

**TWO HUNDRED AND TWENTY-
FOURTH REPORT**

**PUBLIC ACCOUNTS COMMITTEE
(1984-85)**

(SEVENTH LOK SABHA)

**VARIATIONS BETWEEN THE BUDGET
ESTIMATES AND THE ACTUALS**

MINISTRY OF FINANCE

(DEPARTMENT OF REVENUE)

[Action Taken on 143rd Report (Seventh Lok Sabha)]



*Presented in Lok Sabha on 23 August, 1984
Laid in Rajya Sabha on 23 August, 1984*

**LOK SABHA SECRETARIAT
NEW DELHI**

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Corrigenda to 224th Report (7th Lok Sabha) of
Public Accounts Committee.

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(1984-85)

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INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this 224th Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 143rd Report (Seventh Lok Sabha) on paragraph 1.02 (i) of the Report on the Comptroller and Auditor General of India for the year 1980-81—Union Government (Civil), Revenue Receipts—Volume II—Direct Taxes regarding 'Variations between the Budget Estimates and Actuals'

2. In their 143rd Report (Seventh Lok Sabha), the public Accounts Committee (1982-83) had desired that Government should examine the feasibility of incorporating a provision in the Companies Act providing that the annual accounts of private sector companies should be audited and certified for correctness by Chartered Accountants from an empanelled list compiled by the Department of Company Affairs in consultation with C&AG of India, and a beginning in this direction could be made with bigger industrial Houses/MRTP companies. The Committee had made this recommendation considering the increased tendency on the part of bigger industrial houses to evade/avoid their tax liability through various methods and also taking into account the fact that quite a large share of the capital in these companies is held by public/public financial institutions. While reiterating their earlier recommendation, the Committee have expressed the view that the acceptance of this recommendation should present no difficulty as a provision already exists in Section 619B of the Companies Act whereunder accounts of certain companies specified therein are required to be audited by Auditors appointed by the Central Government in consultation with the Comptroller and Auditor General of India.

3. In the earlier report,¹ the Committee had also desired that the Ministry of Finance should indicate in their Annual Reports the revenue sacrifice involved in the various concessions under each head from year to year for the information of Parliament and the public. The Committee are not satisfied with the reply of the Ministry that whenever a concession is announced in the Budget Speech, the Finance Minister indicates the revenue sacrifice involved in the concession. While emphasising that Parliament which gives the tax concessions has the right to know as to how much revenue sacrifice is involved in each tax concession, the Committee have

pointed out that what the Finance Minister indicates is just an estimate and there may be a good deal of variation between the initial estimate and actual amount of revenue sacrificed. Further, in a developing economy, the amount involved in a tax concession would go on increasing with the passage of time and after a lapse of a certain period, the initial estimate announced at the time of budget speech may lose all relevance. What the Committee had in view was a picture of all tax concessions under the Income-Tax Act at one place. The Committee have, therefore, reiterated their earlier recommendation that the Ministry should indicate in their Annual Reports the revenue sacrifice involved in the various concessions under each head from year to year for the information of Parliament and the public.

4. For facility of reference and convenience, the recommendations and observations of the Committee have been printed in thick type in the body of the report and have also been reproduced in a consolidated form in the Appendix to the Report.

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

NEW DELHI ;
August 13, 1984
Shravana 22, 1906 (Saka)

SUNIL MAITRA
Chairman,
Public Accounts Committee.

CHAPTER I

R E P O R T

1.1 This Report of the Committee deals with the action taken by Government on the recommendations and observations of the Public Accounts Committee contained in their 143rd Report (Seventh Lok Sabha) on paragraph 1.02(i) 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 regarding 'Variations between the Budget Estimates and Actuals.'

1.2 The 143rd Report, which was presented to Lok Sabha on 22nd April, 1983, contained 14 recommendations. Action Taken Notes have been received in respect of all the recommendations except one—at Sr. No. 6. The replies received so far have been broadly categorised as under :

- (i) Recommendations and observations that have been accepted by Government :
Sr. Nos. 1 to 4, 9, 11, 13 and 14
- (ii) Recommendations and observations which the Committee do not desire to pursue in light of the replies received from Government
Sr. No. 8.
- (iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration :
Sr. No. 5 and 12
- (iv) Recommendations and observations in respect of which Government have furnished interim or no replies.
Sr. No. 6, 7 and 10

1.3 Ministries/Departments are required to submit their final replies showing the action taken by Government on the recommendations of the Public Accounts Committee contained in a Report within six months from the date of its presentation to Lok Sabha. The 143rd Report of the Committee (Seventh Lok Sabha) was presented to Lok Sabha in April, 1983.

The Committee regret to note that although a period of over a year and a quarter has since elapsed, reply to one recommendation - Sr. No 6 - has not yet been received and replies to two of the recommendations received so far are of an interim nature. The Committee desire that final replies to all these recommendations should be furnished to them expeditiously, after getting them vetted by audit.

1.4 The Committee will now deal with the action taken by Government on some of their recommendations/observations :

Comprehensive study to evaluate the impact of various incentives given with certain objectives vis-a-vis the revenue sacrifice involved—its indication in the Annual Report of the Ministry of Finance.

Sr. Nos. 4 and 5

(Paragraphs 1.66 and 1.67)

1.5 In paragraphs 1.66 and 1.67 of their 143rd Report (Seventh Lok Sabha), the Public Accounts Committee had observed as under :

“The Chairman, Central Board of Direct Taxes further acknowledge in evidence that no comprehensive study has so far been made by the Board to evaluate the impact of various incentives which are being given year after year with certain objectives, such as, promotion of industrial growth, removal of unemployment, bringing about rural development, promotion of exports, tourism etc. The Committee recommend that an objective study of the entire system of tax incentives built into the Income-tax Act over the years should be entrusted to a team of eminent economists/experts in taxation with a view to ascertaining to what extent the underlying objectives have been realised vis-a-vis the revenue sacrifice involved and whether the plethora of concession/incentives need to be continued and if so, in what form. The Committee would like to be apprised of the findings of the study of the earliest.

The Chairman, CBDT admitted in evidence that there is no inbuilt mechanism whereby it could be examined or monitored from time to time... We shall now try to see that some mechanism is evolved whereby these incentives are examined and processed. The Committee desire that the Ministry should indicate in their

Annual Reports the revenue sacrifice involved in the various concessions under each head from year to year for information of the Parliament and the public.”

1.6. In their Action Taken Note, the Ministry of Finance (Department of Revenue) have stated as under :

“There are two aspects of the Matter. Whenever a concession is announced in the Budget speech the Finance Minister indicates the revenue sacrifice involved in the concession. This forms a part of the budget speech which is widely disseminated. The second aspect is the actual revenue sacrifice involved. The amount of revenue sacrifice under each section has to be collected from field formations consequent on the assessment being made according to a particular relief. These statistics are, however, subject to change on the ground of rectification, appeal effect and revision. The statistics are brought out by the DL (RS&PR) in the form of All India Statistics Information in regard to important concessions and allowances such as investment allowance etc. are not available.

Recently the Board has decided after a meeting with the representatives of the National Institute of Public Finance and Policy to entrust a study on the effectiveness of certain deductions and certain concessions to the Institute.”

1.7 In their earlier Report, the Committee had desired that the Ministry of Finance should indicate in their Annual Reports the revenue sacrifice involved in the various concessions under each head from year to year for the information of Parliament and the public. The Ministry in their reply have stated that wherever a concession is announced in the Budget Speech, the Finance Minister indicates the revenue sacrifice involved in the concession. They have also stated that the amount of actual revenue sacrifice under each section has to be collected from field formations consequent on the assessment being made according to a particular relief, which is subject to a change on the ground of rectification appeal effect and revision and that the statistics are brought out by the Directorate of Inspection (RS & PR) in the form of All India Statistics. The Ministry have added that no information in regard to important concessions and allowances such as investment allowance etc. is available. The Committee are not satisfied with the above reply. They feel that

Parliament, which gives the tax-concessions, has the right to know as to how much revenue sacrifice is involved in each tax concession. True, at the time a concession is first announced by the Finance Minister, he gives an indication as to the revenue sacrifice involved. But the Committee would like to point out, what the Finance Minister indicates is just an estimate, and there may be a good deal of variation between the initial estimate and actual amount of revenue sacrificed. Further, in a developing economy, involved in a tax concession will go on increasing with the passage of time and, after an elapse of a certain period, say a decade, the initial estimate announced at the time of the Budget speech may lose all relevance. Further, different concessions are given in different years. What the Committee have in view is a picture of all tax concessions under the Income Tax Act at one place. The Committee, therefore, reiterate their earlier recommendation that the Ministry should indicate in their Annual Reports the revenue sacrifice involved in the various concessions under each head from year to year for information of Parliament and the public.

1.8 The Committee also trust that as a result of the study to be made by the Institute of Public Finance and Policy, it will be possible for the Ministry of Finance to evolve some sort of mechanism whereby the various concessions given under the Income tax Act could be examined and processed from time to time to decide the question of their continuance keeping in view the extent of the underlying objectives achieved vis-a-vis the amount of revenue sacrificed.

Need to build up a data bank in the Central Board of Direct Taxes and re-organisation and strengthening of the Directorate of Inspection (Special Investigation).

Sr. No. 7 and 10

(Paragraphs 1.71 and 1.74)

1.9 In Paragraphs 1.71 and 1.74 of their 143rd Report (Seventh Lok Sabha), the Committee had recommended as follows :

“The Committee consider that there is need to build up a data bank in the CBDT so that the information and intelligence gathered through various sources about the operations of the large industrial houses could be stored at one central place. It is also necessary to devise a regular system of exchange of information

among the various Central and State agencies, particularly the Revenue Intelligence, the Excise and Customs authorities, the Reserve Bank of India etc. so that the problem of escape from fiscal laws and evasion from taxes could be effectively tackled. It is essentially because of difficulties in timely retrieval of information and lack of coordinated effort on the part of the various agencies entrusted with the task of enforcing the tax laws, that such evasion becomes possible. The Committee therefore, urge that proper institutional systems should be devised to get over the lacunae pointed out above. The Committee desire that this matter should engage the serious attention of the Government and and concrete proposals worked out without loss of time."

The Committee understand that it is proposed to set up branches of the Special Cell in the metropolitan towns of Delhi, Bombay, Calcutta and Madras to enable it to oversee the assessments of the large industrial houses in a more effective manner. This is a welcome step. The Committee would urge that this decision should be implemented expeditiously. The Committee are further of the view that the Directorate of Inspection (Special Investigation) should so organise its work that it is able to cover all the large industrial houses/MRTP companies at least once in five years. The organisation should therefore be suitably strengthened to tackle this task. Financial constraints should not, however, provide an alibi for not strengthening the Directorate of Inspection".

