HUNDRED AND NINETY-THIRD REPORT
PUBLIC ACCOUNTS COMMITTEE
(1983-84)

(SEVENTH LOK SABHA)

CORPORATION-TAX, INCOME-TAX AND WEALTH-TAX

(MINISTRY OF FINANCE)
(DEPTT OF REVENUE)

[Action Taken on 85th Report (7th Lok Sabha)]

Presented to Lok Sabha on .....

Laid in Rajya Sabha on .....

LOK SABHA SECRETARIAT
NEW DELHI

March, 1984/Chaitra 1906 (S)
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Corrigenda to the Hundred and Ninty Third Report of Public Accounts Committee(1983-84).

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(1983-84)

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INTRODUCTION

I. the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this One Hundred and Ninety-Third Report on action taken by Government on the recommendations of the Committee contained in their Eighty-Fifth Report (7th Lok Sabha) on paragraphs 2.10 (iv), 2.21, 2.28, 3.9 (i), 3.11, 3.17. 4.12 and 4.17 (ii) of the Report of Comptroller & Auditor General of India for the year 1979-80, Union Government (Civil), Revenue Receipts, Volume II, Direct Taxes.

2. In December, 1968, the Ministry of Finance had informed the Committee that on the question of allowance of depreciation on assets acquired on hire purchase basis, the ratio of the decision of the Supreme Court in K.L. Johar's case given in 1965 was equally applicable to Income-tax and. thus, in accordance with the law, no depreciation allowance could be given to the lessee in respect of assets acquired on hire-purchase basis. In their 85th Report, the Public Accounts Committee (1981-82) expressed their displeasure on the fact that even after 14 years, the concession continued to be given under executive instructions and the law on the point had not been suitably amended. The Committee strongly recommended that the necessary amendment may be made without any delay. In pursuance of this recommendation, the Ministry have now stated that the amendment of the relevant provisions of the Act, *viz.* Sections 32-33 would depend upon the prior amendment being contemplated by the Ministry of Law to the provisions of the Hire Purchase Act, 1972, which had. however, not yet come into force. The explanation, given by the Ministry for not enforcing the Hire Purchase Act is that the Banking Law Committee in its report on Personal Property Security Law (1977) had proposed certain far-reaching amendments to the Act. Expressing surprise over the above explanation, the Committee have pointed out that more than six years have elapsed since the Banking Law Committee had submitted its report and it should have been possible for Government by now to examine and take decisions on the recommendations of the Banking Law Committee, The Committee have desired that the matter should be expedited and necessary action taken to bring the Hire Purchase Act in force without

any further delay so that executive instructions are provided statutory support at the earliest.

3. The Surtax Act provides for the companies voluntarily filing returns of chargeable profits as well as for the Income-tax Officers calling for such returns by notice. The Act does not provide for any time-limit for the completion of Surtax assessments. In their successive Reports, the Public Accounts Committee have taken adverse note of cases where neither the assessees had themselves filed Surtax returns voluntarily nor had the Income-tax Officers called for such returns, with the result that Surtax assessments remained to be completed long after the corresponding income-tax assessments had been made. Pursuance to a recommendation of the Committee, the Central Board of Direct Taxes issued instructions in October, 1974, laying down that proceedings for completion of regular Surtax assessments should be taken up along with income-tax proceedings so that the Surtax assessments are finalised immediately after the income-tax assessments are completed. However, even after issue of these instructions, a large number of cases came to notice where income-tax assessments were completed/revised, but no action was taken to complete the corresponding Surtax assessments. The Public Accounts Committee (1981-82), which examined these cases, strongly recommended that the suggestion about the inclusion of a time-limit for completion of assessments under the Surtax Act should be seriously considered and given effect to. Noting that Government had taken no action in this regard, the Committee have desired that the Ministry of Finance should take immediate action for the amendment of the Surtax Act so as to provide for a time-limit for the completion of Surtax assessments.

4. The Public Accounts Committee considered and adopted this Report at their sitting held on 20 March, 1984. Minutes of the sitting 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 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 the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI
March 23, 1984
Chaitra 3, 1906 (Saka)

SUNIL MAITRA
Chairman,
Public Accounts Committee

CHAPTER I

REPORT

This Report of the Committee deals with action taken by Government on the Committee's recommendations/observations contained in their 85th Report (Seventh Lok Sabha) on paragraphs 2.10(iv), 2.21, 2.28, 3.9(i), 3.11, 3.17, 4.12 and 4.17(ii) of the Report of the Comptroller & Auditor General of India for the year 1979-80, Union Government (Civil), Revenue Receipts, Volume-II, Director Taxes, respectively relating to Incorrect Allowance of depreciation, Non-completion of re-opened or cancelled assessments, Omission/delay in revising surtax assessment, loss of Revenue, mistakes in assessments of firms and partners clubbing of income, loss of revenue due to loss of return filed by an assessee, application of incorrect rates and failures to issue demand notices.

1.2 The Eighty-fifth Report was presented to the Lok Sabha on 1 April, 1982 and contained 40 recommendations. The Action taken Notes in respect of all the recommendations/Observations have been received from Government and have been categorised as follows :

(*i*) *Recommendations, observations that have been accepted by Government* :

Sl. Nos. 1, 3, 4 to 8, 11 to 13, 18, 20, 24 to 31 and 38 to 40.

(*ii*) *Recommendations/observations which the Committee do not desire to pursue in the light of the replies received from Government* :

Sl. Nos. 9,10 and 37.

(*iii*) *Recommendations/observations replies to which have not been accepted by the Committee and which require reiteration* :

Sl. Nos. 2, 14—17, 21—23.

(*iv*) *Recommendations/observations in respect of which Government have furnished interim replies* :

Sl. Nos. 32 to 36.

1.3. The Committee desire that final replies to the recommendations in respect of which only interim replies have so far been furnished should be submitted to them expeditiously after getting the same duly vetted by Audit.

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

Incorrect Allowance of Depreciation

(Sl. Nos. 2 and 3 (Paras 1.7 and 1.8)

1.5. Commenting on the question of allowance of depreciation on assets acquired on hire-purchase basis and concession given under executive instructions, the Committee in Paragraph 1.7 and 1 8 had made the following recommendations :

> "On the question of allowance of depreciation on assets acquired on hire-purchase basis the decision of the Supreme Court in K.L. Johar's case [STC Vol XVI/1965 (213)] was given in 1965. The Ministry of Finance had also informed the Committee in December 1968, after consulting the Ministry of Law, that the ratio of this decision of the Supreme Court was equally applicable to Income-tax. It would follow that the Ministries of Finance and Law accepted the position that in accordance with the Law, as it stood, no depreciation allowance could be given to the lessee in respect of assets acquired on hire-purchase basis. The Committee are unhappy to note that even after 14 years the concession continues to be given under executive instructions and the law on the point has not been suitably amended. The Committee would strongly recommend that necessary amendment should be suggested without any further delay.
>
> The Committee note that the Hire-purchase Act passed in 1972 has not yet come into force. The Committee would like to know the precise reasons for this".

1.6. In their Action Taken Notes, the Ministry of Finance have stated as follows :—

> "For granting depreciation and development rebate on assets acquired on hire-purchase agreement amending the provisions of Section 32 & 33 of Income-tax Act has been recommended by the Hon'ble Com-

mittee, However, such an amendment would depend upon the prior amendment being contemplated by the Ministry of Law to the provisions of Hire-Purchase Act, 1972. The Ministry of Law has confirmed that Hire-Purchase Act, 1972 (26 of 1977) has not yet come into force. Till such time instruction No. 1097 dated 19th September, 1977 would continue to operate.

A notification was issued on 30.4.1973 to bring Hire-Purchase Act into force on 1.6.1973, Later, another notification was issued on 31.5.73 superseding the notification of 30th April, 1973 and proposing to bring the Act into force on 1.9.1973. Since several representations were received from the public against the bringing of the Act into force, it was decided not to enforce the Act and accordingly a notification rescinding the notification dated 31.5.1973 was issued on 23.8.1973. In its Report on Personal Property Security Law (1977), the Banking Law Committee has proposed certain far reaching amendments to the Act. It is proposed to bring the Act into force only after the recommendations made by the Committee are examined and decisions taken to amend the Act suitably".

1.7. The Committee observe that the Ministry of Finance, after consulting the Ministry of Law, had informed the Committee in December, 1968 that on the question of allowance of depreciation on assets acquired on hire-purchase basis, the ratio of the decision of the Supreme Court in K.L. Johar's case given in 1965 was equally applicable to Income-tax and thus, in accordance with the law, as it stood, no depreciation allowance could be given to the lessee in respect of assets acquired on hire-purchase basis. The PAC (1981-82) were unhappy to note that even after 14 years the concession continued to be given under executive instructions and the law on the point had not till then suitably amended. The Committee strongly recommend that the necessary amendment may be made without any delay.

1.8. In their action taken reply, the Ministry have stated that the amendment of the relevant provisions of the Act, viz. **Sections 32-33, would depend upon the prior amendment being contemplated by the Ministry of Law to the provisions of the Hire Purchase Act, 1972. The Ministry of Law have confirmed that the Hire Purchase Act has not yet come into force. Till such time, the executive instructions dated 19.9.1977 would continue to operate. The Committee are**

amazed that even though 12 years have elapsed since the Hire Purchase Act was enacted by Parliament, it is yet to come into force. Even though two notifications to bring the Act into force were issued in 1973, these were subsequently superseded/rescinded. The reason given by the Ministry of Law for not enforcing the Hire Purchase Act is that the Banking Law Committee in its report on Personal property Security Law (1977) has proposed certain far-reaching amendments to the Act. The Committee are surprised at this explanation. More than six years have elapsed since the Banking Law Committee submitted its report to Government and it should have been possible by now for them to examine and take decisions on the recommendations of the Banking Law Committee. The Committee desire that the matter should be expedited and necessary action to bring the Hire Purchase Aet into force should be taken without any further delay so that executive instructions dated 19.9.1977 are provided statutory support at the earliest. The Committee need hardly emphasise the imperative need for immediate action as power to grant a concession in taxation is a substantive power which must flow from statute whether by express grant or by express authorisation.

Non-Completion of Cancelled or Set Aside Assessment

(SI. Nos. 6-8, Paras 2.6-2.8)

1.9. Commenting upon delay in completion of cancelled or set aside assessments pertaining to the assessment years upto 1970-71, the Committee in paras 2.6 to 2.8 of their 85th Report (1981-82) had observed :

> "The Income-tax Act, 1961, did not, prior to the assessment year 1971-72 contain any time limit for the completion of such cancelled or set aside assessments. A time limit of two years for that purpose was introduced only from 1.4.1971 through the newly introduced section 153(2) (A) of the Act. The Central Board of Direct Taxes had, however, earlier issued a circular No. 10-P (V-68) of 1968 dated 15th October, 1968, laying down an administrative time limit of two years for completion of such assessments.
>
> It is apparent from these cases that the administrative time limit fixed by the Board was not really observed by the field formations and a large number of cancelled or set-aside assessments pertaining to the assessments years upto 1970-71 were allowed to remain pending for indefinitely long periods. The case reported in

para 3.18 of the Audit Report involving a delay of over 28 years is perhaps the worst of such cases. According to the information given by the Ministry of Finance to the Committee in January, 1981 the total number of such cancelled and set-aside assessments of assessment years upto 1970-71 outstanding as on 30.11.1960 was 8,569. These figures were, however, stated to be not complete.

The Cbmmittee cannot but observe that such inordinate delay in completion of cancelled and set-aside assessments are neither fair to Revenue nor to the taxpayers. Going by the assessments originally made in the particular cases commented upon in the Audit Report tax demands of about Rs. 70 lakhs have remained pending because of non-completion of the cancelled or set-aside assessment in these cases.

In their written reply, the Ministry of Finance have tried to belittle the importance of Audit objection on the ground that figure of Rs. 61.61 lakhs of unrealised revenue mentioned in para 2.21 of the Audit Report is based on original assessments which had been made on very high income. The conclusion drawn by the Ministry is actually based only on the re-assessments made for the assessments years 1963-64 and 1964-65. For these two years demand included in the aforesaid figure of Rs. 61.61 lakhs was only of the order of Rs. 793 lakhs. The Committee would like to know how the Ministry could, on its own, and before actual completion of assessments for all the other six years involving demands of over Rs. 53 lakhs, come to the conclusion that the original assessments were highly inflated, or that the original demands were unrealistic."

1.10. In their Action Taken Note, the Ministry have stated as follows :—

"The Board are alive to the problem of the pendency and disposal of set aside assessments relating to assessment year 1970-71 and earlier years. The pendency of such assessments as on 31.3.1981 was reported at 7,777, after the Board had begun monitoring the disposal of these set aside assessments through C.A.P. II Statement. The pendency as per this statement received for the month of March 1982 was 2,321 and, as on 31.3.1983, it was further reduced to 1,840 only.

As observed by the P.A.C.. there is no time limit for completion of set aside assessments in respect of these assessments. This applies even if any assessment is respect of assessment year 1970-71 and earlier years is set aside today. In view of this the pendency of such assessments can register an increase on account of those assessments which might be set aside by the Appellate or Revisionary authorities from time to time.

