaresan—*DRA-I*

2. The Committee considered Draft Action Taken Report on 174th Report of PAC (7LS) regarding Irregular allowance of contribution to scientific research, and decided to take oral evidence of the representatives of the Ministry of Finance, Department of Revenue to seek elucidation on certain points arising out of the action taken replies, on 30 January, 1986.

The Committee then adjourned.

***Other business transacted by the Committee Minutes relating thereto will form part of the relevant Report.

MINUTES OF THE 47TH SITTING OF THE COMMITTEE
ON PUBLIC ACCOUNTS HELD ON 27 FEBRUARY,
1986 (AN)

The Committee sat from 1533 hours to 1645 hours.

PRESENT

Shri E. Ayyapu Reddy *Chairman*

MEMBERS

Lok Sabha

2. Shri J. Chokka Rao
3. Shri Amal Datta
4. Shri Ranjit Singh Gaekwad
3. Shri Vilas Muttemwar
6. Shri G. Devaraya Naik
7. Shri Rajmangal Pande
8. Shri H. M. Patel
9. Shrimati Jayanti Patnaik
10. Shri Simon Tigga
11. Shri Girdhari Lal Vyas

Rajya Sabha

12. Shri K.L.N. Prasad

SECRETARIAT

1. Shri K. H. Chhaya — *Chief Financial Committee Officer*
2. Shri Krishnapal Singh — *Senior Financial Committee Officer*
3. Shri Brahmanand — *Senior Financial Committee Officer*
4. Shri O. P. Babal *Senior Financial Committee Officer*

REPRESENTATIVES OF THE OFFICE OF C&AG

- | | | |
|---------------------------|---|---|
| 1. Shri T. M. George | — | <i>Addl. Dy. C&AG of India</i> |
| 2. Shri D. K. Chakrabarty | — | <i>Director of Audit (Central Revenue)</i> |
| 3. Shri M. Parthasarathy | — | <i>Director of Audit (Defence Services)</i> |
| 4. Shri V. Sundarosan | — | <i>Director of Receipt Audit-I</i> |
| 5. Shri Gopal Singh | — | <i>Joint Director of Audit</i> |
| 6. Shri B. S. Gill | — | <i>Joint Director of Audit (Defence Services)</i> |
| 7. Shri P. N. Misra | — | <i>Joint Director (Railways)</i> |

2. The Committee considered the following draft Action Taken Reports and adopted them with certain modifications as shown in Annexure ...VI respectively.

Draft Action Taken Report on 174th Report of PAC (7 LS) regarding
Irregular Allowance of Contribution to Scientific Research

The Committee authorised the Chairman to finalise the draft Reports in the light of the above modifications and other verbal and consequential changes arising out of factual verification by Audit and present them to the Parliament.

The Committee then adjourned.

*** Other business transacted by Committee. Minutes relating thereto will form part of the relevant Report.