1.10 In their reply, the Ministry have stated that 'the matter is still under consideration....'

1.11 In their earlier Report, the Committee had felt the need to build up a data bank in the Central Board of Direct Taxes so that the information and intelligence gathered through various sources about the operation of the large industrial houses could be stored at one central place and that it was also necessary to devise a regular system of exchange of information among the various central and state agencies particularly the Revenue Intelligence, Excise and Custom authorities, the Reserve Bank of India etc. so that the problem of escape from fiscal laws and evasion from taxes could be effectively tackled. The Committee has, therefore, desired that this matter should engage the serious attention of Government and concrete proposals worked out without loss

of time. The Committee had also recommended that the Directorate of Inspection (Special Investigation) should so organise its work that it was able to cover all the large industrial houses/MRTP companies at least once in five years and that the organisation should therefore, be suitably strengthened to tackle this task. The Ministry, in their reply, dated the 27th December, 1983, have stated that both the above recommendations are under consideration. As more than a year and quarter has elapsed since the Committee had made the above recommendations, the Committee desire that Government should take decisions in these matters without any further delay.

Need for appointment of Chartered Accountants by the Private Sector Companies from an empanelled list compiled by the Department of Company Affairs in consultation with the Comptroller and Auditor General of India.

Sr. No. 12

(paragraph 1.76)

1.12 In paragraph 1.76 of their 143rd Report (Seventh Lok Sabha), the Committee had observed as under :

“Considering the increasing tendency on the part of the big industrial houses to evade/avoid their tax liability through various methods and also taking into account the fact that quite a large share of the capital in these companies is held by public/public financial institutions, of the committee are of the view that the feasibility of incorporating a provision in the Companies Act with regard to the appointment of chartered accountants by the private sector companies from an empanelled list compiled by the Department of Company Affairs in consultation with the C&AG of India needs to be given serious consideration. To begin with, this may be applied to bigger industrial houses/MRTP companies. The Committee are of the view that this would not only help in curbing unethical practices but also enable Government to exercise some check, albeit indirectly, on the operations of the companies. The Committee, would therefore, urge that the matter may be gone into in all aspects and speedy decision taken.”

1.13 In their reply, the Ministry have stated as under :

“The suggestion regarding the appointment of accountants for the MRTP houses was examined in the Department of Company

Affairs. In the Companies Act, as it stands now, there is no provision by which a company whether belonging to MRTP house or not, is required to appoint a qualified accountant. Section 619 of the Companies Act, however, provides that Auditor of a Government Company shall be appointed or re-appointed by the Central Government on the advice of the Comptroller and Auditor General of India, who maintains a panel of auditors for this purpose. Similarly, under Section 619(B) of the Companies Act, accounts of certain companies specified therein are required to be audited by the auditors appointed by the Central Government in consultation with the Comptroller and Auditor General of India. Thus the Central Government already has the power to appoint auditors in respect of companies which do not come within the definition of the Government companies. However, the suggestion regarding appointment of accountants for every company, specially those belonging to MRTP houses, does not appear to be feasible, since it will be difficult for the Government to maintain a panel of chartered accountants for appointment in private sector organisations. Every company recruits accountants according to their requirement and in every case their requirement may not be met from the panel of the chartered accountants.

In this connection, it may, however, be mentioned that Sachhar Committee in para 8.13 of its report has recommended making statutory provision in the companies Act requiring every company whose paid up capital is net less than Rs. 25 lakhs to employ as Chief Accountant or Financial Controller, a chartered accountant. This recommendation is under consideration of the Department of Company Affairs."

1.14 A perusal of the Ministry's reply shows that they have not properly appreciated the spirit of the Committee's recommendation. All that the Committee had intended was that Government should examine the feasibility of incorporating a provision in the Companies Act providing that annual accounts of private sector companies should be audited and certified for correctness by Chartered Accountants from an empanelled list compiled by the Department of Company Affairs, in consultation with the Comptroller and Auditor General of India ; and a beginning in this direction could be made with bigger industrial houses/ MRTP Companies. The Committee had made this recommendation considering the increasing tendency on the part of the big industrial houses to

evade/avoid their tax liability through various methods and also taking into account the fact that quite a large share of capital in these companies is held by public/public financial institutions. Gradually, the provision could be extended to other private companies. In the opinion of the Committee, the acceptance of this recommendation should present no difficulty as a provision already exists in section 619B of the Companies Act whereunder accounts of certain companies specified therein are required to be audited by auditors appointed by the Central Government, in consultation with the Comptroller and Auditor General of India. The Committee, therefore, reiterate their earlier recommendation that Government should examine the feasibility of incorporating a provision in the Companies Act providing for audit of annual accounts of private sector companies, particularly MRTP companies and those controlled by large industrial houses, by Chartered Accountants from an empanelled list compiled by the Department of company affairs, in consultation with the C & AG of India.

1.15 The Committee note that Sachar Committee, in para 8.13 of their report, have recommended for making a statutory provision in the Companies Act requiring every company whose paid up capital is not less than Rs. 25 lakhs to employ as Chief Accountant or Financial Controller a Chartered Accountant. The above recommendation of the Sachar Committee is under consideration of the Department of Company Affairs. The Committee would like Government to consider the feasibility of enlarging the scope of the statutory provision proposed to be made pursuant to Sachar Committee Report so as to cover all MRTP companies.

CHAPTER II

CONCLUSIONS OR RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendations

The Committee find that the actual collections from the corporation tax have consistently fallen short of the budget estimates during the quinquennium 1976-77 to 1980-81. The shortfalls have been varying from 4% to 13%. The actuals for 1980-81 have not only fallen short of the budget estimates by Rs. 137.55 crores (9.08%) but were even lower than the actuals for the preceding year 1979-80 by Rs. 14.45 crores. The percentage contribution of corporation tax to gross collections under Income Tax and Corporation Tax has come down steadily from 55% in 1977-78, to 51% in 1978-79 and 1979-80 and has further dropped to 48% in 1980-81 despite the fact that the number of companies and the company assessments completed have been generally going up and the rates of tax have remained stationary. According to a statement made in the Lok Sabha on 22nd October, 1982 by the Minister of State in the Ministry of Finance, the profits before tax of 20 big industrial houses for the year 1980 were Rs. 544.24 crores while their pre-tax profits for the years 1978 and 1979 were Rs. 400.7 crores and Rs. 515.52 crores respectively. This decline in tax collections cannot be attributed to decline in profits of companies. The conclusion is obvious that the steady decline in collections of corporation tax is attributable either to the liberal allowance of tax incentives or evasion/avoidance of tax by more and more companies or both.

The Committee further observe from the Report of the C&AG Report Revenue Receipts Vol. II Direct Taxes for the year 1981-82 that the total tax paid by the public sector under takings during the year 1981-82 was of the order of Rs. 1190.59 crores against the total corporation tax collection to the tune of Rs. 1969.96 crores i.e. 60.4 per cent of the total collections under this head. Thus, even in absolute terms the contribution made by the private sector companies to the national exchequer in the form of corporation tax is much less than that made by public sector.

[S. Nos. 1 & 2 (Paras 1.58 & 1.59) of Appendix IV of the 143-1 Report of Public Accounts Committee (1982-83)].

Action Taken

The incentives and tax concessions allowed under the provisions of the Income-tax Act have been reviewed in the course of formulation of the Budget proposals for 1983-84 and 1984-85. In this connection please see paragraphs 81, 82 and 83 of the Finance Minister's Budget Speech for 1984-85. Paragraph 81 is reproduced below:-

"Last year, I had also referred to a large variety of exemptions and deductions that had been built into our tax system over time. While each deduction by itself may have its own merits, the aggregate effect was to complicate the tax administration and to provide loopholes for tax avoidance or tax evasion, as also for litigation. I had, therefore, initiated a process of review and, where necessary, doing away with concessions which had outlived their utility. I intend to carry this process further".

2. As a result of the review the following changes were made by the Finance Act, 1983:-

- (i) Section 35 (2A) relating to deduction in respect of payment to scientific research associations, etc., to be used for scientific research was amended to provide that the weighted deduction allowed under that Section will be available only if such contribution is made with a specific direction by the assessee that the sum shall not be used for acquisition of any land or building or construction of any building.
- (ii) Section 358 relating to the weighted deduction admissible in the computation of profits or gains from business in respect of expenditure on certain specified activities related to export of goods services or facilities which the assessee deals in or provides in the course of his business was withdrawn in relation to expenditure incurred after 28. 2. 1983.
- (iii) Section 35C relating to agricultural development allowance was modified with a view to withdrawing the weighted element in the deduction.

- (iv) The provision of section 35CC relating to rural development allowance were tightened by insertion of a new proviso to the effect that the prescribed authority shall not approved any programme of rural development unless such programme is a programme falling within any such class or category of programmes of rural development as may be specified by the Central Government in this behalf.
 - (v) Section 35CCA relating to expenditure by way of payment to associations and institutions for carrying on rural development programme was modified to provide that the deduction admissible under the section will not be allowed in respect of payments made after 28. 2. 1983 unless the conditions specified in the section are fulfilled.
 - (vi) Section 80JJ relating to deduction in respect of profits and gains from business of live-stock breeding or poultry or dairy farming was modified.
 - (vii) Section 80JJA relating to deduction in respect of profits and gains from business of growing mushrooms was omitted with effect from 1.4 1984.
 - (viii) Section 80MM relating to deduction in the case of an Indian company in respect of royalties etc., received from another concern in India for provision of technical know-how, etc., was omitted with effect from 1.4.1984.
 - (ix) A new section 80VVA inserted in the Income-tax Act has provided for levy of minimum tax on companies making profits to secure that the aggregate deduction in respect of certain specified tax concessions admissible under the Income-tax Act does not result in reducing the total income of companies to nil or less than 30 percent of the income before the grant of the concession.
3. The Finance Bill, 1984 proposes to make the following further changes in the provisions relating to certain incentives and tax concessions.
- (i) The tax concession contained in section 33B relating to deduction by way of rehabilitation allowance for facilitating the re-establish-

ment, reconstruction or revival of the business of an industrial undertaking in India which is discontinued because of extensive damage or destruction of its building, machinery, plant or furniture as a direct result of natural calamities, riot or civil disturbance, accidental fire, explosion or enemy action, is proposed to be discontinued.