It was also made clear to the Commissioners by a D.O. letter issued by the Chairman that action would be taken against those officers, who failed to complete all such assessments by 31.3.1982. It may be noticed that the pendency of such assessments has considerably gone down and all out efforts are being made to liquidate their pendency or, atleast, to bring it down to the minimum. The Commissioners were requested to intimate the reasons in respect of each case pending assessment as on 31.3.1982. On the basis of the reports received, it was noticed that the pendency is mainly on account of the following reasons :

(a) Cases stayed by Courts on assessees' writ petitions.

(b) Assessees' applications are pending before the Settlement Commission.

(c) Certain points are involved in the assessments in which for earlier years, the department had preferred reference applications.

(d) Non co-operation on the part of the assessees.

(e) The cases require deeper scrutiny and verification of certain evidences furnished by the assessees.

(f) Books of accounts seized by other departments, e.g. sale-tax department, S.P.E., C.B.I. have to be scrutinised.

Recently, a D.O. letter has been issued by Member (Income-tax) urging the Commissioners to personally watch the disposal of such cases and call for weekly reports".

1.11 Though the observations of the Committee have been accepted, the Ministry have not replied to the specific point raised by the Committee as to how the Ministry could, on its own, and before actual completion of assessments for all the other six years—1965-66

to 1970-71 involving demands of over Rs. 53 lakhs, come to the conclusion, that the original demands were unrealistic. The Committee would await to hear from the Ministry in this regard.

Omission/Delay in Revising Surtax Assessments

(Sl. No. 14.17 and 20.21 Paras 3.3 to 3.6, 3.9, 3.10)

1.12. Commenting on the omission/delay in Revising Surtax Assessments, the Committee in paras 3.3 to 3.6 and paras 3.9 to 3.10 of their Report made the following recommendations :

"Surtax is levied under the Companies (Profits) Surtax Act, 1964 on the chargeable profits of a company in as far as these profits exceed statutory deduction. Chargeable profits are computed in the manner laid down in the First Schedule to the Act by making certain adjustments on the income computed for purposes of income tax. The Surtax Act provides for the companies voluntarily filing returns of chargeable profits as well as for the Income-tax Officers calling for such returns by notice. The Act does not provide for any time limit for the completion of surtax assessments.

The Public Accounts Committee have, in the past, taken adverse note of cases where the assessees failed to file surtax returns voluntarily and the Income-tax Officers did not also call for such returns with the result that surtax assessments remained to be completed long after the corresponding income-tax assessments had been made. In para 6.7 of their Eighty Eighth Report (Fifth Lok Sabha) and again in Para 6.7 of their One Hundred Twenty Eighth Report (Fifth Lok Sabha) the Committee emphasized that surtax assessments should be taken up along with the connected income-tax assessment of the companies.

In pursuance of the aforesaid recommendations of the Committee, the Central Board of Direct Taxes issued instructions on 22 October, 1974. These instructions laid down that proceedings for completion of regular surtax assessments should be taken up along with income-tax proceedings so that the surtax assessments are also finalised immediately after the income-tax assessment are completed. The instructions also pointed out that the fact that additions made in the income-tax assessments were being disputed in appeal should not be a ground for not finalising the surtax assessments. It was further

laid down that the time lag between the date of completion of income-tax assessments and surtax assessments should ordinarily not exceed a month unless there are special reasons justifying the delay.

The present Audit para again points out a large number of cases where income-tax assessments were completed/revised during the years 1976, 1977 or 1978 but no action had been taken to complete the corresponding surtax assessment with the result that considerable amounts of surtax remained to be assessed and collected.

The Committee are particularly pained to know that in their written replies the Ministry of Finance have themselves tended to belittle the importance of the Board's instructions by saying that these are "merely administrative" instructions. Even while accepting the audit objection the Ministry of Finance seem to find solace in the argument that there is no loss of revenue as "there is no time-barring provision in the Surtax Act." In fact there is no indication in any of the written replies of the Ministry of Finance as to whether the precise reasons for this persistent in action on the part of the Income-tax Officers have been ascertained or whether any positive steps have been thought of to improve matters.

The Committee would strongly recommend that the suggestiou about the inclusion of a time limit for completion of assessments under the Surtax Act should be seriously considered and given effect to. In the meanwhile the Board's instruction of 1974 should be given its due importance and its observation should be insisted upon."

1.13 In their action taken notes, the Ministry of Finance have stated as follow :—

"Reasons for non-completion of Surtax assessments have been ascertained from the Commissioners of Income-tax. It has been observed that the Surtax assessments were delayed for reasons like the Income-tax Officer not being aware of the Board's instructions, oversight, change in the jurisdiction of the case, the assessing officer being busy in the time barring assessments, pendency of Income-tax appeals, collection of relevant information, etc. In one case, no Sur-tax was leviable.

As regards the recommendation in respect of Sl. No. 21(Para 3.10), the Hon'ble Committee was informed that need for issue of fresh instruction was under consideration of the Ministry."

1.14. The Committee note that the Surtax Act provides for the companies voluntarily filing returns of chargeable profits as well as for the Income-tax Officers calling for such return by notice. The Act does not provide for any time-limit for the completion of Surtax assessments. In their successive Reports, the Public Accounts Committee have taken adverse note of cases where neither the assessees had themselves filed Surtax voluntarily nor had the Income-tax Officers called for such returns, with the result that Surtax assessments remained to be completed long after the corresponding income-tax assessments had been made. Pursuant to a recommendation of the Committee, the Central Board of Direct Taxes issued instructions in October 1974, laying down that proceedings for completion of regular Surtax assessments should be taken up along with income-tax proceedings so that the Surtax assessments are finalised immediately after the Income-tax assessments are completed. The instructions further laid down that the time-lag between the date of completion of income-tax assessments and Surtax assessments should ordinarily not exceed a month unless there are special reasons justifying the delay. However, even after the issue of the aforesaid instructions, a large number of cases came to notice where Income-tax assessments were completed/revised, but no action had been taken to complete the corresponding Surtax assessments, with the result that considerable amounts of Surtax remained to be assessed and collected. The PAC (1981-82), which examined these cases, strongly recommended that the suggestion about the inclusion of a time-limit for completion of assessments under the Surtax Act should be seriously considered and given effect to.

1.15. In their action taken reply, the Ministry have stated that "Surtax assessments were delayed for reasons like the Income-tax Officer not being aware of the Board's instructions, oversight, change in the jurisdiction of the case, the assessing officer being busy in the time-barring assessments, pendency of income-tax appeals, collection of relevant information etc." The Ministry have also stated that the need for issue of fresh instructions was under consideration of the Ministry. The Committee are unhappy to note the reasons given by the Ministry for the inordinate delay on the part of the Income-tax Officers in completing Surtax assessments. In the opinion of the Committee, these reasons are totally unconvincing. They only indicate that the Board's instructions in the matter have remained unheeded by the lower formations. As the Committee have repeatedly pointed out, instructions have value if they are followed by the

lower formations in letter and spirit. The Committee trust that the Board will take effective action to ensure that this is done.

1.16. The Committee note that in their reply, the Ministry have said nothing regarding the amendment of the Surtax Act to provide for a time-limit for the completion of Surtax assessments. The Committee desire that the Ministry should take immediate action for the amendment of the Surtax Act so as to provide for a time-limit for the completion of Surtax assessments.

Loss of Revenue (Sl. No. 22—Para 4.4)

1.17. Commenting upon the loss of revenue to the tune of Rs. 457357 due to delay first in initiating action after the receipt of the audit objection and then completing such action after the issue of notices, the Committee in para 4.4 of the 85th Report (1981-82) had recommended as follows :—

> "The assessments for the years 1971-72 and 1972-73 were completed in January, 1974. The audit objection was raised in May/June, 1975. Notices under Section 148 were issued in March, 1977. If, as stated by the Ministry of Finance, remedial action for these two assessments years got barred by limitation, it would only mean that after the issue of notices in march, 1977, no action was taken for one whole year [Section 153(2) (b)]. Apparently, there was delay both in initiating remedial action after the receipt of the audit objection, as well as in completing such action after the issue of notices. As a result, revenue of Rs. 457357 was lost. The Committee would like the Ministry of Finance to give the reasons for these inexcusable delays, surprisingly not indicated in the written reply furnished to the Committee. The Committee would also like the Ministry of Finance to take appropriate action to fix responsibility in the matter and inform the Committee accordingly".

1.18. In their action taken note, the Ministry of Finance have stated as follows :—

> "As pointed out by the Committee, the Income-tax Officer had initiated action under Section 148 read with Section 147(b) in March, 1977 for the assessment year 1971-72 and 1972-73. However, the assessment was not completed within the statutory time-limits i.e. within one year

from the end of the financial year in which notice U/S 147(b) was issued. The officer concerned has since retired. Action for fixing responsibility on officer responsible for allowing the matter to get time-barred is under process. It may be mentioned that the taxability of interest on actual basis has been examined by the ITAT in this case for the assessment year 1974-75 in its order dated 30.3.81. The ITAT held that the assessee was entitled to receive interest only on encashment after maturity and not on accrual basis and even then no interest is receivable on securities held over the permissible limit of Rs. I lakhs. This decision has been accepted by the CIT as correct."

1.19. **In their earlier Report, the Committee had desired the Ministry of Finance to fix responsibility for the loss of revenue to the tune of Rs. 4,57,357 caused by delay first in initiating action after the receipt of the Audit objection and then in completing the action after the issue of notices, which resulted in the assessments getting barred by limitation. The Committee regret to observe that although nearly two years have elapsed since the Committee made the above recommendation, responsibility in the matter is yet to be fixed, and in the meanwhile the concerned officer has retired from service. In the opinion of the Committee, the present case underscores the need for quick action in such matters, for any-undue delay in holding an enquiry defeats its very purpose. In a recent Report, the Committee have stressed that in cases of the present type resulting in undue delays/losses the Ministries/Departments, in the interest of effcient administration, should, on their own, investigate the delays/losses, without waiting for a directive from the Public Accounts Committee. The Committee trust that the Ministry of Finance would bear this in mind. In the meanwhile, the Committee desire that the action already initiated to fix responsibility in the matter should be speeded up.**

Loss of Revenue (Sl. No. 23 Para 4.5)

1.20. While commenting on the loss of revenue due to inaction on the part of the departmental officers, the Committee in para 4.5 of their earlier Report had observed as follows :—

"When the audit objection was raised in May/June, 1975, there was ample time to take remedial action in respect of all the assessment

years. The inaction on the part of the departmental officers continued till 1978, when the remedial action for two assessment years got time-barred. The Ministry of Finance had stated before the Committee last year that the Central Board of Direct Taxes had, in March 1977, reiterated their earlier instructions to the effect that the Commissioners of Income-tax are personally responsible for careful examination and issue of instructions to the Income-tax officers on the most appropriate remedial action to be taken within a month of the local audit report in regard to audit objections involving revenue of over Rs. 25,000 or more in income-tax/corporation tax cases and Rs. 5,000 or more in other direct taxes cases. Apparently, even after the reiteration of these instructions in March, 1977, the supervisory officers have not been giving required attention to the audit objections resulting in avoidable losses of revenue as in this case. The Committee would like to know whether the Ministry of Finance have enquired into the role played by the Inspecting Assistant Commissioner and the Commissioner of Income-tax in the present case.

1.21. In their action taken reply, the Ministry of Finance have stated :—

"The role of Inspecting Assistant Commissioner and the Commissioner of Income-tax in the present case was to ensure that remedial actions were initiated once the audit objection was received as per Instruction no. 1046 of 15.3.77. In the present case, since the remedial action was initiated u/sec. 148 it was for the Income-tax Officer to complete assessment within the statutory time-limit".

1.22. The Committee are not convinced by the above reply of the Ministry. In their opinion, the responsibility of the Inspecting Assistant Commissioner and the Commissioner of Income-tax in such matters should not cease just with ensuring that the remedial action is initiated. They feel that it should also be the responsibility of the Inspecting Assistant Commissioner and the Commissioner of Income-tax to see that the remedial action initiated is completed well in time. The Committee would like the Central Board of Direct Taxes to issue suitable instructions to the lower formations in this regard.

Loss of Revenue Due to Loss of Return Filed by an Assessee

(Sl. Nos. 32, 34—Paras 7.3, 7.5)

1.23. Commenting on the loss of revenue due to loss of return filed by an assessee, the Committee in paras 7.3 to 7.5 of their Report had recommended/observed as follows :

"The Committee understand from Audit that in response to the notice issued under section 148 of the Income-tax Act, 1961 the assessee had made a statement that she had already filed a return on 6.1.1968 and also paid a tax of Rs. 1,33,157 under section 140A on 2.2.1968. Nevertheless, the Income-tax Officer proceeded to make an assessment under section 143(3)/147 and in his assessment order dated 18.1.1977 he did not even discuss these points raised by the assessee. The assessee was thus forced to seek redress from the appellate authority.

In this case, in response to the notice issued by the Income-tax Officer the assessee claimed that a return of income had already been filed and payment of tax on self-assessment basis had also been made by her 6 years earlier. Nevertheless, the Income-tax Officer proceeded to complete the assessment without verifying the veracity of the assessees claims which, as it turned out later, were true and duly authenticated by departmental receipts.