- (ii) The weighted deduction under section 35(2A) relate to expenditure incurred by a taxpayer on sponsored research carried on in an approved laboratory or undertaken by a scientific research association or university or college or other institution which is approved by the prescribed authority is proposed to be discontinued.
- (iii) The weighted deduction under section 35(2B) relating to expenditure on scientific research under a programme approved by the prescribed authority having regard to the social, economic and industrial needs of India is proposed to be discontinued.
- (iv) The weighted deduction under section 36(1) (iia) allowed in relation to expenditure incurred on payment of any salary to an employee who is totally blind or suffers from a permanent physical disability is proposed to be discontinued.
- (v) Section 35C relating to agricultural development allowance is proposed to be discontinued.
- (vi) Section 80CC relating to deduction in respect of investment in certain new shares is proposed to be discontinued.
- (vii) Section 80D relating to deduction in respect of medical treatment of handicapped dependents is proposed to be discontinued.
- (viii) Section 80E relating to deduction in respect of payments for securing retirement annuities in the case of a partner in a firm rendering specified professional services is proposed to be discontinued.
- (ix) Section 35(1) (iv) which provides for deduction of capital expenditure incurred on scientific research related to the business carried on by the assessee is proposed to be modified to provide that deduction under the section will not be available in respect of capital expenditure incurred on acquisition of any land after 29.2.1984.

- (x) Section 80M relating to deduction in respect of inter-corporate dividend is proposed to be modified to provide a uniform rate of deduction of 60% for all dividends received by a domestic company from another domestic company instead of 100% deduction in respect of dividends declared by companies engaged exclusively or almost exclusively in the manufacture or production or any one or more of specified article or things.
- (xi) Section 80N relating to deduction in respect of dividends received from certain foreign companies is proposed to be modified to reduce the exemption under the provision from 100% to 50% of the income.
- (xii) Section 80.O relating to deduction in respect of royalties, etc. from certain foreign enterprises is proposed to be modified to reduce the exemption under the provision from 100% to 50% of the income.
- (xiii) Section 80-U relating to deduction in the case of totally blind or physically handicapped person is proposed to be modified to provide that the deduction would be admissible only in case of specified categories of permanent physical disabilities.

[Ministry of Finance (Deptt. of Revenue O.M. No. 241/2/83/A & PACI Dt. 1.5.84].

Recommendation

According to a Study made by Prof. A.P. Gupta of the Indian Institute of Management, Ahmedabad (The Economic and Political weekly, February, 1981) some of the highly profitable companies in the private sector have generally fallen in the zero tax bracket.

Another research study of 220 companies made by Economic Times Research Bureau (The Economic Times, 6, January, 1982) has shown that though pre-tax profits of these companies have increased the tax as percentage of pre-tax profits has declined from 45.3% in 1979-80 to 43.3% in 1980-81. The number of companies with no tax liability has increased from 35 in 1979-80 to 49 in 1980-81. The number of companies in the effective tax rate of 0% to 20% of the pre-tax profits has increased from 52 in 1979-80 to 71, in 1980-81.

The statement given in Appendix I shows that 23 out of top 101 companies have been earning profits amounting to several crores of rupees. Yet under the cover of liberal statutory provisions they have been paying no tax at all or paying only a nominal tax. For example, Tata Electrical and Locomotive Company (TELCO) which earned a net profit of Rs. 16 crores in 1979-80 and Rs. 26.71 crores in 1980-81, distributed dividend amounting to Rs. 6.65 crores in each of the two years reported no tax liability. Likewise, J.K. Synthetics Reliance Textiles, Calico, Bombay Dyeing, Mahindra UGINE, Modi Rubber, Zuari Agro Chemical, Indian Tube, Alkali & Chemical, Walchandragar Ltd., Ratnakar Shipping, Modipon and Mafatlal Engg. had no tax liability during 1979-80 and 1980-81 although they earned net annual profits varying from Rs. 0.17 crore to 11.27 crores. The Chairman CIDT admitted in evidence that they were in no position to dispute these figures. "They are availing of the tax benefits."

In reply to Unstarred Question 6353 the Minister of State in the Ministry of Finance confirmed in Lok Sabha on 8 April, 1983, that some highly profitable companies have not paid any income-tax or have paid a relatively small proportion of their profits as income-tax. From the list of companies showing their book profits and also their tax liability for the assessment year 1981-82 annexed to the reply, the Committee find that as many as 42 out of 76 highly profitable companies did not pay any tax or paid only a nominal tax.

As early as 1956, Prof. Kaldor in his Report on Indian Tax Reforms (vide para 143, Chapter VII) had termed the then existing allowance for depreciation and development rebate as "unduly generous". He gave specific illustrations to show that in many cases discounted value of the various allowances exceeded the actual total expenditure of the assesses.

The Committee find that since then many more incentives and reliefs have been added in the tax law.

Some of the more important allowances and reliefs are depreciation (in addition to normal depreciation, the Act allows additional depreciation, initial depreciation and extrashift depreciation), investment allowance, tax holiday for new investment in certain industries or certain areas, export markets development allowance, allowance in respect of expenditure on scientific research, intercorporate dividends etc.

[S No. 3 and 4 of Appendix IV Paras 1.60 to 1.63] of the 143rd report of PAC (Seventh Lok Sabha) (1982-83)

Action Taken

The Government are aware that because of certain tax concessions allowed under the Income-tax Act, 1961, some highly profitable companies have not paid any income-tax or have paid relatively small proportion of their profits as income-tax for some assessment years.

2. With a view to securing that the various deductions in respect of tax concessions admissible under the income-tax Act do not result in reducing the taxable income of companies to the extent that no tax or only a negligible tax is paid by profit making companies, a provision has been made in the Income-tax Act, 1961 with effect from 1.4.1984 by the insertion of a new section 80 VVA to the effect that the aggregate amount of deductions admissible under certain specified provisions of the Income-tax Act, 1961, will be restricted to 70 per cent of the total income as computed before making such deductions.

[Ministry of Finance (Deptt. of Revenue) O.M. No. 211/2/83/A & P/CI
Dated 22.10.1983].

Recommendation

A sample study conducted by the Directorate of Inspection (Special Investigation) last year has revealed that "substantial incentives are enjoyed by companies, particularly large expanding companies which alone can take advantage of concessions by regular expansion and floating new undertakings which necessarily result in the substantial claims of depreciation, development rebate/investment allowance etc. and such companies by and large are owned by the monopoly houses. It can be safely concluded that most of the beneficiary companies of all the provisions relating to incentives/concessions are owned by monopoly houses. Only fully developed companies with a large capital base and availability of substantial institutional finance can derive most of the benefits. Only monopoly houses owner set float such developing and developed companies with vast intercorporate resources and availability of institutional finance".

The Committee note that after recording of evidence of the Ministry of Finance on the subject the Finance Minister in his Budget speech for the year 1983-84 candidly acknowledged :

"Our Corporate tax structure is riddled with a large number of different kinds of deductions. While each deduction may seem to have a merit, the aggregate effect is to complicate tax administration, provide opportunities for misuse and reduce the growth of revenue...Hon'ble Member must be aware of the phenomenon of companies which are flourishing but are paying no tax at all, or only a nominal tax. This is largely due to these companies availing of the tax incentives and concessions available under the provisions of the Income-tax Act. It has been a matter of concern to us that under our tax system several highly profitable companies are able to reduce their tax liability to zero even though they continue to pay high dividends. It seems reasonable that profitable and prosperous companies should contribute at least a small portion of their profits to the national exchequer at a time when other and less better off sections of society are bearing a burden."

[S. No. 4 (para 1.64 & 1.65) of the Appendix IV of the 143rd Report of the PAC (Seventh Lok Sabha) (1982-83)].

Action Taken

Paragraphs 1.64 and 1.65 of the 143rd Report of the Public Accounts Committee (1982-83) do not contain any specific recommendations of the Committee on which comments of the Ministry are required. The recommendation of the Hon'ble Committee is, however, contained in para 1.66 on which action taken note has already been sent to the Lok Sabha Secretariat vide Ministry's O.M. of even number dated October 22, 1983.

In view of the above circumstances, no separate action taken note on any of the above mentioned paras is required to be submitted.

Recommendation

The Committee consider that the operations of the Directorate of Inspection need to be further intensified. What is not so important is how much additional revenue finally accrues to the exchequer but the fact that a healthy fear is created among the tax evaders that there is an effective surveillance machinery to oversee their activities and to bring them to book.

[S. No. 9 (Para 1.73) of Appendix IV of the 143rd Report of the PAC (Seventh Lok Sabha) (1982-83)].

Action Taken

The Directorate does take all steps to process the cases of large houses intensively. It can be further intensified if fewer cases are taken for up examination. It is believed that fear does exist among the monopoly houses assigned to the Directorate for supervision. Not only that, there is a healthy caution and fear noticed in the field formations by the mere fact that the Directorate is overseeing the cases which often keeps them alert. Audit has noted this action taken note.

Recommendation

The Committee further recommend that a separate Chapter should be devoted in the Annual Reports of the Ministry of finance to the studies made with regard to the operations of large industrial houses and the salient points that come to the notice of the Directorate of Inspection (Investigation) during the course of its investigation for information of parliament and the public.

[S. No. 11 (para 1.75) of 143rd Report of the P. A. C. (1982-83)].

Action Taken

The recommendation of the Hon'ble Committee has been noted.
Audit has vetted this Action Taken Note.

Recommendation

The Committee further consider that the Department must insist on Submission of the remarks of Cost Accountants while scrutinising the returns filed by the assesseees as required under the law so as to ensure that undue benefits are not availed of by them.

[S. No. 13 (Para 1.77) of 143rd Report of the Public Accounts Committee (1982-83) (Seventh Lok Sabha)].

Action Taken

Necessary instructions contained in Board's letter F. No. 295/1/83-IT (Invv). dated 18th April, 1983 in this regard have already been issued. A copy thereof is enclosed.

2. Audit have vetted this Action Taken Note without any comments.

[Ministry of Finance (Deptt of Revenue) O.M. 241/2/83/A PACI Dt. 22.10.83].

F. No. 295/1/83-IT (INV) govt of India Ministry of Finance (Deptt. of Revenue) Central Board of Direct Taxes.

To

All Commissioners of Income-tax.

Subj - Regarding non-submission of Cost Audit Report by companies.

Sir,

Vide Board's Instruction No. 662 dated 13.74 (F. No. 290/45/73-IT Inv.) the usefulness of the cost audit accounts/reports was impressed upon the Cs.I.T. and they were asked in turn, to bring this to the notice of all assessing officers. The Cs.I.T. were also required to send to the Board, at the end of every six months, a report about the revenue results achieved on utilisation of the cost audit reports.