The Committee cannot but observe that this is a case of sheer callousness and harassment and the Income-tax Officer seems to have become a law unto himself rather than acting in a quasi-judicial capacity. What pains the Committee all the more is the fact that the Ministry of Finance have merely stated that the objection has been accepted ; they have nothing to say about the high handed action of the Income-tax Officer or about their own reaction to it.

Elsewhere in this report the Committee have made a mention of the public image of the Income-tax Department. This is not the only case where a return duly filed by an assessee was misplaced or where a payment of tax already made by the assessee was not linked and given credit for. These are matters of common occurrence which put the tax payers to considerable harassment. In fact, para 1.08(i) (a) of the Audit Report 1979-80, mentions an amount of as much as Rs. 8.84 crores, which is claimed to have been paid by the tax payers but is pending verification/adjustment. The Committee would

strongly recommend that the Ministry of Finance should take exemplary action in such glaring cases and also bring about improvements in systems and procedures to ensure proper linking of the returns filed by the tax payers and the taxes paid by them. The Committee would like to be informed of the disciplinary action taken against the I.T.O. who made the assessment in the case under discussion.

1.24. The Ministry in their reply have stated as follows :—

"The recommendations of the Hon'ble Committee are under consideration of the Ministry. The final reply will be furnished as soon as the same is ready".

In a further reply regarding para 7.5 (S. No. 34). the Ministry have added :—

"Kind attention is Invited to this Ministry's O.M. of even number dated the 14th October 1982 in respect of para 7.5 of the 85th Report of the P.A.C. (1981-82) (7th Lok Sabha). The Hon'ble Committee was informed that the recommendations are under consideration of the Ministry and final reply will be furnished as soon as the same is ready.

Instructions have been issued from time to time to minimise such instances. With this view in mind, the Dak Receipt system in the Department has been streamlined. As per the new system, the No. of papers/documents/statements filed with the returns of income are mentioned in the receipt itself alongwith the description of each enclosure. Further more, a reconciliation of the returns received daily is required to be prepared.

Vide Board's Instruction No. 1540 dated 30.11.1983 (F. No. 225/73/82-ITA-II), it was reiterated that such types of cases should be avoided and utmost care should be taken to ensure that such lapses do not recur in future. Vide Board's Instruction No. 1548 dated 19.1.1284, (F.No. 228/49/83 ITA. II), it has been required that in the month of April every year, a special drive should be launched for the verification/adjustment of taxes paid by the assessees and placing of papers on the files. The Officers have been required to give a certificate that all the pending papers have been restored to the files and all pending adjustments of taxes have been done. The Cs. IT and I.A.Cs. have also been asked to keep a vigil on this work."

1.25. In their earlier Report, the Public Accounts Committee had considered a case where in response to the notice issued under Section 148 of the Income-tax Act, 1961, the assessee had made a statement that she had already filed a return on 6.1.1961 and had also paid a tax of Rs. 1,33,158 under Section 140-A on 2.2.1968. However, the Income-tax Officer in January, 1977 proceeded to complete the assessment without verifying the veracity of the assessee's claims which, as it turned out later, were true and duly authenticated by Departmental receipts. Commenting upon the above case, the PAC (1981-82) observed that this was a case of sheer callousness and harassment and the Income-tax Officer seemed to have become a law unto himself rather than acting in a quasi-judicial capacity. In their action taken reply, the Ministry of Finance have stated that the recommendation of the Commitee is under consideration. The Committee are astonished at this casual reply. They need hardly point out that put lapses such as these which tarnish the image of the Department in the public eye. The Committee would like the Ministry to take a serious view of the lapse so that such responsible officers as ITOs who are supposed to act in a quasi-judicial capacity do not act callously, causing unnecssary harassment to assessees.

1.26 In their reply, the Ministry have not said anything about the disciplinary action agains the Income tax officer concerned in the case. The Committee would like to know the action taken in the matter.

Failurs to Issue Demand Notices

(Sl. No. 39.40—Paras 9.7 and 9.8)

1.27. Commenting on a case of failure to issue demand notice in time, the Committee in para 9.7 and 9.8 of their earlier Report had recommended as follows :—

> "The Demand and Collection Register is required to be filled up by the Wealth-tax Officer as soon as any assessment is completed and the assessment order is passed. It should be possible for the Wealth-tax Officer to ensure while making these entries that the notice of demand has also been simultaneously prepared and despatched to the assessee. A periodical review of the Demand and Collection register should also be insisted upon so that cases where notices of demand have not been issued can be promptly located and action taken at the earliest

possible time. The Ministry of Finance should ensure that the assessing officers issue demand notice almost simultaneously with the passing of assessment orders in all cases and let the Committee know what system of review exists by which omissions of this type do not go unnoticed over a period of years and failures are taken serious note of".

"The Committee would also recommend that instead of the Board resting content with the issue of instructions it should take serious notice of failures coming to notice to ensure compliance with the instructions".

1.28. In their action taken replies, the Ministry of Finance have stated as follows :—

"The instructions issued by the Directorate of Organisation & Management Services also prescribe that the Inspecting Assistant Commissioner shall inspect the Demand and Collection Register on the 7th of the following month and test check that all the relevant entries have been made in the register. In token of having made this inspection, the IAC is required to sign the Demand and Collection Register.

The existing instructions are clear and comprehensive and prescribe a clear system of review to ensure that the omissions of the type noticed by the Hon'ble Committee do not recur."

1.29. The Committee feel that mere issue of instructions is not enough. There should be a system to ensure that follow up action on the instructions by the concerned officers is prompt and proper.

CHAPTER II

CONCLUSIONS OR RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

Recommendation

The Allahabad High Court case [Banarsi Dass Guta v/s. CIT (81 ITR 170)] on which the Audit objection to the allowance of depreciation on a fractional share in the ownership of an asset is based, was decided in September, 1970. It is amazing that even after more than 11 years, in December, 1981, the Ministry of Finance should not only be unable to give their own considered view on the point but also be unaware as to whether the decision of the High Court was accepted or appealed against. The Ministry have stated in their written reply that remedial action has been taken "as a measure of abundent caution". The audit objection was raised in February, 1979. Surely, there was enough time to examine the point in the context of the Allahabad High Court decision and in consultation, if necessary, with Audit and the Ministry of Law, to take a firm view in the matter rather than keep the issue pending and then rush in to reopen the assessment as a precautionary measure. There is no provisions in law to reopen an assessment u/s 147 of the Income-tax Act, as a precautionary measure and, therefore, such act of the ITO is palpably illegal and without jurisdiction.

The Committee have no doubt that the cloak of precautionary or protective assessments has been used to hide departmental inefficiency. This reflects adversely on the functioning of CBDT in the clarifying legal issues for the guidance of field formations. The Commiitee would like the Income Tax Department to reopen assessments strictly in accordance with the law.

[Sl. No. 1 (Para 1.6)]

Action Taken

The observations of the Public Accounts Committee have been noted for strict compliance in future.

[Ministry of Finance (Department of Revenues)
F. No. 241/4/82-A & PAC-II
F. No. 228/16/83-ITA-II]

Recommendation

The Committee note that the Hire Purchase Act passed in 1972 has not yet come into force. The Committee would like to know the precise reasons for this.

[Sl. No. 3 (Para 1.8]

Action Taken

A notification was issued on 30.4.73 to bring this Act into force on 1.6.73. Later another notification was issued on 31.5.73 superseding the notification of 30th April, 1973 and proposing to bring the act into force on 1.9.1973. Since several representations were received from the public against the bringing of the Act into force, it was decided not to enforce the Act and accordingly a notification rescinding the notification dated 31.5.1973 was issued on 23.8.73. In its Report on Personal Property Security Law (1977), the Banking Law Committee has proposed certain far-reaching amendments to the Act. It is proposed to bring the Act into force only after the recommendations made by the Committee are examined and decisions taken to amend the Act suitably.

[Ministry of Finance (Department of Revenue) dated 24th Jan., 1983]

Recommendations

According to the Ministry's written reply sent to the Committee in December, 1981 re-assessments had been made only for the assessment year 1963-64 and 1964-65 ; fresh assessments for all the other assessment years were still pending. For the assessment years 1963-64 and 1964-65 the total incomes determined on reassessment were Rs. 33,218 and Rs. 20,100 against the total incomes of Rs. 13,21,016 and Rs. 50,000 determined in the original assessments on the basis of best judgement assessment.

Of the two assessments which have since been completed, the assessment for the assessment year 1963-64 is clearly indicative of vexatious and/or unrealistic additions in the original best judgement assessment. The income returned for that year was Rs. 11, 585. The best judgement assessment was made on an income of Rs. 13, 21, 016. The income determined on reassessment is Rs. 33, 218 only. The Ministry of Finance have not given any details of the additions made by the income-tax officer in the original assessment, his reasons for doing so, and the reasons for the steep

reduction of the total income in the reassessment. The Committee would like to have these details.

[Sl. Nos. 4 and 11 (Paras 2.4 and and 2.11)]

Action Taken

The observations and recommendations of the Hon'ble Commttee are noted in so far as they are reflected in para 2.4. As regards the recommendations/observations made in para 2.11, additions as per Annexure No. 1/were made to the assessee's income in the original assessment. It will be observed that out of total additions of Rs. 13, 04, 446/-, and addition of Rs. 12, 94, 560/- was made on account of unproved cash credits and interest thereon, as on test check, it was observed that either the allege d creditors denied having made the credits or could not prove source of the same. In some other cases, incomplete addresses were given in respect of the depositors. Hence the alleged oredits could not be verified and additions to the above extent were made. However, after reopening the assessments, the assessee placed on record confirmations in respect of all the depositors. After examining some depositors the Income-tax officer accepted the credits as geniune, except in two cases where the amounts wore Rs. 10,000/- and Rs. 5,000/- respectively. Afther making minor adjustment assessment was completed at total income of Rs. 32, 280/-.

2. The assessment for the assessment year 1965-66 has since been made on 26.4.82 on total income of Rs. 97, 410/-. The position regarding additions in the original assessment and reduction in the subsequent assessment is more or less similar to that of the case for assessment year 1963-64.

The concerned Income-tax officer has been directed to complete the assessments for the remaining assessment years after making necessary enquiries by the end of December, 1982.

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

ANNEXURE

Add : *Inadmissibles*		
(i)	Goodwill written off	650/-
(ii)	Preliminary expenses written off	893/-
(iii)	Charity	48/-
(iv)	Renovation expenses for the reasons given in para 4 (a)	1015/-
(v)	1/3rd Insurance commission as discussed in para 4 (b)	310/-
(vi)	1/3rd Motor Vehicles Repairs and Maintenance expenses considered para 4 (c)	687/-
(vii)	Mahoorat expenses for the reasons given in para 4 (d)	752/-
(viii)	Out of miscellaneous expenses for the detailed reasons mentioned in para 4 (e)	331/-
(ix)	1/3rd Rent, Rates and Taxes for the reasons given in para 4 (f)	56/-
(x)	1/3rd of Petrol Bills debited in Travelling and Conveyance Account as discussed in para 4 (g)	576/-
(xi)	Managing Director's Commission	4068/-
(xii)	Out of entertainment considered for personal purposes	500/-
(xiii)	Income from undisclosed sources cash credit as discussed in para 5	12,07,110/-
(xiv)	Interest payments for the reasons given in para 6.	87,450/-
	Total	13,04,446/-

[Ministry of Finance (Department of Revenue) F No. 241/4/82-A & PAC-II D. O. No. 1AC/A 1/82-83/1739 dated 25.9.82 from Commissioner of Income Tax, Delhi—I Delhi.]

Recommendation

In another case pointed out in para 3.18 of the Audit Report 1979-80, the original assessments of a firm for the four assessment years, 1943-44 to 1946-47, completed during the years 1948 and 1949 and set aside by the Income-tax Appellate Tribunal in march, 1953, were made afresh only in

1976 i.e. after a lapse of 23 years. The fresh assessments had to be concelled again for procedural reasons, and these have yet to be finalised.

[Sl. No. 5 (Para 2.5) of the Appendix V to the 85th Report of the Public Accounts Committee (1981-82) (7th Lok Sabha)]

Action Taken

The assessments for all the four years (1943-44 to 1946-47) have been completed on 26.12.81. The position of demands raised and outstanding is as under :—

Assessment Year	Demand raised/ outstanding	
1943-44	184735/-	In the case of Hukumchand Group
1944-45	320462/-	Mills Tent Factory, Indore.
1945-46	134027/-	
1946-47	166352/-	
1943-44 u/s. 23 (5) (a) 2nd Proviso.	79983/-	In the case of M/s. Hukumchand Mills Ltd, through Sir Hukumchand Group Mills Tent Factory, Indore.
1943-44 u/s. 23 (5) (a) 2nd Proviso.	35485/-	In the case of Shri Mohindersingh through Hukumchand Group Mills Tent Factory, Indore.
1943-44 u/s. 23 (5) (a) 2nd Proviso.	69266/-	In the case of Rajkumar Mills Ltd. through M/s Hukumchand Group Mills Tent Factory, Indore.

[Ministry of Finance (Department of Revenue) F. No. 241/4/82-A & PAC. II F.No. Audit/I—15 (7)/79-80 (Bhopal)]

Recommendations

2.6. The Income-tax Act, 1961, did not prior to the assessment year 1971-72 contain any time limit for the completion of such cancelled or set aside assessements. A time limit of two years for that purpose was introduced only from 1-4-1971 through the newly introduced section 153(2)

(A) of the Act. The Central Board of Direct Taxes had, however, earlier issued a circular No. 10-P(V-68) of 1968 dated 15th October, 1968, laying down an administrative time limit of two years for completion of such assessments.

2.7. It is apparent from these cases that the administrative time limit fixed by the Board was not really observed by the field formations and a large number of cancelled or set-aside assessments pertaining to the assessments years upto 1970-71 were allowed to remain pending for indefinitely long periods. The case reported in para 3.18 of the Audit Report involving a delay of over 28 years is perhaps the worst of such cases. According to the information given by the Ministry of Finance to the Committee in January, 1981 the total number of such concelled and set-aside assessments of assessment years upto 1970-71 outstanding as on 30-11-1960 was 8,569. These figures were, hewever, stated to be not complete.

2.8. The Committee cannot but observe that such inordinate delay in completion of cancelled and set-aside assessments are neither fair to Revenue nor to the taxpayers. Going by the assessments criginally made in the particular cases commented upon in the Audit Report tax demands of about Rs. 70 lakhs have remained pending because of non-completion of the cancelled or set-aside assessments in these cases.

In their written reply, the Ministry of Finance have tried to belittle the importance of audit objection on the ground that figure of Rs. 61.61 lakhs of unrealised revenue mentioned in para 2.21 of the Audit Report is based on original assessments which had been made on very high income. The conclusion drawn by the Ministry is actually based only on the reassessments made for the assessments years 1963-64 and 1964-65. For these two years the demand included in the aforesaid figure of Rs. 61.61 lakhs was only of the order of Rs. 793 lakhs. The Committee would like to know how the Ministry could, on its own, and before actual completion of assessments for all the other six years involving demands of over Rs. 53 lakhs, come to the conclusion that the original assessments were highly inflated, or that the original demands were unrealistic.

[Sl.Nos. 6, 7 and 8 (Paras 2.6, 2.7 and 2.8)]

Action Taken

The Board are alive to the problem of the pendency and disposal of set aside assessments relating to assessment year 1970-71 and earlier years. The pendency of such assessments as on 31-3-1981 was reported at 7,777, after the Board had begun monitoring the disposal of

these set aside assessments through C.A.P. II Statement. The pendency as per this statement received for the month of March 1982 was 2,321 and as on 31-3-1983, it was further reduced to 1,840 only.

2. As observed by the P.A.C., there is no time limit for completion of set aside assessments in respect of these assessments. This applies even if any assessment in respect of assessment year 1970-71 and earlier years is set aside today. In view of this the pendency of such assessments can register an increase on account of those assessments which might be set aside by the Appellate or Revisionary authorities from time to time.

3. It was also made clear to the Commissioners by a D.O. letter issued by the Chairman that action would be taken against these officers, who failed to complete all such assessments by 31-3-1982. It may be noticed that the pendency of such assessments has considerably gone down and all out efforts are being made to liquidate their pendency or, atleast, to bring it down to the minimum. The Commissioners were requested to intimate the reasons in respect of each case pending assessment as on 31-3-1982. On the basis of the reports received, it was noticed that the pendency is mainly on account of the following reasons.

(a) Cases stayed by Courts on assessees' writ pettions.

(b) Assessees' applications are pending before the Settlement Commission.

(c) Certain points are involved in the assessments in which for earlier years, the department had preferred reference applications.

(d) Non co-operation on the part of the assessees.

(e) The cases require deeper scrutiny and verification of certain evidences furnished by the assessees.

(f) Books of accounts seized by other departments, e.g. sale-tax department, S.P.E., C.B.I. have to be scrutinised.

Recently, a D.O. letter has been issued by Member (Income-tax) urging the Commissioners to personally watch the disposal of such cases and call for weekly reports (copy enclosed).

[Ministry of Finance (Department of Revenue)
F. No. 241/4/82—A & PAC II
F. No. 228/38/83—ITA—II]

K.G. Nair
Member (IT)

D.O.F.NO. 201/70/82—ITA. II
Government of India
Central Board of Direct Taxes
New Delhi, the 23rd November, 82,

My dear

SUBJECT :—Progress of set-aside assessments—Review of.....

Please refer to Chairman's D.O. letter F. No. 201/151/80—ITA. II dated the 3rd March, 1982 wherein it was clearly mentioned that since the Board stands committed to the P.A.C. to ensure that all set-aside and re-opened assessments relating to assessment year 1970-71 and earlier years are disposed of by 31st March, 1982, the Cs.I.T. should so plan their work that the pendency of such assessments is not allowed to be carried forward beyond the assured date. The Chairman had also indicated that the indifference shown to the instructions and the follow-up action to be taken in this committed area can be secured through appropriate resort to the Central Services Conduct Rules.

2. Despite this, I find that.....such assessments are still pending to be disposed of as on 31-8-1982. The P.A.C. have desired that they should be informed of the detailed reasons if any case is carried beyond the the assured date i.e. 31-3-1982.

3. The pendency and the task of follow-up shows that no worth-while supervison or control has been exercised by you. Please look into the matter personally and see that the pendency is now wiped of expeditiously. In this connection, you are also advised to keep a special watch over the progress made and review the progress on a weekly basis so that the bottle-necks are cleared.

Yours sincerely,
Sd/-xx
(K.G. Nair)

Shri
Commissioner of Income-tax,

[Ministry of Finance (Department of Revenue)]
F. No. 241/4/82—A & IAC. II
F.No. 228/38/83—ITA—II

25

Recommendation

The Public Accounts Committee have repeatedly pointed out that the tendency on the part of the Income-tax officers to make overpitched assessments is one of the reasons for poor public relations in the Income-tax department on the one hand and for unlimited litigation as well as heavy arrears of demand on the other. In reply to the Comittee's recommendations contained in para 11.31 of their 186th Report (5th Lok Sabha), the Ministry of Finance had drawn the attention of the Committee to the newly introduced section 144B of the Income-tax Act, 196', according to which additions exceeding Rs, 1 lakh could now be made only with the previous approval of the Inspecting Assistant Commissioner. According to the Chokshi Committee, this provision has merely resulted in delays in completion of assessments and duplication of proceedings without substantially curbing the highpitched assessments or reducing scope of litigation. The Chokshi Committee have, in fact, recommended deletion of this provision.

It is clear from the written reply of the Ministry of Finance in this case that, notwithstanding their earlier replies to the recommendations of the Committee quoted above. the Ministry of finance themselves carry an impression that the tendency to make highly inflated assessments persists, That is also perhaps, one of the reasons for the high rate of relief obtained by the assesses from the appellate authorities. The figures given at page 17 of the Audit Report 1979-80 would indicate that during the years 1977-78, 1978-79 and 1979-80 while the assessees succeeded before the tribunal in 38 per cent, 52 per cent and 46 per cent of their cases, the department succeeded in 20 per cent, 20 per cent and 18 per cent of their cases only. The Committee would reiterate that the making of very high additions to the returned incomes without proper enquiry, and without any rhyme or reason, is a grave malady whch causes harassment to the tax payers, adds to arrear demand, leads to extensive and unnecessary litigation and glves a bad image to the department. The Committee would strongly recommend that this matter should be examined afresh taking into account also the aforesaid recommendations of the Chokshi Committee and it should be made clear to the assessing authorities that additions should be made only after proper scrutiny and that these should be based on a reasoned judgement. The Income-tax authorities must realise that even a best judgement assessment is a quasi-judicial ddcision and it cannot be made whimsically or arbitrarily.

[Sl. No. 12 and 13 (Paras 2.12 and 2.13)]

Action Taken

The Income-tax officer performs the functions of a quasi-judicial authority and as such takes decisions while making an assessment or pass any other order objectively on the basis of the material available on record. A very well thought out proocedure is provided to achieve this objective. In case the I. T. O. proposes to vary or change the income returned, he has to issue notice under section 142(1) and/or 143(2)/143(3) requiring the assessee to produce books of accounts or other details as required by him. It is on the basis of the evidence and material on record that the assessments are made. It is a well settled principle of law now that in case the I. T. O. wants to make use of any material collected by him, he has to put it to the assessee for his objections, if any.

The provisions of sections 144A and 144B of the I. T. Act, 1961 further ensure the objectivity and removal of any personal bias or prejudice while completing the assessments. According to the provisions of section 144B, the proposed additions, if they exceed the minimum prescribed, are subjected to consideration by a senior officer, namely the Inspecting Assistant Commissioner of Income-tax, before the assessment is actually finalised.

Instructions have been issued from time to time enjoining upon the ITOs to refrain from making patent high-pitched assessments.

A copy of the following instructions are enclosed herewith :

(i) Inst. No. 246/27/73-A&PAC. II, dated 27.7.1973 (Inst. 574)

(ii) Inst. No.407/244/73-ITCC, dated 4. 10. 1974 (Inst. No.767).

(iii) Inst. No.220/12/76-ITA. II dated 8. 7. 1976 (Inst. No.973).

(iv) Inst. No.220/11/81-ITA. II dated 28. 9. 81 (Inst. No.1416).

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

[Ministry of Finance (Department of Revenue) F. No. 24/4/82-A & PAC-II and F. No. 228/4/82-ITA-II]

INSTRUCTION NO. 574

XIX/1/110—*Unrealistic over-assessment-prevention of Instructions regarding*—

Reference is invited to the Board's Instruction No. 376 F. 277/2/70-IT(J), dated the 1st February. 1972 and the earlier instruction : cited therein.

2. Instances continue to come to the notice of the Board about unrealistic over-assessments made by assessing officers under various direct tax Acts. This causes unnecessary hardship to the assessees and tarnishes the image of the Department; there is avoidable litigation and recovery problems arise in respect of the consequential in supportable and exaggerated tax demands.

3. The Board would like therefore to impress once again upon the Commissioners that they should advise the assessing officers in their charge to eschew unjustified over assessments. The assessments have to be made in a reasonable and fair manner after considring all the relevant circumstances of the case. Even where an assessment has to be made ex-parte, the information available should be reasonably weighed and a proper estimate made in the exercise of best judgement in the circumstances. There should be no tendency to frame assessments even in such cases machanically on past basis, if there is evidence to the countrary e.g., the business of the concern has become defunct or is in clearly adverse circumstance.

4. If unjustified over-assessments are avoided, this will *inter alia* curtail the feature of exaggerated demands which unnecessarily inflate our arrears figures.

5. These instructions may be brought to the notice of all officers in the charge and very careful watch kept over their compliance. The erring officials should be properly advised and where necessary pulled up. [(F. No. 246/27/73—A & PAC, dated the 27th July, 1973 from C.B.D.T.)

[Ministry of Finance (Department of Revenue) F.No. 241/4/82—A & PAC II and F. No. 228/4/82—ITA—II]

INSTRUCTION NO. 767

XX/I/108—Over Pitched Assessments without Proper Scrutiny;

Recently, a case has come to the notice of the Board where an addition of Rs. 5.64 lakhs made by the Income-tax Officer to the taxable income which was computed at Rs. 6 lakhs. The Appellate Assistant Commissioner allowed a reduction of Rs. 5.56 lakhs. This is not a solitary case of its type. It is illustrative of a wide-spread tendency on the

part of the Income-tax Officers to make unrealistic or over-pitched assessments, quite often ex-parte, especially in Central/Special Circles, without :

(a) making requisite enquiries :

(b) bringing on record sufficient evidence in support of the additions made ;

(c) confronting the assessee with the material collected by them ; and

(d) affording a reasonable opportunty to the assessee to rebut the material and explain his case.

Consequently, the assessments are either slashed in appeal or are set aside. The tendency to allow assessments in cases requiring intensive investigation to drag on till the end of the year and complete them when they are about to become barred by limitation, by making heavy additions of filmsy grounds is equally widespread. It is further noticed that in cases where assessments are made ex-parte, applicants under section 146 remain undisposed of for a long time.

2. Such over pitched assessments have been the target of adverse criticism by, inter-alia, Parliamentary Committees. The throw up a host of problems like inflation of demands and generation of unnecessary & unproductive work.

3. The necessity of curbing the tendency on the part of the Income-tax Officers to make high-pitched assessments and raise havy uncollectable demands has been emphasised by the Board from time to time. Despite these instructions, the tendency has not been check mated. The Board, therefore, desire that you should once again impress upon the Income-tax Officers in your charge to avoid making such type of assessments. You and your Inspecting Assistant Commissioners should periodically review the statistics regarding the number of ex-parte assessments made and demand raised therein as also statistics of application under section 146 lying undisposed of (CBDT F. No. 404/244/73—ITCC dated the 4th October, 1974)

INSTRUCTION NO. 973

CONFIDENTIAL

MOST IMMEDIATE

F. No. 220/12/76-ITA. II

Government of India

CENTRAL BOARD OF DIRECT TAXES

New Delhi, the 8th July, 76

From

Director, Central Board of Direct Taxes.

To

All Commissioners of Ineome-tax.

Sir,

Subject : Avoidance of over-pitched assessments—Prior approval of I. A. C. for exparte assessments where additions involved is Rs. one lakh or more—Para 77 of the Minutes of the Commissioners' Conference, 1976—Instructions regarding—

One of the main reasons for accumulation of tax arrears has been completion of exparte assessments under section 144 of the Ineome-tax Act, 1961 which are normally over pitched and unreasonable.