2. With effect from 1.4.1976, rule 12 (1) (a) was amended to include the requirement of submission of cost audit reports along with the return. In other words, companies, with their accounting year ending during financial year 1976-76 relevant to the assessment year 1977-78 were required to file cost audit reports alongwith the return. This requirement is applicable to the companies engaged in notified industries. It may be mentioned that cost audit under section 233B of the Companies Act, 1956 is ordered in respect of a company manufacturing a product covered under the cost accounting (Record) rules which have so far been notified for 28 industries under section 209 (1) (d) of the Companies Act, 1956. After the cost orders are issued, the concerned companies are required to submit cost audit reports to the Company Law Board. A copy of this report has also to be submitted along with the Income-tax return as mentioned above.

3. It has come to the notice of the Board that Cost audit reports have generally not been filed along with returns, as prescribed and neither has any action been taken by the assessing officers for this default nor any efforts been made to require the defaulting companies to file these reports. Commissioners of Income-tax have also not communicated the revenue gains as a result of the utilisation of the cost audit reports.

4. The Board is anxious to ensure that the provision of law regarding the cost audit reports is fully made use of by the assessing officers. The Cs. I.T. are therefore, requested to impress upon all the assessing officers working in their charge the necessity of checking whether the cost audit reports have been filed by the assessee companies in suitable cases as prescribed under rule 12 (1) (a) and if it has not been done suitable necessary action should be taken against the companies. The list of companies under the MRIP act in whose cases cost audit orders were issued by the Company Law Board since January 1977 is enclosed. Wherever the cost audit reports are filed, the assessing officers should utilise them as an instrument for effectively checking the accounts for the purposes of determining the correct assessable income.

Yours faithfully,

Sd/-

(V.K. Bhatia)

Under Secretary,

Central Board of Direct Taxes.

**STATEMENT SHOWING DETAILS OF COST AUDIT REPORTS RECEIVED AND COST
AUDIT ORDERS ISSUED TO COMPANIES COVERED UNDER MRTP ACT UP TO 31.12.1981**

Name of Industrial House	Name of company covered under Cost Accounting Record Rules	Product covered by cost Audit	Cost audit report submitted for year ending of company since 1977	Cost audit order is issued, but report not received/not due
1	2	3	4	5
1. A.C.C.	Associated Cement Co. Ltd.	Cement	31.7.77, 31.7.78 31.7.80	31.7.81
2. Ashok Lay Land	Ashok Leyland Ltd.	Motor Vehicles	31.12.77, 31.12.79	31.12.82 (ND)
3. Bajaj	Bajaj Auto Ltd.	Motor Vehicles	30.9.77, 30.9.80	30.9.83 (ND)
	Hind Lamps Ltd.	Electric Lamps	31.12.77, 31.12.81	
	Hundusran Sugar Mills Ltd.	Sugar	30.6.77, 30.6.78. 30.7.80	31.7.81
	-do-	Industrial Alcohol	31.7.78	30.6.82
	Sharda Sugar & Indus- tries Ltd.	Sugar	30.6.78, 30.6.79 30.6.77	30.6.81

1	2	3	4	5
4. Bangur	Andhra Pradesh Paper Mills	Paper	30.6.78, 30.6.81 30.6.82	
	Bengal Paper Mills	Paper	31.12.78, 31.12.80 31.12.81	31.12.82 (ND)
	Boureach Cotton Mills	Cotton Textiles	31.12.79, 31.12.81	31.12.82 (ND)
	Fort Gloster Industries	Jute Goods	31.3.78, 31.3.80 31.3.81, 31.3.82	(ND) Not due
	Fort William Co. Ltd.	Jute Goods	31.3.78 31.3.81	
Bangur	Ducan Mills Ltd.	Cotton Textile	31.12.81	
	Hastings Mill Ltd.	Jute Goods	31.3.78, 31.3.80 31.3.81	31.3.82
	Maharaja Shri Umaid Mills Ltd.	Cotton Textile	31.12.79, 31.12.80	31.3.83 (ND)
	Shalimar Rope Works Ltd.	Jute Goods	30.6.78, 30.6.81	
	Shree Digvijay Cement Co. Ltd.	Cement	31.12.77, 31.12.79 31.12.81	
	Shree Madhusudan Mills Ltd.	Cotton Textile	30.6.79, 31.6.81	

	Shree Synthetics Ltd.	Polyster	30.6.79, 30.6.81	
	-do-	Nylon	30.6.79, 30.6.81	
	Shree Niwas Cotton Mills Ltd.	Cotton Textile	31.12.79	31.12.81
	West Coast Paper Mills Ltd.	Paper	30.6.78, 30.6.80 30.6.81, 30.6.82	30.6.83 (ND)
5. Bhilwara	Rajasthan Spg. & Wvg. Mills Ltd.	Cotton Textile	30.9.79, 30.9.81	
6. Bhiwandiwala (A.H.)	Bhopal Sugar Industries Ltd.	Sugar	30.9.77, 30.9.82	
7. Bird	Titaghur Paper Mills Co. Ltd.	Paper	31.3.78, 31.3.80 31.3.81, 31.3.82	31.3.83 (ND)
8. Birla	Bally Jute Co. Ltd.	Jute Goods	31.3.78, 31.3.80 31.3.81, 31.3.82	
	Bharat Commerce & Industries Ltd.	Cotton Textile	31.12.79, 31.12.81	31.12.82 (ND)
	Birla Jute Mfg. Co. Ltd.	Cement	31.3.78, 31.3.80 31.3.82, 31.3.81	

1	2	3	4	5
Birla	Birla Jute Mfg. Co. Ltd.	Jute Goods	31.3.78, 31.3.83 31.3.81, 31.3.82	
	Century Spg. & Mfg. Co. Ltd.	Cotton Textile	31.12.79	31.12.81
	-do-	Caustic Soda	—	—
	Gwalior Ryon Silk Mfg. (Wvg) Co. Ltd.	Cotton Textile	31.3.80	
	-do-	Paper	31.3.78, 31.3.83 31.3.81, 31.3.82	
	Hindustan Aluminium Corp. Ltd.	Aluminium	31.12.78, 31.12.79	
	Hindustan Heavy Chemi- cals Ltd.	Caustic Soda Sulphuric Acid	31.12.77, 31.12.79 —	—
	Hindustan Motors Ltd.	Motor Vehicles	31.3.77, 31.3.78, 31.3.80	31.3.83
	India Linoleum Ltd.	Cotton Textile	31.3.81	
	Jayshree Tea & Industries Ltd.	Cotton Textile	30.6.79, 31.6.81	
	-do-	Rober Tyre	31.3.82	

	Jiyaji Rao Cotton Mills Ltd.	Cotton Textile	31.3.80, 31.3.82	31.3.83 (ND)
	-do-	Caustic Soda	31.3.82	
	Kesoram Industries & Cotton Mills Ltd.	Cement	31.3.78, 31.3.80 31.3.81, 31.3.82	
	-do-	Cotton Textile	31.3.80, 31.3.82	
	-do-	Rayon	31.3.79, 31.3.81	
Birla	Mysore Cement Ltd.	Cement	30.6.78, 30.6.79 30.6.81, 30.6.82	
	News Swadeshi Mill of Ahmedabad Ltd.	Cotton Textile	31.3.80, 30.6.82	
	Orien Paper & Industries	Paper	31.3.78, 31.3.81, 31.3.82	
	Rameshwara Jute Mills Ltd.	Jute Goods	31.3.78, 31.3.79 31.3.81, 31.3.82	
	Sutlej Cotton Mills Ltd.	Cotton Textile	31.3.80, 31.3.82	
	Orient General Industries Ltd.	Era Fan	31.3.77	

1	2	3	4	5
9. Central Pulp	Central Plup Mills Ltd.	Paper	30.9.78, 30.9.80	
	Deccan Paper Mills Co. Ltd.	Paper	31.3.78, 31.3.81	
	Paper & Pulp Conver- sions Ltd.	Paper	31.3.78, 31.3.79, 31.3.80	
	Upper India Super Paper Mills Co. Ltd.	Paper	31.12.77, 31.12.78, 31.12.80, 31.12.81	
10. Chowgule	Chowghule & Co, (Hindi) Pvt. Ltd.	Bulk Drug.	30.6.80, 30.6.81, 30.6.82	
11. Dunlop	Dunlop India Ltd.	Rubber Tyre	31.12.77, 31.12.81	
12. Escorts	Escorts Ltd. Escorts Ltd.	Tractor Tractor	31.12.77 31.12.77, 31.12.79	
13. G.E.C.	General Elec. Co. of India Ltd.	Elec. Motors Elec- tric Fan	31.3.77, 31.3.78, 31.3.80	
14. Garware	Garware Nylons Ltd.	Nylon Polyster	31.3.79, 31.3.81 31.3.79, 31.3.81	
15. Goenka (K.P.)	Anglo India Jute Mills Co. Ltd.	Jute Goods	31.12.77, 31.12.78 31.12.80, 31.12.81	

16. Hindustan Lever	Hindustan Lever Ltd.	Vanaspati	31.12.77, 31.12.81,	
	-do-	In fant Milkfood	31.12.77, 31.12.81	31.12.82 (ND)
17. I.C.I.	Alkali & Chemical Cor- poration of India Ltd.	Bulk Drug.	30.9.79, 30.9.81 30.9.82	
	-do-	Caustic Soda	30.9.81	
	Atic Industries Ltd.	Dyes	31.12.78, 31.12.80	31.12.82 (ND)
	Ciba Geigy of India Ltd.	Bulk Drugs.	31.12.77, 31.12.79, 31.12.81	-do-
	Crescent Dyes & Chemi- cals Ltd.	Dyes	30.9.81, 30.9.82	
	Chemicals & Fibres of India Ltd.	Polyster	30.9.79, 30.9.81	
18. I.T.C.	Tribeni Tissues Ltd.	Paper	30.9.78, 31.12.79	
			31.12.80, 31.12.81	31.12.82 (ND)
19. J.K. Singhanía	Garges Mfg. Co Ltd.	Jute Goods	31.3.78, 31.3.79	31.3.81
	J.K. Satoh Agricultural Machines Ltd.	Tractor	30.6.79, 30.6.81 30.6.77,	

1	2	3	4	5
	J.K. Synthetics Ltd.	Nylon	31.12.79, 31.12.81	31.3.83 (ND)
		Polyster	31.12.79, 31.12.81	
		Cement	31.12.78, 31.12.79 31.12.80, 31.12.81	
	J.K. Cotton Spg. & wog. Mills Ltd.	Cotton Textile	31.12.79, 31.12.81	
	-do-	Sulphuric Acid	—	31.3.83 (ND)
	J.K. Jute Mills Ltd.	Jute Goods.	31.12.77, 31.12.78 31.12.80, 31.12.81	31.12.82 (ND)
J.K. Singhania	Straw Products Ltd	Paper	31.12.77, 31.12.78 31.12.80, 31.12.81	
	J.K. Industries Ltd.	Rubber Tyre	31.12.78, 31.12.79	31.12.82 (ND)
20. Jaipuria	Swadeshi Cotton Mills Co. Ltd.	Cotton Textile	—	—
	Swadeshi Mining & Mfg.	Sugar.	31.3.78, 31.3.80	
21. Jardine Henderson	Howrah Mills Co. Ltd.	Jute Goods.	31.3.78, 31.3.79 31.3.80, 31.3.81, 31.3.82	
22. Kapadia	Kohinoor Mills Co. Ltd.	Cotton Textile	31.3.80	31.3.82

(Killick)	Navjivan Mills Ltd.	-do-	31.12.79	31.3.82
23. Kasturbai Lalbai	Anil Stamp Product Ltd.	Bulk Drugs.	31.12.77, 31.12.79, 31.12.80	31.12.81
	Arvind Mills Ltd.	Cotton Textile	31.12.79, 31.12.81	
	Ashok Mills Ltd.	-do-	31.12.79	31.12.81
	Atul Products Ltd.	Bulk Drug	31.12.77, 31.12.79, 31.12.80	31.12.81
	-do-	Dyes	31.12.78, 31.12.80	
	Saraspur Mills Ltd.	Cotton Textile	31.12.79, 31.12.81	31.12.82 (ND)
	Atul Products Ltd.	Caustic Soda	31.12.76, 31.12.77, 31.12.79	
24. Khatau	Khatau Makanji Spg. & Wvg. Co. Ltd.	Cotton Textile	30.6.79, 30.6.81	
	Siemens India Ltd.	Electric Motor	30.9.77, 30.9.79	
25. Kilachand (Tulsidass)	Kesar Sugar Works Ltd.	Sugar.	30.9.77, 30.9.81	
	-do-	Industrial Alcohol	30.9.78, 30.9.80	
26. Kirloskar	Kirloskar Electric Co. Ltd.	Electric Motor	30.6.77, 30.6.78 30.6.79, 30.6.82	

1	2	3	4	5
27. Kothari	Kothari Sugar & Chemicals Ltd.	Sugar	30.6.77, 30.6.78 30.6.79, 30.6.81	
28. Macneill & Magor	Nudda Mills Co. Ltd.	Jute Goods	31.12.77, 31.12.78	31.3.82
	Jayaram Mills Ltd.	Cotton Textile	30.6.79 30.6.81	30.6.83
20. Madras Cements	Madras Cements Ltd.	Cement.	31.12.77, 31.12.79 31.12.80, 31.12.82	
	Rajapalayam Mills Ltd.	Cotton Textile	31.3.80, 31.3.82	
	Thanjavur Textiles Ltd.	Cotton Textile	31.3.80, 31.3.82	
30. Madura Coats	Madura Coats Ltd.	Cotton Textile	30.6.79, 30.6.81	30.6.83 (ND)
31. Mafatlal	Indian Dyestuff Indus- tries Ltd.	Dyes	31.3.79	
	Mafatlal Fine Spg. Mfg. Co. Ltd.	Cotton Textile	31.3.80 31.3.82	
	Mihir Textile	-do-	31.3.80	31.3.83 (ND)
	Matulya Mills Co. Ltd.	-do-	30.6.79, 31.3.81	
	Standard Mills Co. Ltd.	-do-	31.3.80, 30.6.82	
	Surat Cotton Spg. & Wvg. Mills (P) Ltd.	-do-	31.3.80, 31.3.82	

32. Mahindra &	Mahindra & Mahindra Ltd.	Motor Vehicles	31.10.77	31.10.82 (ND)
Mahindra	-do-	Cott Tractor	31.10.77, 31.10.79	31.10.83 (ND)
33. Modi	Modi Industries Ltd.	Sugar.	31.10.77, 31.3.80	
	-do-	Industrial Alcohol	31.10.78, 31.3.81	
	Modi Rubber Ltd.	Rubber Tyre	31.12.77, 31.10.80	31.10.83 (ND)
	Modi Spg. & Wvg. Mills Co. Ltd.	Cotton Textile	30.4.80, 30.4.82	
	Modi Poss Ltd.	Nylon	28.2.80, 30.6.82	
	-do-	Polyster	28.2.80, 30.6.82	
34. Naidu G.V.	Lakshmi Mills Co. Ltd.	Cotton Textile	31.3.80, 31.3.82	
	Rajalakshmi Mills Ltd.	-do-	31.3.80, 31.3.82	
	South India Viscose Ltd.	Rayon	31.12.78, 31.3.81	
35. Naidu V.R.	Jaya Lakshmi Mills (P) Ltd.	Cotton Textile	30.6.79, 30.6.82	
	Radha Krishna Mills Ltd.	-do-	—	
	V.R. Textiles (P) Ltd.	-do-	31.12.79, 31.12.81	
	Madras Aluminum Co. Ltd.	Aluminium	31.12.76, 31.12.77, 31.12.79	31.12.82 (ND)

1	2	3	4	5
36. NOWROJEE WADIA	Bombay Dyeing & Mfg. Co. Ltd.	Cotten Textile	31.3.80,	31.3.82
37. ORISSA CEMENT	Orissa Cement Ltd.	Cement	31.12.77, 31.12.79 31.12.80, 31.12.81	
38. PARRY	Canvery sugar & Chemi- cals Ltd.	Sugar.	30.6.78, 30.6.77	30.6.80
	E.I.D. Parry (India) Ltd.	Sugar	31.12.77, 31.12.79	30.6.83 (ND)
	-do-	Industrial Alcohol	31.12.77, 31.12.79	30.6.83 (ND)
39. PHILIPS	Electric Lamp Manufac- turers (India) (P) Ltd.	Elec. Lamp	30.6.77, 30.6.78 30.6.80	
	Pieco Electronics & Electricals Ltd.	Elec. Lamp.	31.12.77, 31.12.81	31.12.82 (ND)
40. PRIZER	Pfizer Ltd.	Bulk Drugs	30.11.77, 30.11.79 30.11.80	30.11.81
40. PIRAMAL	Morarji Goculdas Spg. & Wvg. C. Ltd.	Cotton Textile	30.6.79, 30.6.81	30.6.83 (ND)
42. PRATAPLAL BHOGILAL	Shree Ram Mills Ltd.	Cotton Textile	31.12.79, 31.12.81	
43. RAILIS	Hemalatha Textile Ltd.	Cotton Textile	30.6.79, 30.6.81	
44. RAINTER SINGH	Apolo Tyres Ltd	Rubber Tyre	31.7.78, 31.10.79	31.10.82 (ND)

45. RELIANCE	Reliance Textile Industries Ltd.	Cotton Textile	31.12.80, 31.12.82	
46. SAHUJAIN	Rohtas Industries Ltd.	Paper	31.3.78, 31.3.80	31.3.83 (ND)
	-do-		31.3.81, 31.3.82	
	-do-	Cement	31.3.81, 31.3.82	
	-do-	Vanaspathi	31.3.78, 31.3.80	
			31.3.77	31.3.83 (ND)
	-do-	Caustic Soda	31.3.80, 31.3.82	
47. SARABHAI	Ahmedabad Mfg, Calico Printing Co. Ltd.	Cotton Textile	31.3.80, 31.3.82	31.3.83 (ND)
	Standard Pharmaceuticals Ltd.	Bulk Drug.	31.3.77, 31.3.78, 31.3.80	
			31.3.81, 31.3.82	
	Suhrid Geigis Ltd.	Bulk Drug.	31.3.77, 31.3.78, 31.3.79, 30.6.80, 31.6.81	30.6.82
	Synbiotics Ltd.	Bulk Drug	31.3.77, 31.3.78, 31.3.79, 31.3.80, 31.3.81, 31.3.82	31.3.83 (ND)

1	2	3	4	5
48. SEHASAYEE	Seshasayee Paper & Board Ltd.	Paper	31.3.78, 31.3.81 31.3.79 31.3.82	31.3.83 (ND) 31.3.82 (ND)
49. SHRE AMBIC (HARIWALLABH DASS)	Shri Ambica Mills Ltd. Shri Arvinda Mills Ltd.	Cotton Textile	31.12.79, 31.12.81 31.12.79, 31.12.81	31.12.82 (ND) 31.12.82 (ND)
50. SHRIRAM	Delhi Cloth & General Mills	Cotton Textile	30.6.79, 30.6.81	
	-do-	Caustic Soda	—	30.6.83 (ND)
	-do-	Sugar	30.6.78, 30.6.77, 30.6.82	
	Jay Engineering Works Ltd.	Elec. Fan.	31.3.78, 30.9.82	
	Shri Ram Gibrics Ltd.	Nylon	31.3.79, 31.3.80, 30.6.82	
	Shree Ram Refrigeration Industries Ltd.	Electric Motor	30.9.77, 30.9.79, 30.9.80	
51. SHRIVANS PRASAD JAIN	Dharangadhra Chemical Works Ltd.	Caustic Soda	31.3.77, 31.3.80	
	-do-	Soda Ash.	31.3.79, 31.3.81	31.3.83 (ND)
52. SIMPSON	Amco Batteries Ltd.	Automobile Battery	31.3.78, 31.3.81	31.3.83 (ND)

	Simpson & Co Ltd.	Motor Vehicles	31.5.82	
	Tractor & Farm Equipment Ltd.	Tractor	31.12.77, 31.12.81	31.12.82 (ND)
53. SOMAIYA	Godavari Sugar Mills Ltd.	Sugar	30.9.77, 30.9.80	
	Lakshmidass Sugar Factory Ltd.	Sugar.	30.9.79 Dussera 81	
54. SOORAJUMLL NAGAFMULL	Caunpore Sugar Works Ltd.	Sugar.	31.10.77, 31.10.79	31.10.82 (ND)
	-do-	Ind. Alcohol	31.10.78, 31.10.79	31.10.82 (ND)
	Caunpore Textiles Ltd.	Cotton Textile	31.3.80, 31.3.82	
	Elgin Mills Ltd.	Cotton Textile	31.12.79, 31.3.82	
	Chemparan Sugar Co. Ltd.	Sugar	30.9.77, 30.9.80	30.9.82
55. SWADESHI MATCH	Wimco Ltd.	Paper	31.12.77, 31.12.79 31.12.80, 31.12.81.	
56. TVS IYENGAR	Madanpalb Spinn- ing Mills Ltd.	Cotton Textile	31.3.80, 31.3.82	