2. The provisions of section 144B are applicable only where assessment is being made under section 143(3) of the Income-tax Act. To avoid framing of unreasonable assessments, it has been decided by the Board that where exparte assessments, under section 144B are proposed to be made and addition to the income involved is rupees one lakh or more, the case should be discussed with the Inspecting Assistant Commissioner by the Income-tax officer before finalising the assessment.

3. Necessary instructions in this regard may please be issued to all the officers working in your charge on the above lines.

Yours faithfully,

sd/-

(K. R. RAGHAVAN)

Director

Central Board of Direct Taxes.

INSTRUCTION NO. 1416

F. No. 220/11/81-ITA. II

Government of India

CENTRAL BOARD OF DIRECT TAXES

New Delhi , the 28th Sep., 1981.

To

All Commissioners of Income-tax,

Sir,

Subject : Avoidance of over-pitched assessments—Prior approval of I. A. C. for exparte assessments where addition involved is Rs. 1 lakh or more—Para 7.08 of the Minutes of the Commissioners' Conference, 1980 - Instructions regarding—

Reference is invited to para 7.08 of the minutes of the Conference of Commissioners of Income-tax held in may, 1980 at New Delhi wherein, while considering the ways and means for reduction of tax arrears, it was decided as under :—

"As far as high pitched assessments are concerned instructions should issue that before making any assessment u/s 144 determining the total imcome of Rs. 1 lakh or more, the I. T. O. should consult his I. A. C. u/s 144".

2. The matter has been reconsidered by the Board in the light of existing instructions No. 973 dated 8. 7. 1976 in which it had been desired that if the addition proposed to be made in exparte assessment u/s 144 is Rs. 1 lakh or more the I. T. O. should discuss it with the I. A. C. before finalising the assessment. It has been decided that no further instruction need be issued in pursuance of the minutes of Commissioners's Conference referred to above and only existing instructions should continue to be followed.

Yours faithfully,
Sd/-
(M. K. PANDEY)
Secretary
Central Board of Direct Taxes

[Ministry of Finance (Department of Revenue)
F. No.241/4/82/A & PAC II
F. No. 228/4/82-ITA-II]

Recommendation

The Committee regret to point out that their earlier recommendations on this subject and the instructions issued by the Central Board of Direct Taxes in pursuance thereof do not seem to have had any effect and the chronic failure in taking up surtax assessments still continues to occur. In all the cases pointed out in the Audit Para the Income-tax Officers failed to take action on completion/revision of the Income-tax assessments either to call for the surtax returns or to complete or revise surtax assessments as the case may be. Apparently in all these cases the Board's instruction were not followed.

[S.P. No. 18 (Para 3.7)]

Action Taken

Kind attention is invited to this Ministry's reply of even number dated the 24th December, 82.

Reply for the recommendations at Sl. Nos. 19 & 21 (Paras 3.8 and 3.10) furnished vide above mentioned office memorandum may also be treated as reply for recommendation at Sl. No. 18 (Para 3.7)

[Ministry of Finance (Department of Revenue)
F. No. 241/4/82-A & PAC II
F. No. 228/19/83-ITA II]

Recommendation

Since Audit carried out only a test check, the Committee have a reasonable apprehension that the Board's instructions are not being followed by the field formations at all. The Committee would like to know the number of surtax assessments pending on 31.3.1981 and the number of cases in which the corresponding income tax assessments stand completed.

[S. No. 19 (Para 3.8)]

Action Taken

Kind attention is invited to this Ministry's O.M. of even number dated the 14th October, 1982. The Hon'ble Committee was informed in respect of Sl. No. 19 (para 3.8) that the information was to be collected from all the

Commissioners of Income-tax and would be furnished shortly. As regards the recommendation in respect of Sl. No. 21 (Para 3.10), the Hon'ble Committee was informed that need for issue of fresh instruction was under consideration of the Ministry. The requisite information has since been received and explained as under :

Out of 4489 Sur-tax Assessments pending as on 31.3.1981, in 1541 cases corresponding Income-tax Assessments had been completed. The Commissioners of Income-tax have been requested to ensure that such assessments are disposed of expeditiously.

A copy of the said letter F. No. 229/1/82-ITA-II dated 23rd November, 1982 is enclosed.

F. No. 229/1/82-IIA-II

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

New Delhi, the 23 November, 1982

To

All the Commissioners of Income-tax,
including Central/Survey/Investigation Charges.

Sir,

Subject : Delay in finalisation of surtax assessments particularly in those cases where corresponding income-tax assessments have been completed—Instructions regarding—

I am directed to say that despite Board's repeated instructions to complete the surtax assessments immediately after the completion of the corresponding income-tax assessments, the pendency of such assessments has not shown any appreciable reduction. This has been adversely commented upon by the P.A.C. The P.A.C. in para 3.7 of their 85th Report have observed as under :

"The Committee regret to point out that their recommendations on this subject and the instruction issued by the C.B.D.T. in pursuance thereof do not seem to have had any effect and the chronic failure to taking up surtax assessments still continue to occr. In all the causes pointed out in

the Audit Para, the I.T.Os. failed to take action on completion/revision of the income-tax assessments either to call for the surtax returns or to complete or revise surtax assessments, as the case may be. Apparently, in all these cases, Board's instructions were not followed.

2. I am, therefore, directed to request you to kindly draw up a programme in such a way that all such surtax assessments are disposed of by 31.3.1983 positively. If there may be some difficulty in the disposal of certain cases, a list of these cases should be brought to the notice of the Board alongwith the reasons for the pendency of each case.

Yours faithfully,
Sd/-
(M.G.C. Goyal)
Under Secretary Central Board
of Direct Taxes

Copy forwarded to :

1. All Officers/Sections of Central Board of Direct Taxes.
2. The Comptroller and Auditor General of India (25 copies)
3. Director of Inspection (IT & Audit)/Investigation/Intelligence/ Survey/Recovery/Research & Statistics/Publication and Public Relations/Special Investigation, New Delhi.
4. Directorate of O & MS (IT) 1st floor, Aiwan-e-Ghalib, Mata Sundri Lane, New Delhi (5 copies)
5. Bulletin Section of DI (RS & P) New Delhi (5 copies)
6. Joint Secretary and Legal Adviser, Ministry of Law, Justice and Company Affairs, New Delhi.
7. Director, IRS (Staff College) P.B. No. 40 Nagpur.

Sd/-
(M.G.C. Goyal)
Under Secretary Central Board
of Direct Taxes
New Delhi

[Ministry of Finance (Department of Revenue)
F. No. 241/4/82-A & PAC-II
F. No. 229/1/82-ITA-II]

Recommendation

The Committee are particularly pained to know that in their written replies the Ministry of Finance have themselves tended to belittle the importance of the Board's instructions by saying that these are "merely administrative" instructions. Even while accepting the audit objection the Ministry of Finance seem to find solace in the argument that there is no loss of revenue as "there is no time-barring provision in the Surtax Act." In fact there is no indication in any of the written replies of the Ministry of Finance as to whether the precise reasons for this persistent in action on the part of the Income-tax officers have been ascertained or whether any positive steps have been thought of to improve matters.

[Sl. No. 20 (Para 3.9)]

Action Taken

Reasons for non-completion of Surtax assessments have been ascertained from the Commissioners of Income-tax. It has been observed that the Surtax assessments were delayed for reasons like the Income-tax Officer not being aware of the Board's instructions, oversight, change in the jurisdiction of the case, the assessing officer being busy in the time barring assessments, pendency of Income-tax appeals, collection of relevant information, etc. In one case, no Sur-tax was leviable.

[Ministry of Finance (Department of Revenue)
F. No. 241/4/82-A & PAC-II
F. No. 228/19/83-ITA-II]

Recommendation

The Committee would also emphasize that in view of the limitations of time laid down in the fiscal laws for remedial action, it is essential that audit objections, those raised by Internal Audit as well as those raised by Revenue Audit, should be given prompt attention at various levels from the Income-tax Officer right upto the Commissioners of Income-tax so as to make sure that the points involved are properly examined and the most appropriate remedial action is taken well in time.

The Committee are distressed to note that despite their earlier recommendations and the action taken in pursuance thereof the situation has not improved. It is clear from the cases pointed out in the Audit Para that the prescribed

registers are not properly maintained, the cases are not noted therein and the time limits prescribed by the Board are not at all observed.

In their written replies to the Committee, the Ministry of Finance have not indicated whether they have made any attempt to find out the reasons for this state of affairs. The Committee would suggest that the Board should make a thorough study of some of these cases to understand the basic reasons for this continuing default and the devise effective remedial measures.

[Sl. Nos. 24, 25 & 26 (Paras) 4.6, 5.7 & 5.8)]

Action Taken

The Hon'ble Committee's observations and recommendations are noted.

[Ministry of Finance (Department of Revenue)
F. No. 241/4/82-A & PAC-II]

Recommendation

In their written replies to the Committee, the Ministry of Finance have not indicated whether they have made any attempt to find out the reasons for this state of affairs. The Committee would suggest that the Board should make a thorough study of some of these cases to understand the basic reasons for this continuing default and the devise effect remedial measures.

[Sl. No. 26 (Para) 5.8)]

Action Taken

Kind attention is invited to this Ministry's Office Memorandum of even number dated the 14th October, 1982.

2. The Inspection Division of the Board has been asked to make a thorough study of some of the Charges and to suggest effective measures to avoid such types of mistakes.

[Ministry of Finance (Department of Revenue)
F. No. 241/4/82-A & PAC-II
F. No. 228/14/83-ITA-II]

Recommendation

According to the departmental instructions both the maintenance of the prescribed registers as well as the compliance with the administrative time limits were to be checked up by the Range Inspecting Assistant Commissioners and the Internal Audit. It is amazing that the Ministry of Finance have not indicated in their written replies the extent of failure of these two organs. The Committee would recommend that the role of these two organs, should be particularly examined in relation to some of these cases so as to tone up their efficiency.

[Sl. No. 27 (Para 5.9)]

Action Taken

Kind attention is invited to this Ministry's O.M. of even number, dated the 14the October, 1982.

2. Under the Instructions (No. RA-3/73/DIT, dated 28.3.73) issued by the D.I. (Audit) the role of the Range IACs and Internal Audit in monitoring the procedure has clearly been specified. Internal Audit parties are required to check whether the entry in the provisional register has been made and whether administrative time limits have been adhered to. For audit purposes, the check-sheets, issued by D.I. (Audit) and currently in use, also prescribe various checks. Besides this, fresh instructions F.No.Audit-28/81-82/DIT dated the 7th April, 1983 (copy enclosed) have also been issued by the Directorate of Inspection (Income-tax & Audit) emphasising the need for careful checking of the provisional share income registers.

[Ministry of Finance (Department of Revenue)
F. No. 241/4/82-A&PAC-II,
Audit-28/81-82/DIT]

F.No.Audit-28/81-82/DIT
Directorate of Inspection (Income Tax & Audit)
4th Floor, Mayur Bhavan,
New Delhi-110001

7th April, 83

All Commissioners of Income-tax

SUB : Measures to ensure assessment of correct share of Partners of Firms.

Sir,

It has been observed that in a large number of cases, the Receipt Audit had been raising objections pointing out loss of revenue on account of the Department's failure to include the correct share from a partnership in the hands of partners of firms.

The mistakes noticed by the Receipt Audit have arisen on account of improper maintenance of the provisional share income registers. This register was prescribed by the Board *vide* their circular Nos. F.53/(6)/IT/58 dated 3.2.1959 and No.36/31/63-IT-AI dated 3.7.1964.

The Directorate in its Circular No.RA/3/73/DIT dated 28th March, 1973, had emphasized the need for proper maintenance of such registers. It was also pointed out that administratively the Board had fixed up the time limit for rectification of the partners' cases at three months from the date of receipt of the intimation of the share income. While the responsibility to ensure that the registers were maintained properly and the prescribed time limit was adhered to, was fixed on the Range IACs, the Internal Audit Parties were directed to check up the registers and point out cases where the administrative time limit was not followed.

The check-sheets prepared by the Directorate for use by the Internal Audit Parties, also include directions to the Audit Parties to check up whether necessary entries were being made in the registers of provisional shares (See Clauses 14, 15 & 16) of Check Sheets for non-company cases.

The fact that a large number of mistakes have been noticed by the Receipt Audit Parties, indicates that the instructions issued by the Board and the Directorate are not being followed by the field officers. No watch is being kept by the Range IACs and the Audit Parties do not check scrupulously and carefully this aspect during Audit.

The PAC has been commenting upon the failure of the Deptt. to assess the partners' shares correctly. To avoid recurrence of such mistakes, the Commissioners are requested to impress upon the Range IACs to keep a regular watch keeping in view the above instructions issued by the Directorate so that the partners' asstts. wherever required are revised within the time limit fixed by the Board. IACs (Audit) should also ensure that the Audit Parties the course of audit fill up the columns 14, 15 & 16 of the check sheet prescribed for the purpose. This can be done without much effort i.e. when inspecting the work of audit parties, the IAC (Audit) checks if the columns 14, 15 & 16 of this check sheet have been carefully filled in & takes necessary steps against any negligence of this work.

It is hoped that these instructions will be followed strictly and the mistakes are avoided.