1	2	3	4	5
	Sundaram Textiles	Cotton Textile	31.3.80, 31.3.82	
57. Tata	Ahmedabad	Cotton Textile	31.3.80, 31.3.82	
	Advance Mills Ltd.			
	Central India Spg. Wvg. & Mfg. Co. Ltd.	Cotton Textile	31.12.79, 31.12.81	31.12.82 (ND)
	-do-	Paper	31.12.80, 31.12.81	
	Indian Vegetable Products Ltd.	Vanaspati	31.12.77, 31.12.81	
	Swadeshi Mills Co. Ltd.	Cotton Textile	31.12.79, 30.6.82	
	Tata Chemicals Ltd.	Caustic Soda	30.6.77, 30.6.82 30.6.77	
	-do-	Soda Ash	30.6.78, 30.6.81	30.6.83 (ND)
	TELCO	Motor Vehicle	31.3.81	31.3.83 (ND)
	Tata Oil Mills	Vanaspati	31.3.78, 31.3.82 31.8.77	
	Voltas Ltd.	Room Aircondition	31.8.77	31.8.83 (ND)
58. Thackersey	Hindustan Spg. & Wvg. Mills Ltd.	Cotton Textile	31.3.80, 31.3.82	
59. Thapar	Ballarpur Industries	Caustic Soda	30.6.78, 30.6.82 30.6.77	

	-do-	Paper	30.6.78, 30.6.81, 30.6.82	30.6.83 (ND)	
	-do-	Vanaspati	30.6.81, 30.6.77	30.6.83 (ND)	
	Crompton Greaves Ltd.	Elec. Fan.	30.6.78, 30.6.77	30.6.82. (ND)	
	Jagatijit Cotton Textile Mills Ltd.	Cotton Textile	31.1.80, 30.4.82		
	Deona Sugar Mills Ltd.	Sugar.	31.8.77		
	Malwa Sugar Mills Ltd.	Sugar	30.6.78, 30.6.81 30.6.77,		
60.	Thiagaraja	Sree Meenakshi Mills Ltd.	Cotton Textile	30.6.79, 30.6.81	
		Sree Sivakami Mills Ltd.	Cotton Textile	31.12.79, 31.12.81	
61.	United Breweries	Hovchest Pharma- ceuticals	Bulk Drugs.	31.12.77, 31.12.79, 31.12.80	31.12.81
62.	Union Carbide	Union Carbide India Ltd.	Dry Battery Cell	31.12.81	31.12.82 (ND)

1	2	3	4	5
63. Godrej	Lawkim Ltd.	Elec. Motor	30.6.77, 30.6.78, 30.6.82	
64. Gokale Patel	Gokale Patel Volkart Ltd.	Cotton Textile	31.12.79, 31.12.81	
65. M.A. Chidam- baram	Automobile Products of India Ltd.	Motor Vehicle	31.7.77, 31.12.79.	31.12.82 (ND)
66. Sawhney	Triveni Engineer- ing works Ltd.	Sugar	31.10.77, 31.10.79	30.4.82
67. Swan Mills	Basanti Cotton Mills Ltd.	Cotton Textile	31.12.79, 31.12.81	
	Swan Mills Ltd.	Cotton Textile	31.12.79	31.12.81
68. V. Rama- Krishana	Jaypore Sugar Co.	Sugar	30.6.77, 30.6.78 30.6.80, 30.6.82	
	K.C.P. Ltd.	Cement	30.6.77, 30.6.78, 30.6.80, 30.6.81, 30.6.82	
	-do-	Sugar	30.6.78, 30.6.79, 30.6.82	

	-do-	Ind. Alcohol	30.6.78, 30.6.80	30.6.83 (ND)
69. Walchand	Premier Automobi- les Ltd.	Motor Vehicles	30.6.78, 30.6.80, 30.6.77	
	Walchandnagar Indements Ltd.	Sugar	30.9.77, 30.9.81	
70. Gillenders Arbuthnot	Eyre Smelting Co. Ltd.	Aluminium	31.12.78, 31.12.81	
71. Andhra Sugar	Andhra Sugar Ltd.	Ind. Alcohol	30.9.78, 30.9.80	
	-do-	Sugar	30.9.77, 30.9.79	
	-do-	Caustic Soda	30.9.77, 30.9.79	
	Sree Akkamval Txtiles Ltd.	Cotton Textile	30.6.79, 30.6.81, 30.6.82	
72. Chloride India	Chloride India Ltd.	Automobile Batteries	31.8.78, 31.8.81	
73. N.R.C.	National Rayon Corporation Ltd.	Rayon	31.12.78, 31.12.80	
	-do-	Caustic Soda	31.12.77	31.12.82 (ND)
74. Titaghur Jute	The Angus Co. Ltd.	Jute Goods	30.6.78, 30.6.80	30.6.82
	Samnuggur Jute Factory Co. Ltd.	Jute Goods	30.6.78, 30.6.80	30.6.82

1	2	3	4	5
	Titaghur Jute Factory Co. Ltd.	Jute Goods	30.6.78, 30.6.81	
	Victoria Jute Co. Ltd.	Jute Goods	30.6.78, 30.6.80	30.6.82
	Single Large Undertaking Having Assets of Rs. 20 Crores or More			
	Bayer India Ltd.	Bulk Drugs	31.12.77, 31.12.79 31.12.80, 31.12.81	
	Bajaj Tempo Ltd.	Motor Vehicle	30.9.77, 30.9.80	30.9.83 (ND)
	Dalmia Cement (Bharat) Ltd.	Cement	31.12.77, 31.12.79 31.12.80, 31.12.81	
	Panyam Cement & Minerals Industries Ltd.		31.8.77, 31.8.80, 31.8.82	
	Indian Rayon Corporations Ltd.	Rayon	30.6.78, 30.6.79, 30.6.82	
	Hindustan Brown Boveri Ltd.	Elec. Motor	30.4.78	
	Baroda Rayon Corporation Ltd.	Nylon	31.12.79, 31.12.81	
	do-	Polyster	31.12.79, 31.12.81	
	Bombay Tyre Inter- national Ltd.	Rubber Tyre.	31.10.77, 31.10.80	31.10.82 (ND)

Binny Ltd.	Cotton Textile	30.6.79,30.6.81	
Ceat Tyre of India Ltd.	Rubber Tyre.	31.12.77	
Century Enka Ltd.	Nylon	30.9.79,30.9.81	
do-	Polyster	30.9.79,30.9.81	
Colour Chem. Ltd.	Dyes	31.12.78,31.3.81	
Galaxo Laboratories India Ltd.	Bulk Drugs.	30.6.78,30.6.79,30.6.80 30.6.81,30.6.77	30.6.82
do-	Intant Milk food,	30.6.77,30.6.78 30.6.81	
Good Year India Ltd.	Rubber Tyre	31.12.77,31.12.80	
India Cement Ltd.	Cement	31.3.78,31.3.80 31.3.81,31.3.82	
Indian Aluminium Co. Ltd.	Aluminium	31.12.77,31.12.80	
Madras Rubber Factory Ltd.	Rubber Tyre.	30.9.77,30.9.81	
Nirlon Synthetic Fibres & Chemicals Ltd.	Nylon	31.3.79,31.3.81	
do-	Polyster.	31.3.79,31.3.81	

1	2	3	4	5
	Sandoz (India) Ltd.	Bulk Drugs.	31.11.77,31-12.78,31-12.79 31.12.80,31.12.81	
	Swadeshi Polyster Ltd.	Polyster	30.9.79,30.9.81,30.9.82	
	Vikrant Tyres Ltd.	Rubber Tyre.	31.3.82	
	Single Dominant Undertaking			
	Alta Laboratories (P) Ltd.	Bulk Drugs.	31.12.77,31.12.79. 31.12.80,31.12.81	
	Enfield India Ltd.	Motor Vehicle	30.6.78,30.6.81	30.6.83 (ND)
	Kelvinator of India Ltd.	Regrigerator	30.6.78,30.6.80, 30.6.77.	30.6.83 (ND)
	Kinetic Engineerings Ltd.	Motor Vehicle	30.6.78,30.6.80,30.6.82 30.6.77	
	Ideal Jawa (India) (P) Ltd.	Motor Vehicle	30.9.77, 30.9.80	
	Mopeds India Ltd.	Motor Vehicle	30.6.78,30.6.79 30.6.81,30.6.77	
	V.S. Tiller Tractors Ltd.	Tractor	31.12.77,31.12.79	31.12.82 (ND) (PART-II)

Companies Registered Under Section 26 (2) of MRTP Act during the year 1982

Naidu G.V.	Rajalakshmi Textile Bro- cesson Ltd.	Cotton Textile	31.3.80, 31.3.82
Lwsal Wollen Mills	Oswal Wollen Mills Ltd.	Vanaspathi	31.12.77, 30.6.80
Jyoti	Jyoti Electric Motors Ltd.	Elec. Motor	31.3.78, 30.3.80
Jyoti	Jyoti Ltd.	Elect. Motor	—
Single Large	Raasi Cement Ltd.	Cement	30.6.82
B.D. Somani	Chemo Pharma Laboratories Ltd.	Bulk Drugs	31.3.77, 31.3.78, 30.6.80, 30.6.81
Punjab Tractors	Punjab Tractors Ltd.	Tractor	30.6.77, 30.6.78 30.6.82
Single Large	The Super Paper Mills Ltd.	Paper	30.6.78, 30.6.79 30.6.81, 30.6.82 30.6.83 (ND)
-do-	Blue Star Ltd.	Room Air- Conditioner	31.12.77, 31.12.80 31.12.82 (ND)
-do-	-do-	Refrigerator	31.12.77, 31.12.80
Thapar	Toshiba Anand Lamps Ltd.	Elect. Lamp	31.3.77, 31.3.78, 31.3.80

1	2	3	4	5
Vardhman (Oswal)	Vardhaman Spg. & General Mills Ltd.	Cotton Textile	30.6.80, 30.6.82	
Bharat Vijay Mills	The Bharat Vijay Mills Ltd.	Cotton Textile	31.12.79, 31.12.81	
Amar Dye Chem	Amar Dye Chem. Ltd.	Dyes.	31.12.78, 31.12.80	
Single Large	Mangalam Cement Ltd.	Cement	—	31.12.82 (ND)
Shri Ambica (Hari Vallabh Dass)	The Sarangpur Cotton Manuf- acturing Co. Ltd.	Cotton Textile	30.6.80	30.9.82
Single Large	The General Industrial Sociaty Ltd.	Jute Goods	31.12.77, 31.12.79, 31.12.81	

Recommendation

The Committee find that the collections from surtax have come down very steeply in the years 1979-80 and 1980-81. Compared to collections of the order of Rs. 55.79 crores in 1977-78 and 47.84 crores in 1978-79, the collections were only Rs. 32.26 crores in 1979-80 and these came down further to a mere Rs. 21.54 crores in 1980-81. Another disturbing feature is that the collections have fallen short of the Budget Estimates by Rs. 17.16 crores in 1978-79, Rs. 26.96 crores in 1979-80 and as much as Rs. 40.46 crores in 1980-81 the percentage shortfall being 13.02, 45.52 and 65.26 in the respective years.

It was stated in evidence that though surtax is administered by a separate Act, for accounting purpose, it only forms a minor head under the major head 'Corporation Tax'. Therefore, once the allocation for Corporation Tax is made by taking a particular growth rate, the same growth rate is applied in fixing an estimate for surtax collection. However, it was admitted that there was need to establish better correlation between budget estimates and actuals of surtax.

[(S. No. 14 Paras 1.73-1.79) of the Appendix IV of the 143rd Report of the Public Accounts Committee (Seventh Lok Sabha) (1982-83)].

Action Taken

The Companies (Profits) Surtax Act, 1964 as originally passed do not contain provisions relating to payment of Advance tax. The Finance Act 1981 has inserted these provisions. As a result of the introduction of these provisions the collections of Surtax have shown an upward trend. The variation between the Budget Estimates and Actuals have also been narrowed down considerably. The above facts are clear from the following statistics:—

Incrs of Rupees,

Financial Year	Budget Estimates	Actuals	Variation	Percentage of Variation
1981-82	38.00	48.73	10.73	28.23%
1982-83	59.00	66.28	7.28	12.34%

(provisional)

It is hoped that the position will improve still further in the to years come.

[Ministry of Finance (Deptt. of Revenue) O.M. No. 241/2/83/A & PACI dt. 22.10.83].

CHAPTER III

CONCLUSIONS OR RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES RECEIVED FROM GOVERNMENT.

Recommendation

The Committee find that as a result of the joint efforts of the Special Cell and the assessing officers, it has been possible for the Department to raise tax demands on an additional income of Rs 47.50 crores in 1970-80 in cases overseen by the Cell. However, the demand sustained and the net addition to revenue was only Rs. 18.36 crores and Rs. 768 crores respectively. In addition, the Directorate of Inspection has carried out certain studies in scarce commodities such as paper, cement, man-made fibres, chemicals and sugar. The cases selected for these studies belonged to different monopoly houses. The additions to income (amounting to Rs. 60.67 crores as per details given in Appendix II) are stated to have been disputed in appeal and have not yet been disposed of. Even these sample studies indicate that the assessments are not being done properly. The deductions would not have been possible but for the efforts of the Special Cell. The Committee therefore cannot rule out the possibility of collusion between the authorities and the assessees. The Committee would therefore urge that the CBDT should go into these additions which were made at the instance of the Special Cell were not detected earlier by the assessing officers with a view to fixing responsibility.

[S. No. 8 (Para 1.72 of 143rd Report of the Public Accounts Committee (1982-83) (Seventh Lok Sabha)].

Action Taken

The additions to returned income are made with the joint efforts of the assessing officers as well as the Directorate of Special Investigation. It would not be correct to say that the additions would not have been made by the assessing officers but for the interference of the Directorate. The Directorate studies the cases selected by it in depth, supplements the information with the field officers with relevant information obtained by it and issues guidelines

for investigations to the field officers. The field officers, in turn, follow the guidelines issued by the Directorate as also apply their own mind for framing the assessments properly. In the circumstances, it would not be correct to say that there is collusion between the assessing officers and the assesseees.

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

[Ministry of Finance (Deptt. of Reveune) O.M. No. 241/2/83/A & PACI dt. 22.10.83].

F. No. 241/2/83-A & PACI-I.

F. No. 411/12/83-II (Inv).

Dated 16.8.1983.

CHAPTER IV

CONCLUSIONS OR RECOMMENDATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

Recommendation

The Chairman, Central Board of Direct Taxes further acknowledged in evidence that no comprehensive study has so far been made by the board to evaluate the impact of various incentives which are being given year after year with certain objectives, such as promotion of industrial growth removal of unemployment, bringing about rural development, promotion of exports, tourism etc. The Committee recommend that an objective study of the entire system of tax incentives built into the Income-tax Act over the years should be entrusted to a team of eminent economists/experts in taxation with a view to ascertaining to what extent the underlying objectives have been realized *vis-a-viz* the revenue sacrifice involved and whether the plethora of concessions/incentives need to be continued and if so, in what form. The Committee would like to be apprised of the findings of the study of the earliest.

The Chairman, CBDT admitted in evidence that there is no inbuilt mechanism whereby it could be examined or monitored from time to time... We shall now try to see that some mechanism is evolved whereby these incentives are examined and processed. The Committee desire that the Ministry should indicate in their Annual Reports the revenue sacrifice involved in the various concessions under each head from year to year for information of the Parliament and the public.

[S. No. (1.67) of the Appendix IV of the 143rd Report of the PAC (Seventh Lok Sabha) (1982.83)].

Action Taken

There are two aspects of the matter. Whenever a concession is announced in the Budget speech the Finance Minister indicates the revenue sacrifice involved in the concession. This forms a part of the budget speech which

widely disseminated, the Second aspect is the actual revenue sacrifice involved. The amount of revenue sacrifice under each section has to be collected from field formations consequent on the assessment been made according to a particular relief. These statistics are, however, subject to change on the ground of rectification, appeal effect and revision. The statistics are brought out by the DI (RS&PR) in the form of All India Statistics. Information in regard to important concessions and allowances such as investment allowance etc. are not available.

Recently the Board has decided after a meeting with the representatives of the National Institute of Public Finance & Policy to entrust a study on the effectiveness of certain deductions and certain concessions to the Institute.

[Ministry of Finance (Deptt. of Revenue) O.M. No. 241/2/83/A & PACI Dated 22/10/83].

Recommendation

Considering the increasing tendency on the part of the big industrial houses to evade/avoid their tax liability through various methods and also taking into account the fact that quite a large share of the capital in these companies is held by public/public financial institutions, the Committee are of the view that the feasibility of incorporating a provision in the Companies Act with regard to the appointment of chartered accountants by the private sector companies from empanelled list compiled by the Department of Company Affairs in consultation with the C and A.G. of India needs to be given serious consideration. To begin with, this may be applied to bigger industrial houses/MRTP companies. The Committee are of the view that this would not only help in curbing unethical practices but also enable Government to exercise some check, albeit indirectly, on the operations of these companies. The Committee would, therefore, urge that the matter may be gone into in all aspects and a speedy decision taken.

[S. No. 12 (para 1.76) of the Appendix IV of the 143rd Report of the PAC (Seventh Lok Sabha) (1982-83)].

Action Taken

The suggestion regarding the appointment & accountants for the MRTP houses was examined in the Deptt. of Company Affairs. In the Companies

Act, as it stands now, there is no provision by which a company, whether belonging to MRTP houses or not, is required to appoint a qualified accountant. Section 619 of the Companies Act, however, provides that Auditor of a Government company shall be appointed or re-appointed by the Central Government on the advice of the Comptroller & Auditor General of India, who maintains a panel of auditors for this purpose. Similarly, under section 619B of the Companies Act, accounts of certain companies specified therein are required to be audited by the auditors appointed by the Central Government in consultation with the Comptroller & Auditor General of India. Thus, the Central Government already has the power to appoint auditors in respect of companies which do not come within the definition of the Government companies. However, the suggestion regarding appointment of accountants for every company, specially those belonging to MRTP houses, does not appear to be feasible, since it will be difficult for the Government to maintain a panel of chartered accountants for appointment in private sector organisations. Every company recruits accountants according to their requirement and in every case their requirement may not be met from the panel of the chartered accounts.

2. In this connection, it may, however, be mentioned that Sachhar Committee in Para 8.13 of its report has recommended making statutory provision in the Companies Act requiring every company whose paid up capital is not less than Rs. 25 lakhs to employ as Chief Accountant or Financial Controller, a chartered accountant. This recommendation is under consideration of the Department of Company Affairs.

[Ministry of Finance (Deptt. of Revenue O.M. No.241/2/83 A& PAC-I Dated 22/20/83)].

Further Information.

Kind attention of the Hon'ble Committee is invited to this Ministry's O.M. of even number dated October 22, 1983.

2. In the earlier action taken note, it was made clear that under the existing provisions of Section 619 and 619 B of the Companies Act the accounts of a company are audited by the auditors appointed by the Central Government in consultation with the C&A. G. Many of the companies falling under 619 B are big houses/MRTP Companies. As such, the purpose for which PAC suggested for the appointment of qualified Accountants may have been achieved in respect of companies falling under Section 619 B. It was also explained that it will not be practicable for the Government to maintain a panel of Chartered Accountants for appointment in private sector companies/organisations, because every company will recruit Chartered Accountant according to their requirement and in every case, their requirement may not be met from the panel of Chartered Accountants.

3. While vetting the action taken note, C&AG of India made the following comments :

“The Ministry’s reply in regard to companies other than Government companies especially those belonging to MRTP Houses would require reconsideration as the PAC’s recommendation is regarding appointment of Chartered auditors and not appointment of Accountants by the companies concerned. The PAC does not refer to the recruitment and employment of Accountants by the companies themselves as accountants (employee). The Sachhar Committee recommendation is also regarding employment of accountants by every company having a capital of not less than Rs. 25 lakhs. This recommendation has nothing to do with the selection and appointment of Auditors for certifying the correctness of accounts in the Annual General meeting of the shareholders”.

4. In the light of the C&A. G’s comments, the matter has been reconsidered by the Department of Company Affairs. In reiterating their earlier views, they have given the following explanations :

(i) Bigger industrial houses/MRTP companies consist of small as well as big companies and not all of them are companies in which public/public financial institutions held shares. Where large chunk of share capital (25% or more) in any private sector company is held by public financial institutions, by virtue of provisions of section 224A of the Companies Act which provides for appointment of auditor by special resolution (with 3/4th majority decision of the shareholders of the company), the institutions do have a decisive say in the matter

(ii) The Companies Act already contains adequate provisions for inspection and investigation of the books of accounts and other records of all companies including those belonging to large industrial houses/MRTP companies. Wherever, in the course of such inspection or investigation, instances of tax evasion come to the notice of this Department, the same are duly brought to the notice of the C.B.D.T.