Yours faithfully,
sd/-
(Mrs. P. Mahajan)
Director of Inspection (Audit)
New Delhi

Copy to :

All IACs (Audit) for information & necessary action.

sd/-

For Director of Inspection (Audit)
[Ministry of Finance (Department of Revenue)
F. No. 241/4/82-P&PAC. II
Audit-28/81-82/DIT]

Recommendation

According to the departmental instructions both the maintenance of the prescribed registers as well as the compliance with the administrative time limits were to be checked up by the Range Inspecting Assistant Commissioners and the Internal Audit. It is amazing that the Ministry of Finance have not indicated in their written replies the extent of failure of these two organs. The Committee would recommend that the role of these two orgons, should be particularly examined in relation to some of these cases so as to tone up their efficiency.

The Committee are pained to note the sense of complacency shown by the Ministry of Finance in their written replies in taking shelter under the plea that "the period of limitation for completion of assessments under section 154 had not expired at the time of audit. As such the objection was substainable only from the point of view of delay involved". The Committee trust that the Ministry of Finance do not mean seriously to suggest that remedial action need be taken only when the statutory limitation period is about to lapse. Moreover, the fallacy in this argument is apparent from the fact that if audit had not pointed out these cases before the expiry of the statutory period of limitation the department would not have acted in the absence of any notes to that effect in their prescribed registers and revenue would surely have been lost. The Committee would, therefore, suggest that the administrative instructions and the time limits laid down by the Board in 1977 are salutancy and their observance should be insisted upon and suitable action taken against the recalcitrant officers.

[Sl. Nos. 27 & 28 (Paras 5.9 & 5.10)]

Action Taken

The recommendations of the Hon'ble Committee are noted.

[Ministry of Finance (Department of Revenue)
F. No. 241/4/82. A&PAC-II]

Recommendation

The Committee note that the point whether the clubbing provisions of section 64(1)(iii) are or are not attracted in a case where the father is a partner in a representative capacity as the Karta of a Hindu undivided family is controversial as different High Court have taken different views. The Ministry of Finance have not accepted the view that the clubbing provisions are not attracted in such a case and the decisions to that effect are being contested in appeal. The Central Board of Direct Taxes have, also issued a public circular as well as instructions to all the Commissioners of Income-tax to the effect that the clubbing provisions are attracted in such cases. In view of the stand taken by the Ministry and the instructions issued by the Board, the Committee fail to understand how the Board resisted the audit objection on the ground that there was no mistake or irregularity. Surely, the Ministry of Finance does not mean to say that the instructions of the Board expressing a view that is being pleaded by the

Ministry before the Supreme Court of India, need not, necessarily, be complied with by the field formations and failures in that regard should not be pointed out by Audit as mistakes or irregularities. The stand taken by the Board in this case appears to the Committee to be highly inconsistant.

The Committee are also not happy with the Ministry's reply to the effect that some of the High Court decisions have disagreed "with the view taken by Audit". The view taken by Audit is the view taken by the Central Board of Direct Taxes itself in their public circular, as well as their instructions to their field formations. That is also the view which is being pleaded by Government before the Supreme Court. For the Ministry, therefore, to say that "the view taken by Audit" has not been accepted by some of the High Courts is wholly misleading. The Committee would suggest that where an audit objection is based on the Board's own view or even where the view taken in an audit objection is accepted by the Board it would be more appropriate for the Board to urge and canvass it as their own view so as to give effective guidance to the field formations.

It is apparent that litigation on this point has been going on for quite some time in different Hight Courts. The Committee would like to reiterate their recomendation contained in para 1.37 of their 28th Report (7th Lok Sabha) to the effect that in such cases involving divergence of opinion among different High Court the matter should be taken directly to the Supreme Court for an expeditious settlement of the point of law involved to avoid harassment both to the department and the taxpayers.

[Sl. Nos, 29, 30 & 31 (Paras 6.5, 6.6 & 6.7)]

Action Taken

The suggestions of the Hon'ble Committee in Paras 6.5, 6.6 and 6.7 are noted.

[Ministry of Finance (Department of Revenue)
F. No. 241/4/82-A & PAC-II]

Recommendation

9.6. It is regrettable that omissions to issue demand notices continue to be noticed despite the earlier recommendations of the Committee on this subject and the action taken thereon by the Ministry of Finance. Such

omissions not only postpone or delay collection of taxes but may also have the unhealthy possibilities of notices not being issued for malafide considerations.

[S. No. 38 (Para 9.6)]

Action Taken

The Wealth-tax Officer is required to inspect the Demand and Collection Register by the 4th of succeeding month with a view to ensure that the date of service of the demand notices have been noted in the Demand and Collection Register and find out the reasons why demand notices could not be served in other cases.

[Ministry of Finance (Department of Revenue)
F. No. 241/2/82-A & PAC-I
Dated 4th October, 1982]

Recommendation

9.7. The Demand and Collection Register is required to be filled up by the Wealth-tax Officer as soon as any assement is completed and the assessment order is passed. It should be possible for the Wealth-tax Officer to ensure while making these entries that the notice of demand has also been simultaneously prepared and despatched to the assessee. A periodical review of the Demand and Collection register should also be insisted upon so that cases where notices of demand have not been issued can be promptly located and action taken at the earliest possible time. The Ministry of Finance should ensure that the assissing officers issue demand notices almost simultaneously with the passing of assessment orders in all cases and let the Committee know what system of review exists by which omissions of this type do not go unnoticed over a period of years and failures are taken serious note of.

[S. No. 39 (Para 9.7)]

Action Taken

The instructions issued by the Directorate of Organisation & Management Services also prescribe that the Inspecting Assistant Commissioner shall inspect the Demand and Collection Register on the 7th of the following month and test check that all the relevant entries have been made in

the register. In token of having made this inspection, the IAC is required to sign the Demand and Collection Register.

[Ministry of Finance (Department of Revenue)
F. No. 241/2/82-A & P AC-I
Dated 4th October, 1982]

Recommendation

9.8. The Committee would also recommend that instead of the Board resting content with the issue of instructions it should take serious notice of failures coming to notice to ensure compliance with the instructions.

[S. No. 40(Para 9.8]

Action Taken

The existing instructions are clear and comprehensive and prescribe a clear system of review to ensure that the omissions of the type noticed by the Hon'ble Committee do not recur.

[Ministry of Finance (Department of Revenue)
F. No 241/2/82-A & P AC-I
Dated 4th October, 1982]

CHAPTER III

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

Recommendation

As for the harassment of the tax payers involved in such cases the Committee would like to recall the observations of the Supreme Court of India in I.T.O., 'A' Ward, Calcutta, *vs.* Ramnarayan Bhojnagarwala (103 ITR 797), wherein commenting on a case where the Income-tax officer had failed to take action on a set-aside order for a period of over 5 years, the Supreme Court pointed out, "There is no valid reason why the Income-tax officers should have delayed so long and indeed administrative officers and tribunals are taking much longer time than is necessary, thereby defeating the whole purpose of creating quasi-judicial tribunals calculated to produce quick decisions especially in fiscal matters. Five years to dawdle over a decision on a small matter directed by an appellate authority amounts to indiscipline subversive of the rule of law. We hope that the Administration takes serious notice of delays caused by tax officers' lethargy, under some pretext or the other, in speeding up inquiries into incomes and finalizing assessments. The Law must move quickly not merely in the courts but also before tribunals and officers charged with the duty of expeditious administration of justice" The Committee are pained to note that even thef observations of the Supreme Court have not woken up the Ministry of Finance or the Central Board of Direct Taxes.

During evidence before the Committee last year the Board had given an assurance that most of the pending cases upto the assessment years 1970-71 would be completed by 1981-82. The Committee do hope that this assurance would be kept up. They would like to be informed of the actual progress as on 31-3-1982, together with detailed reasons for cases still pending as on that date.

[Sl. Nos. 9 & 10 (Paras 2.9 and 2.10)]

Action Taken

The Board are alive to the problem of the disposal of set-aside assessments relating to the assessments year 1970-71 and earlier years. The pendency of these assessements as on 31-3-79 was 6106. Before the Board

began monitoring the disposal of these assessments, the pendency reported as on 31-3-81 was 7888 assessments. But as a result of the watch exercised by the Board, the pendency of such assessments was reduced to 2321 as on 31-3-82.

2. The pendency of such assessments continuously varies because assessments pertaining to assessment year 1970-71 and earlier years, if set aside even today by the concerned authorities, would add to the number and consequently, inspite of disposals, the number may not be reduced to nil. Although 1040 such set-aside assessments were disposed of during the period 1-4-82 to 28-2-83, the figure of pendency as on 1-3-83 stood at 1954.

3. Through a demi official letter issued by the Chairman, it was made clear to all the Commissioners of Income-tax that action would be taken against those officers who failed to complete all such pending assessments by 31st March, 1982. *Vide* Board's letter No. 201/70/82-ITA. II dated 18th November, 1982 (copy enclosed), the Commissioners were requested to keep a special watch over the progress made and review the progress on the weekly basis so that the bottlenecks in the completion of these assessments are cleared.

4. Member (Income-tax) also apprised the Zonal Members of his concern regarding the pendency of such set-aside assessments and requested them to take up the matter with the concerned Commissioners for their respective zones and to see that the disposal of such assessments is expedited (copy enclosed for ready reference).

5. On the basis of the reports received from the Commissiners of Income-tax, it is noticed that the pendency is on account of the following reasons : —

(i) Cases stayed by Courts on assessee's writ petitions.

(ii) Assessee's applications are pending before the Settlement Commission.

(iii) Certain points are involved in the assessments in which for earlier years, the Department had preferred reference applications.

(iv) Non co-operation on the part of the assessees.

(v) The cases required deeper scrutiny and verification of certain evidences furnished by the assessees.

(vi) Books of accounts seized by other departmcnt e.g. Sales-tax Department, S.P.E., C.B.I. etc. have to be scrutinised.

K.G. Nair
Member (IT)

D.O.F. No. 201/70/82-ITA. II
Government of India
Central Board of Direct Taxes.
New Delhi, the 18th November, 1982.

My dear

SUB : Progress of set-aside assessments—
Review of—

Please refer to Chairman's D.O. letter F. No. 201/151/80-ITA. II dated the 3rd March, 1982 wherein it was clearly mentioned that since the Board stands committed to the P.A.C. to ensure that all set-aside and re-opened assessments relating to assessment year 1970-71 and earlier years are disposed of by 31st March, 1982, the Cs.I.T. should so plan their work that the pendency of such assessments is not allowed to be carried forward beyond the assured date. The Chairman had also indicated that the indifference shown to the instructions and the follow-up action to be taken in this committed area can be secured through appropriate resort to the Central 'Services' Conduct Rules.

2. Despite this, I find that————such assessments are still pending to be disposed of as on 31-8-1982. The P.A C. have desired that they should be informed of the detailed reasons if any case is carried beyond the assured date, i.e. 31-3-1982.

3. The pendency and task of follow-up shows that no worthwhile supervision or control has been exercised by you. Please look into the matter personally and see that the pendency is now wiped of expeditiously. In this connection, you are also advised to keep a special watch over the progress made and review the progress on a weekly basis so that the bottle-necks are cleared.

Yours sincerely,
sd/-
(K.G. NAIR)

Shri
Commissioner of Income-tax,

F. No. 201/70/82-ITA. II

Government of India
Department of Revenne
Central Board of Direct Taxes.

SUB : Set-aside and re-opened assessment relating to assessment year 1970-71 and earlier years—Pendency of—

You are aware that the Public Accounts Committee in one of its earlier reports have adversely commented upon the large pendency set-aside and re-opened assessments relating to assessment year 1970-71 and earlier years. An assurance was given to the Public Accounts Committee that most of such pending cases would be completed by 31-3-1982. The Public Accounts Committee has later on suggested that they be informed of the actual progress made in this respect upto 31-3-1982 as also the detailed reasons for cases still pending as on that date.

2. Enclosed is the CIT-Charge-Wise list of your Zone showing the pendency of such assessments as on 31-8-1982. It has been desired by the Chairman that the Zonal Members may see that the disposal in this respect is expedited and the pendency is liquidated very early.

3. I would be grateful if the matter is taken up with the concerned Commissioners in your Zone and the disposal of such assessments expedited.

sd/-
(K.G. Nair)
Member (Income-tax)
12-11-1982

Ministry of Finance (Department of Revenue)
F. No. 241/4/82—A & PAC-II
F. No. 228/6/82—ITA-II

Recommendation

9.5. The Committee regret to note that the Ministry of Finance have found solace in the fact that the collection postponed in this case was only Rs. 38,087. They have not bothered to find out the defect in the system

which allows such omission to take place and go unnoticed for such long periods.

[S. No. 37 (Para 9.5)]

Action Taken

Directorate of Organisation and Management Services' Circular No. 29 (F. No. 22/16/77-OD-DOMS/dated 8-8-1978) copy of which is enclosed as Annexure—'A', contains comprehensive instructions for ensuring timely issue of demand notices and challans by the Wealth-tax Officers. These instructions enjoin that the assessing officer shall date the assessment orders only at the time of making entries in the Demand and Collection Register and shall sign the demand notices and challans simultaneously with the signing of the assessment order and making entries in the Demand and Collection Register. These instructions require that the Wealth-tax Officer should ensure that the demand notices are served as expeditiously as possible and in any case within a fortnight of the date of assessment.