(iii) Under the scheme of the companies Act, which is in keeping with the theory of corporate democracy, the role of an auditor of the company is in the nature of that of a “watch dog” and the auditor is, therefore, required to report to the shareholders of the company on its financial position and performance and the annual accounts so certified by the auditor are also required

to be, thereafter, approved by the shareholders. Accordingly, the appointment of the auditor has been provided, under the Companies Act, to be made by the shareholders themselves (and not by any external agency).

(iv) Audit profession is regulated by the Institute of Chartered Accountants of India, an autonomous body set up under an Act of Parliament. The Council of the Institute, which administers its affairs, is required to have six nominees of the Government thereon; these include the representatives of the CBDT, C&AG, Ministry of Labour and the Department of Company Affairs and a Government nominee is also on the Disciplinary Committee of the Institute which considers action against any defaulting auditor in his performance of duties as such. The Chartered Accountants Act and the Regulations framed thereunder, contain adequate provisions to ensure that the Chartered Accountants, who function as auditors of companies, discharge their obligation faithfully.

(v) Introduction of the system of empanment of auditors, as suggested is not likely to serve any useful purpose whatsoever, in as much as all Chartered Accountants holding certificate of practice issued by the Institute, would be entitled to apply for, and would have to be empanelled. Thus, empanment by the Government would be an infructuous exercise in view of the system of issue of certificate of practice by the institute.

(vi) Finally, no one statute can be amended to carry out the purposes of another statute. Thus, the Companies Act cannot be amended for the purpose of checking evasion of taxes which is the concern of the Income-tax Act and other allied statutes. At any rate, under the proposed Finance Act, 1984, provision has already been made for compulsory tax audit of all assessees with sizeable operations in terms of turn-over to check tax-evasions.

5. This issues with the approval of the Minister of Law, Justice and Company Affairs.

[Ministry of Finance (Deptt. of Revenue) O.M. No. 241/2/83/A& PAC-I dt. 4.8.84].

F. No. 241/2/83/A& PAC-I

F. No. 12/2/83/-CL-V.

CHAPTER V

CONCLUSIONS OF RECOMMENDATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

Recommendation

The Committee consider that there is need to build up a data bank in the CBDT so that the information and intelligence gathered through various sources about the operations of the large industrial houses could be stored at one central place. It is also necessary to devise a regular system of exchange of information among the various Central and State agencies, particularly the Revenue Intelligence the Excise and Customs authorities, the Reserve Bank of India etc. so that the problem of escape from fiscal laws and evasion from taxes could be effectively tackled. It is essentially because of difficulties in timely setsieval of information and lack of coord, inated effort on the part of the various agencies entrusted with the task of enforcing the tax laws, that such evasion becomes possible. The Committee therefore urge that proper institutional Systems should be devised to get over the lacunae pointed out above. The Committee desire that this matter should engage the serious attention of the Government and concrete proposals worked out without loss of time.

[S No. 7, (para 1. 71) of the 143rd Report of Public Accounts Committee (1982-83) (Seventh Lok Sabha)].

Action Taken

The matter is still under consideration.

[Ministry of Finance (Deptt. of Reveune) O.M. No. 241/2/83/A & PAC-I dt. 27.12.83].

Recommendation

The Committee understand that it is proposed to set up branches of the Special Cell in the metropolitan towns of Delhi, Bombay, Calcutta and Madras to enable it to oversee the assessments large of industrial houses n)a more effective manner. This is a welcome step. The Committee would urge that this decision should be implemented expeditiously. The Committee are further of the view that the Directorate of Inspection (Special Investigation) should to organise its work that it is able to cover all the large industrial houses/MRTP companies at least once in five years. The organisation should therefore be suitably strengthened to tackle this task. Financial

constraints should not, however, provide an alibi for not strengthening the Directorate of Inspection.

[S. No. 10 (Para No. 1.74) of 143rd Report of the Public Accounts Committee (1982-83) (Seventh Lok Sabha)].

(Action Taken)

The matter is still under consideration.

[Ministry of Finance (Deptt. of Revenue O.M. No. 241/2/83/A & PAC-I dt. 27.12.83)].

NEW DELHI;
August 13, 1984,
Sravana 22, 1906 (S)

SUNIL MAITRA,
Chairman,
Public Accounts Committee.

A PENDIX

Summary of Recommendations/Observations

S. No.	Para No.	Ministry Deptt. Concerned	Recommendations.
1	2	3	4
1.	1.3	Ministry of Finance(Deptt. of Revenue)	

Ministries/Departments are required to submit their final replies showing the action taken by Government on the recommendations of the Public Accounts Committee contained in a Report within six months from the date of its presentation to Lok Sabha. The 143rd Report of the Committee (Seventh Lok Sabha) was presented to Lok Sabha in April, 1983. The Committee regret to note that although a period of over a year and a quarter has since elapsed, reply to one recommendation—Sr. No. 6—has not yet been received and replies to two of the recommendations received so far are of an interim nature. The Committee desire that final replies to all these recommendations should be furnished to them expeditiously, after getting them vetted by audit.

2 1.7 M/o Finance (Deptt. of Revenue)

In their earlier Report, the Committee had desired that the Ministry of Finance should indicate in their Annual Reports the revenue sacrifice involved in the various concessions under each head from year to year for the information of Parliament and the public. The Ministry in their reply have stated that wherever a concession is announced in the Budget Speech, the Finance Minister indicates the revenue sacrifice involved in the concession. They have also stated that the amount of actual revenue sacrifice under each section has to be collected from field formations consequent on the assessment being made according to a particular relief, which is subject to a change on the ground of rectification, appeal effect and revision and that the statistics are brought out by the Directorate of Inspection (RS&PR) in the form of All India Statistics. The Ministry have added that no information in regard to important concessions and allowances such as investment allowance etc. is available. The Committee are not satisfied with the above

reply. They feel that Parliament, which gives the tax-concessions, has the right to know as to how much revenue sacrifice is involved in each tax concession. True, at the time a concession is first announced by the Finance Minister, he gives an indication as to the revenue sacrifice involved. But the Committee would like to point out, what the Finance Minister indicates is just an estimate, and there may be a good deal of variation between the initial estimate and actual amount of revenue sacrificed. Further, in a developing economy, the amount involved in a tax concession will go on increasing with the passage of time and, after an elapse of a certain period, say a decade, the initial estimate announced at the time of the Budget speech may lose all relevance. Further, different concessions are given in different years. What the Committee have in view is a picture of all tax concessions under the Income Tax Act at one place. The Committee, therefore, reiterate their earlier recommendation that the Ministry should indicate in their Annual Reports the revenue sacrifice involved in the

3 1.8 M/o Finance (Deptt. of Revenue)

various concessions under each head from year to year for information of parliament and the public.

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The Committee also trust that as a result of the study to be made by the Institute of Public Finance and Policye, it will be possible for the Ministry of Finance to evolve some sort of mechanism whereby the various concessions given under the Income tax Act could be examined and processed from time to time to decide the question of their continuance keeping in view the extent of the underlying objectives achieved *vis-a-vis* the amount of revenue sacrificed.

4 1.11 M/o Finance (Deptt. of Revenue)

In their earlier Report, the Committee had felt the need to build up a data bank in the Central Board of Direct Taxes so that the information and intelligence gathered through various sources about the operation of the large industrial houses could be stored at one central place and that it was also necessary to devise a regular system of exchange of information among the various central and state agencies particularly the Revenue Intelligence, the Excise and Custom authorities, the Reserve Bank of India etc. so that the problem of escape from fiscal laws and evasion from taxes could be effectively tackled. The Committee had, therefore desired that this matter should engage the serious attention of Government and concrete proposals worked out without loss of time. The Committee had also recommended that the Directorate of Inspection (Special Investigation) should so organise its work that it was able to cover all the large industrial houses/MRTP companies at least once in five years and that the organisation should therefore be suitably strengthened to tackle this task. The Ministry,

in their reply, dated the 27th December, 1983, have stated that both the above recommendations are under consideration. As more than a year and quarter has elapsed since the Committee had made the above recommendations, the Committee desire that Government should take decisions in these matters without any further delay.

5 114 Ministry of Finance Deptt. of Rev.

A perusal of the Ministry's reply shows that they have not properly appreciated the spirit of the Committee's recommendation. All that the Committee had intended was that Government should examine the feasibility of incorporating a provision in the Companies Act providing that annual accounts of private sector companies should be audited and certified for correctness by Chartered Accountants from an empanelled list compiled by the Department of Company Affairs, in consultation with the Comptroller and Auditor General of India; and a beginning in the direction could be made with bigger industrial houses/MRTP Companies.

The Committee had made this recommendation considering the increasing tendency on the part of the big industrial houses to evade/avoid their tax liability through various methods and also taking into account the fact that quite a large share of capital in these companies is held by public/public financial institutions. Gradually, the provision could be extended to other private companies. In the opinion of the committee, the acceptance of this recommendation should present no difficulty as a provision already exists in section 619B of the Companies Act whereunder accounts of certain companies specified therein are required to be audited by auditors appointed by the Central Government, in consultation with the Comptroller and Auditor General of India. The committee, therefore, reiterate their earlier recommendation that Government should examine the feasibility of incorporating a provision in the Companies Act providing for audit of annual accounts of private sector companies particularly MRTP companies and those controlled by large industrial houses, by Chartered Accountants from an

PART II

MINUTES OF THE ELEVENTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (1984-85) HELD ON 7 AUGUST, 1984.

The Public Accounts Committee sat from 15.00 hours to 17.30 hours on 7 August 1984 in Committee Room No. 62, First Floor, Parliament House, New Delhi. The following were present :

Shri Sunil Maitra—Chairman

MEMBERS

2. **Shri G. L. Dogra**
3. **Shri Bhiku Ram Jain**
4. **Shri Uttam Rathod**
5. **Shri Suraj Bhan**
6. **Shri Ram Singh Yadav**
7. **Shri Bhim Raj**
8. **Shri Nirmal Chatterjee**
9. **Dr. (Shrimati) Najma Heptulla**
10. **Shri Ramanand Yadav**

REPRESENTATIVES OF THE OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

1. **Shri S. Sethuraman—ADAI (R)**
2. **Shri F. P. Gugnani—ADAI (Railways)**
3. **Shri M. Parthasarathi—DADS**

5. The Committee also authorised the Chairman to finalise the Reports after incorporating therein certain minor modifications/amendments arising out of factual verifications by audit and present the same to Parliament.

The Committee then adjourned.