[Ministry of Finance (Department of Revenue) F. No. 241/2 82-A & PAC-I Dated 4th October, 1982.[

ANNEXURE

DOMS CIRCULAR NO.29

Directorate of Organisation & Management Services (Income Tax) Aiwan-E-Ghalib, Mata Sundri Lane New Delhi-110002.

F. No. 22/16/77-OD-DOMS/ dated 8th Aug., 1978.

To

All Commissioners of Income-tax

Sir,

SUB : Entries relating to Assessment in Demand & Collection Register— Measures to check delay in service of Demand Notices.

The delay in service of demand notices has been a subject of repeated criticism by the C & AG and the PAC. With a view to avoiding such lapses in future, the Board have decided that the following procedure should be strictly followed :—

1. The ITO shall do the following jobs simultaneously :

(a) Sign the assessment order, the assessment form, the demand notice and challan/refund voucher ; and

(b) make necessary entries in the Demand & Collection Register.

2. The assessment order shall be dated only at the time of making entries in the D & CR and not on the date when the order is dictated or typed out.

3. The demand notice shall be served as expeditiously as possible and in any case within a fortnight of the date of assessment.

4. The date of service of demand notice should inveriably be noted in the relevant column of the Demand & Collection Register.

5. The Income-tax Officer shall inspect the Demand and Collection Register by the 4th of the succeeding month with a view to :

(a) ensuring that the date of service of demand notice has been noted against the relevant entry in the demand & Collection Register in each case in which the notice has been served ;

(b) finding reasons why demand notices could not be served in other cases ; and

(c) taking suitable steps to serve the remaining demand notices without any further delay.

6. The IAC shall inspect the Demand and Collection Register on the 7th of the following month and test check that statistics furnished in the MPR tally with the entries made in the Register. He will also ensure that ;

(a) all the relevant entries have been made in the Register ; and

(b) the totals of the various columns have been struck.

The IAC will sign the Register in token of having made the inspection.

7. The above instructions regarding signing of orders, assessment forms etc., making of entries in D & CR and service of Demand Notices shall also apply multatis-mutandis to all other statutory orders.

The receipt of these instructions may please be acknowledged.

Hindi version of the Circular will follow.

Yours faithfully,

Sd/-

(Jagdish Chand)
Director.

Copy for information :—

1. DS(B), C.B.C.T., New Delhi.
2. All Directors of Inspection ;

]Ministry of Finance (Department of Revenue) 241/2/82-A & APC-I Dated 4th October, 1982.]

CHAPTER IV

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

Recommendation

On the question of allowance of depreciation on assets acquired on hire-purchase basis the decision of the Supreme Court in K.L. Johar's case (STC Vol. XVI/1965 (213) was given in 1965. The Ministry of Finance had also informed the Committee in December, 1968, after consulting the Ministry of Law, that the ratio of this decision of the Supreme Court was equally applicable to Income-tax. It would following that the Ministries of Finance and Law accepted the position that in accordance with the Law, as it stood, no depreciation allowance could be given to the lessee in respect of assets acquired on hire-purchase basis. The Committee are unhapply to more than even after 14 years the concession continues to be given under executive instructions and the law on the point has been suitably amended. The Committee would strongly recommend that necessary amendment should be suggested without any further delay.

[Sl. No. 2(Para 1.7)]

Action Taken

For granting depreciation and development rebate on assets acquired on hire-purchase agreement amending the provisions of Section 32 & 33 of Income-tax Act has been recommended by the Hon'ble Committee. However, such an amendment would depend upon the prior amendment being contemplated by the Ministry of Law to the provisions of Hire-Purchase Act, 1972. The Ministry of Law has confirmed that Hire-Purchase Act, 1972 (26 of 1977) has not yet come into force. Till such time Instruction No. 1097 dated 19th September, 1977 (copy enclosed) would continue to operate.

[Ministry of Finance (Department of Revenue) F. No. 241/4/82-A & PAC-II F. No. 202/9/79-ITA-II]

Instruction No. 1097

F. No. 202/6/77-ITA. II
Government of India
Central Board of Direct Taxes
New Delhi, the 19th September, 1977.

From :

The Secretary, Central Board of Direct Taxes.

To :

All Commissioners of Income-tax.

Sir,

SUB : Depreciation and Development rebate on plant and machinery purchased on hire-purchase system—allowability of—

Attention is drawn to the Board's Circular No. 9 of 1943 (P/DI F. No. 27(4)/II/43) dated 23 March, 1943, (copy enclosed) clarifying that depreciation on plant and machinery purchased on hire purchase system would be admissible at the usual rates if the conditions stated therein were fulfilled. The Board, vide its letter F. No. 27(20)-IT/59 dated 26 June, 1959 (copy enclosed) further clarified that the same basis should be followed for development rebate also.

2. It has now been brought to the notice of the Board that in view of objections raised by Revenue Audit in certain cases some Income-tax Officers are not allowing depreciation and development rebate on machinery purchased on hire purchase system even through the conditions laid down in the aforesaid circular and letter are fulfilled.

3. I am directed to say that the Instructions contained in the circular and letter referred to above have not been withdrawn by the Board and are still in force and as such, should continue to be followed. This may please be brought to the notice of the officers working in your charge.

Yours faithfuly,
Sd/-
(J.P. Sharma)
Secretary, Central Board of Direct Taxes.

Copy forwarded to :—

1. The C & A.G. of India.
2. DI(IT & A)/(Inv.)/R & S/Publication and Public Relations, New Delhi.
3. D & O & M Services (IT), 1st Floor, Aiwan-e-Ghalib, Mata Sundri Lane, New Delhi.
4. All officers/Sections of CBDT.
5. Bulletin Section of DI (RS & P), New Delhi.
6. Joint Secretary & Legal Adviser, Ministry of Law & Justice, New Delhi.

Sd/-
(J.P. Sharma)
Secretary, Central Board of Direct Taxes.

C.B.R. Cir. No. 9 of 1943, R. Dis. No. 27(4)-IT/43 dated the 23rd March 1948.

SUB : Allowances in assessing business income-Depreciation allowance—Plant and machinery acpuired in Hire-Purchhse agreement.

The following instructions are issued for dealing with cases in which an asset is being acquired under, what is known as, a hire-purchase agreements—

(i) In every case of payment purporting to be for hire-purchase, production of the agreement under which the payment is made should be insisted on.

(ii) Where the effect of an agreement is that the ownership of the subject is at once transferred to the lessee (e.g., where the lessor obtains a right to sue for arrear instalments but no right to recovery of the asset), the transaction should be regarded as one of purchase by instalments and no deduction in respect of 'Hire' should be made. Depreciation should be allowed to the lessee on the entire purchase price as per the agreement.

(iii) Where the terms of the agreement provide that the equipment shall eventually become the property of the hirer or confer on the hirer an option to purchase the equipment, the transaction should be regarded as one of hire-purchase. In such cases the periodical payments made by the hirer should for tax purposes be regarded as made up of :—

(i) consideration for hire, to be allowed as a deduction in the assessment, and

(ii) payment on account of purchase, to be treated as capital outlay, depreciation being allowed to the lessee on the initial value (i.e. the amount for which the hired subject would have been sold for cash at the date of the agreement).

The allowance to be made in respect of hire should be the difference between the aggregate amount of the periodical payments under the agreement and the initial value (as described above), the amount of this allowance being spread evenly over the term of the agreement. If, however, the agreement were terminated either by the out right purchase of the equipment or its return to the owner the deduction should cease as from the date of the termination.

The assessee claiming this deduction should be asked to furnish a certificate from the vendor or other satisfactory evidence, of the initial value (as described value). Where, no certificate or satisfactory evidence is forthcoming the initial value should be arrived at by computing the present value of the amount payable under the agreement at an appropriate rate per annum. In doubtful the facts should be reported to the Board.

Copy of letter F. No. 27(20)—IT/59 dated 26-6-59 of the C.B.R.

SUB : Allowances in assessing income—Development rebate on the installation of machinery acquired on hire-purchase basis—whether the assessee is entitled to.

In Circular No. 9 of 1943 the Board issued instructions regarding the grant of depreciation allowance for machinery acquired under hire-purchase agreement to the effect that depreciation should be allowed in the first year itself on the estimated full initial value of the asset (the balanced being taken as hire charges). The same basis may be followed for development rebate also, i.e., development rebate may be granted in the first year itself on

the full initial value. No difficulty is likely to arise as a result of forfeiture of the asset to the "hirer" because the existing provisions enable Government to recover development rebate where the machinery is sold or otherwise transferred by the assessee.

[Ministry of Finance (Department of Revenue) F. No. 241/4/82—A & PAC-II F. No. 202/9/79—ITA-II]

Recommendations

Surtax is levied under the Companies (Profits) Surtax Act. 1964 on the chargeable profits of a company in so far so these profits exceed the statutory deduction. Chargeable profits are computed in the manner laid down in the First Schedule to the Act by making certain adjustments on the income computed for purposes of income tax. The Surtax Act provides for the companies voluntarily filing returns of chargeable profits as well as for the Income-tax Officers calling for such returns by notice. The Act does not provide for any time limit for the completion of surtax assessments.

The Public Accounts Committee have, in the past, taken adverse note of cases where the assessees failed to file surtax returns voluntarily and the Income-tax Officers did not also call for such returns with the result that surtax assessments remained to be completed long after the corresponding income-tax assessments had been made. In para 6.7 of their Eighty Eighth Report (Fifth Lok Sabha) and again in a par 6.7 of their One Hundred Twenty Eighth Report (Fifth Lok Sabha) the Committee emphasized that surtax assessments should be taken up along with the connected income-tax assessment of the companies.

In pursuance of the aforesaid recommendations of the Committee, the Central Board of Direct Taxes issued instructions on 22 October, 1974. These instructions laid down that proceedings for completion of regular surtax assessments should be taken up along with income-tax proceedings so that the surtax assessments are also finalised immediately after the income-tax assessments are completed. The instructions also pointed out that the fact that additions made in the income-tax assessments were being disputed in appeal should not be a ground for not finalising the surtax assessments. It was further laid down that the time lag between the date of completion

of income-tax assessments and surtax assessments should ordinarily not exceed a month unless there are special reasons justifying the delay.

The present Audit para again points out a large number of cases where income-tax assessments were completed/revised during the year 1976, 1977 or 1978 but no action had been taken to complete the corresponding surtax assessments with the result that considerable amounts of surtax remained to be assessed and collected.

[Sl. Nos. 14 to 17 (Paras 3.3 to 3.6 and 3.9)

Action Taken

Reasons for non-completion of Surtax assessments have been ascertained from the Commissioners of Income-tax. It has been observed that the Surtax assessments were delayed for reasons like the Income-tax Officer not being aware of the Board's instructions, oversight, change in the jurisdiction of the case, the assessing officer being busy in the time barring assessments, pendency of Income-tax appeals, collection of relevant information, etc. In one case, no Sur-tax was leviable.

[Ministry of Finance (Department of Revenue) F. No. 241/4/82-A & PAC-II F. No. 228/19/83-ITA-II]

Recommendation

The Committee would strongly recommend that the suggestion about the inclusion of a time limit for completion of assessments under the Surtax Act should be seriously considered and given effect to. In the meanwhile the Board's instruction of 1974 should be given its due importance and its observance should be insisted upon.

[Sl. No. 21 (Para 3.10)]

Action Taken

The recommendation for inclusion of a time limit for completion of assessments under theSur-tax Act will be examined in the light of, *inter alia*, the observations/recommendations, if any, on the subject by the Economic

Administration Reforms Commission who are at present considering the rationalisation and simplification of direct tax laws.

As regards the recommendation regarding observance and insistence of the importance of Instruction No. 773 dated the 22nd October, 1974, need for issue of fresh instruction is under consideration of the Ministry.

[Ministry of Finance (Department of Revenue) F. No. 241/4/82-A & PAC-II F. No. 143/2/82-TPL F. No. 229/1/82-ITA-II]

Recommendation

The assessments for the years 1971-72 and 1972-73 were completed in January, 1974. The audit objection was raised in May/June, 1975. Notices under Section 148 were issued in March, 1977. If, as stated by the Ministry of Finance remedial action for these two assessments years got barred by limitation, it would only mean that after the issue of notices in March, 1977, no action was taken for one whole year [Section 153(2) (b)]. Apparently, there was delay both in initiating remedial action after the receipt of the audit objection, as well as in completing such action after issue of notices. As a result, revenue of Rs. 4,57,357 was lost. The Committee would like the Ministry of Finance to give the reasons for these inexcusable delays, surprisingly not indicated in the written reply furnished to the Committee. The Committee would also like the Ministry of Finance to take appropriate action to fix responsibility in the matter and inform the Committee accordingly.

When the audit objection was raised in May/June 1975, there was ample time to take remedical action in respect of all the assessment years. The inaction on the part of the departmental officers continued till 1978, when the remedial action for two assessment years got time-barred. The Minisiry of Finance had stated before the Committee last year that the Central Board of Direct Taxes had, in March 1977, reiterated their earlier instruetions to the effect that the Commissioners of Income-tax are personally responsible for careful examination and issue of instructions to the Income-tax Officers on the most appropriate remedial action to be taken within a month of the local audit report in regard to audit objections, involving revenue of over Rs. 25,000 or more in income-tax/corporation tax cases and Rs. 5,000 or more

in other direct taxes cases. Apparently, even after the reiteration of these instructions in March, 1977 the supervisory officers have not been giving required attention to the audit abjections resulting in avoidable losses of revenue as in this case. The Committee would like to know whether the Ministry of Finance have enquired into the role played by the Inspecting Assistant Commissioner and the Commissioner of Income-tax in the present case.

[Sl. Nos. 22 & 23 (Para 4.4 & 4.5)]

Action Taken

As pointed out by the Committee the Income-tax Officer had initiated action under Section 148 read with Section 147 (b) in March, 1977 for the assessment year 1971-72 and 1972-73. However, the assessment was not completed within the statutory time-limits i.e. within one year from the end of the finaneial year in which notice U/s 147 (b) was issued. The officer concerned has since retired. Action for fixing responsibil.ty on officer responsible for allowing the matter to get time-barred is under process. It may be mentioned that the taxability of interest on accrual basis has been examined by the ITAT in this case for the assessment year 1974-75 in its order dated 30.3.81. The ITAT held that the assessee was entitled to receive interest only on encashment after maturity and not on accrual basis and even then no interest is receivable on securities held over the permissible limit of Rs. 1 lakh. This decision has been accepted bp the CIT as correct.

The role of Inspecting Assisstant Commissioner and the Commissioner of Income-tax in the present case was to ensure that remedial actions were initiated once the audit objection was received es per Instruction No. 1046 of 15.3.77. In the present case, since the remedial action was initiated u/sec. 148 it was for the Income-tax Officer to complete assessment within the statutorp time-limits.

[Ministry of Finance (Department of Revenue) F. No. 241/4/82-A & PAC-II]

CHAPTER V

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

Recommendation

The Committee understand from Audit that in response to the notice issued under section 148 of the Income-tax Act, 1961 the assessee had made a statement that she had already filed a return on 6.1.1968 and also paid a tax of Rs. 1,33,157 under section 140A on 2.2.1968. Nevertheless, the Income-tax Officer proceeded to make an assessment under section 143(3)/147 and in his assessment order dated 18.1.1977 he did not even discuss these points raised by the assessee. The assessee was thus forced to seek redress from the appellate authority.

In this case, in response to the notice issued by the Income-tax Officer the assessee claimed that a return of income had already been filed and payment of tax on self-assessment basis had also been made by her 6 years earlier. Nevertheless, the Income-tax Officer proceeded to complete the assessment without verifying the veracity of the assessees claims which, as it turned out later, were true and duly authenticated by departmental receipts.

The Committee cannot but observe that this is a case of sheer callousness and harassment and the Income-tax Officer seems to have become a law upto himself rather than acting in a quasi-judicial capacity. What pains the Committee all the more is the fact that the Ministry of Finance have merely stated that the objection has been accepted ; they have nothing to say about the high handed action of the Income-tax Officer or about their own reaction to it.

Elsewhere in this report the Committee have made a mention of the Public image of the Income-tax department. This is not the only case where a return duly filed by a assessee was misplaced or where a payment of tax already made by the assessee was not linked and given credit for. These are matters of common occurrence which put the tax payers to considerable harassment. In fact, para 1.08 (i)(a) of the Audit Report 1979-80, mentions an

amount of as much as Rs. 8.84 crores, which is claimed to have been paid by the tax payers but is pending verification/adjustment. The Committee would strongly recommend that the Ministry of Finance should take exemplary action in such glaring cases and also bring about improvements in systems and procedures to ensure proper linking of the returns filed by the tax payers and the taxes paid by them. The Committee would like to be informed of the disciplinary aetion taken against the I.T.O. who made the assessment in the case under discussion.

[Sl. Nos. 32, 33 & 34 (Paras 7.3, 7.4 and 7.5)]

Action Taken

The recommendations of the Hon'ble Committee are under consideration of the Ministry. The final reply will be furnished as soon as the same is ready.

[Ministry of Finance (Department of Revenue) F. No. 241/4/82-A & PAC-II]

Recommendation

Elsewhere in this report the Committee have made a mention of the public image of the Income tax department. This is not the only case where a return duly filed by a assessee was misplaced or where a payment of tax already made by the assessee was not linked and given credit for. These are matters of common occurence which put the tax payers considerable harassment. In the fact, para 1.08 (i) (a) of the Audit Report 1979-80, mentions an amount of as much as Rs. 8.84 crores, which is claimed to have been paid by the tax payers but is pending verification/adjustment. The Committee would strongly recommend that the Ministry of Finance should take exemplary action in such glaring cases and also bring about improvements in systems and procedures to ensure proper linking of the returns filed by the tax payers and the taxes paid by them. The Committee would like to be informed of the disciplinary action taken against the I.T.O. who made the assessment in the case under discussion.

[(Sl. No. 34 (Para 7.5)]

Action Taken

Kind attention is invited to this Ministry's O.M. of even number dated

the 14th October 1982 in respect of para 7.5 of the 85th Report of the P.A.C. (1981-82) (7th Lok Sebha). The Hon'ble Committee was informed that the recommendations are under consideration of the Ministry and final reply will be furnished as soon as the same is ready.

2. Instructions have been issued from time to time to minimise such instances. With this view in mind, the Dak Receipt system in the Department has been streamlined. As per the new system, the No. of papers/documents/ statements filed with the returns of income are mentioned in the receipt itself alongwith the description of each enclosure. Further more, a reconciliation of the returns received daily is required to be prepared.

3. Vide Board's Instruction No. 1540 dated 30.11.1983 (F. No. 225/73/ 82-IIA-IT), it was reiterated that such types of cases should be avoided and utmost care should be taken to ensure that such lapses do not recur in future. Vide Board's Instruction No. 1548 dated 12.1.1984, (F. No. 228/49/83 ITA.II), it has been required that in the month of April every year, a special drive should be launched for the verification/adjustment of taxes paid by the assessees and placing of papers on the files. The Officers have been required to give a certificate that all the pending papers have been restored to the files and all pending adjustments of taxes have been done. The Cs. IT and I.A.Cs. have also been asked to keep a vigil on this work.

Copies of Instruction No. 1540 and 1548 are enclosed.

INSTRUCTION NO. 1540

F. No. 225/73/82-ITA-II
Government of India
Central Board of Direct Taxes

New Delhi, the 30th Nov. 1983.

To

All Commissioners of Income-tax
including Central/Survey/investigations etc.

Sir,

Reg: Framing of double income-tax assessments
Adverse comments by P.A.C.

In one of the reports of the Public Accounts Committee the P.A.C.

has given an instance of harassment and collousness, where an Income-tax Officer, inspite of being assured by an assessee that she had filed her return and paid the tax six years earlier, proceeded with the assessment (for the second time), without caring to verify the assessee's assertions for which documentary proof was available. The Committee had, therefore, observed that the Income-tax Officer in this case had become a law unto himself, instead of acting in a quasi-judicial capacity.

2. The Board have taken a very serious view of the matter and desire that such types of cases should be avoided and utmost care should be taken to ensure that such lapses do not occur in future.

3. These instructions may be brought to the notice of the field officers working in your charge.

Yours faithfully,
Sd/-
(M.G.C. Goyal)
Under Secretary, Central Board of Direct Taxes

Copy to :

1. P.S. to Chairman, Member (WT&J), Member (L), Member (R&A) Member (Inv.) and Member (S&T).
2. Directors of Inspection (IT)/(R & S)/P & PR (Inv.)/Survey) New Delhi.
3. Directors of O & M Services (IT), Ist Floor, Aiwan-e-Ghalib, Mata Sundri Lane, New Delhi (5 copies).
4. All Officers and Tech. Sections of CBDT.
5. Comptroller & Auditor General of India, New Delhi (20 copies).
6. Bulletin Section of Dte. of Ins. (RS & P), New Delhi (5 copies).
7. Directorate of Training, IRS (Direct Taxes), Staff College, Nagpur (5 copies).
8. Shri P.K. Kartha, Joint Secy. Ministry of Law, Justice & Company Affairs (Deptt. of Legal Affairs). New Delhi.

Sd/-
(M.G.C. Goyal)
Under Secretary, Cenrral Board of Direct Taxes

INSTRUCTION NO. 1548

F. No. 225/40/83-IIA. II
Government of India
Ministry of Finance
Central Board of Direct Taxes

New Delhi, the 12-1-1984

To

All Commissioners of Income tax

Sir,

Subject : Para 7.5 of the 85th Report of PAC (1981-82) — Processing of

The Public Account Committee in Para 7.5 of their 85th Report have adversely commented upon the working of the department. It has been observed by them that this is not the only case where a return duly filed by an assassee with mis-placed or where the payment of tax already made by the assessee was not linked and not given credit for and that these are matters of common occurrence which put the tax payers to considerable harasment. It has further been observed by them in para 1.08(i) (a) of the Audit Report 1979-80 that an amount of as much as Rs. 8.84 crores claimed to have been paid by the tax papers is pending verification/adjustment by the department.

2. The above observations of the P.A.C. cast a bad aspersion on the working of the department. The Board therefore, desire that in the month April every year, a special drive should be launched for the verification' adjustment of taxes paid by the assessees and placing other papers on the files. The Officers should be asked to give a certificate that all the pending papers have been restored to the files and all pending adjustments of taxes paid have been done. The Commissioners and the Assistant Commissioners should also keep a special vigil on this work.

3. The above instructions may please be brought to the notice of the officers working under you. Hindi versions will follow.

Yours faithfully
Sd/-
(M.G.C. Goyal)
Under Secretary, Central Board of Direct Taxes

Copy forwarded to :

1. P.S. to Chairman. P.S. to Member (II), Member (L), Member (Inv.) Memder (S & T), Member (R & A) & Member (WT & T).
2. All Directors of Inspection.
3. All Registrars of Income-tax Appellate Tribunals.
4. Comptroller and Auditor General of India (40 copies).
5. Statistician (Income tax) (6 copies).
6. Bulletin Section, Directorate of Inspection (RS & PR), 6th Floor, Mayur Bhavan, New Delhi (10 Copies).
7. Director of Inspection (O & MS), Aiwan-e-Ghalib, Mata Sundri Lane, New Delhi – 6 copies.
8. Director of Inspection (RS & PR), Mayur Bhavan, New Delhi, 6 copies.
9. Chief Engineer (Val.), 11th Floor, Rohit House, No. 3, Tolstoy Marg, New Delhi (6 copies)
10. Chief Engineer (Val.), 4th Floor, Chordia Bhavan, No. 123-D, Mount Road, Madras, (6 copies).
11. Inspecting Assistant Commissioners of Income tax. Inspection Division. Central Board of Direct Taxes, Vikas Bhavan, D-Block, Ground Floor, Room No. 13 New Delhi, 3 copies.
12. The Directorate of Inspection (Printing & Publications) 2nd Floor Hans Bhavan, B.S. Zafar Marg, Near Tilak Bridge, New Delhi-5, 5 copies.
13. All officers and Tech. Sections of the Board.

Sd/-
(M.G.C. Goyal)

Under Secretary, Central Board of Direct Taxes
[Ministry of Finance (Department of Revenue)

F. No. 24/4/82-A & PAC-II
F. No. 228/49/83-ITA-II]

Recommendation

8.7 The higher rates of income-tax and weath-tax in respect of Hindu undivided families have one or more members with independent income or wealth exceeding the exemption limit were introduced with effect from the assessment year 1974-75. Despite the issue of repeated instructions by the Central Board of Direct Taxes on the subject, ommissions to apply these higher rates have continued to be noticed in audit year after year. In consequence of the repeated failure in this regard the Board have had to order a review of all completed assessments of Hindu undivided families for the assessment years 1974-75 and onwards. The review carried out in some of the charges alone has again revealed substantial under-assessments resulting from omissions to apply higher rates. The omissions noticed during this partial review are apparently in addition to those already pointed out in the Audited Reports. The review is yet to be completed in a number of charges. The Committee would like to be apprised of the results thereof.

[S. No. 35 (Para 8.7)]

Action Taken

Kind attention of the Hon'ble Committee is invited to this Ministry's Action Taken Note sent under Office Memorandum F. No. 241/2/82-A&PAC-I dated 5-10-1982.

2. Commissioners of Income-tax are continuing the review of the cases to ascertain whether the prescribed rates of tax had been charged while completing the assessments to Income-tax and Wealth-tax in the case of Hindu undivided families with more than one member having taxable/income wealth. Reports received upto 30.9.1982 show as follows :

	Income-tax	Wealth-tax
Total Number of cases reviewed	1,33,231	33,344
No. of cases where remedial action was found necessary	5,327	1,242
No. of cases where remedial action has been completed.	4,844	1,212
Additional demand raised (Rs. 000)	1,683	1,132

The matter is being further pursued with Commissioners of Income-tax.

[(Ministry of Finance (Department of Revenue)
F. No. 241/2/82-A & PAC-I
F. No. Audit.-28/82-82/DIT/11417
Dated 15th October, 1982]

Recommendation

8.8 Apart from the question of substantial under-assessments of tax this case is indicative of certain basic weaknesses in the systems of organization in the department. In the normal circumstances whenever rates of taxes are revised througe the annual Finance Act the revised rates should automatically be applied by the Income-tax Officer in the assessments for the respective assessment years. In this case, not only this has not happened, but even repeated instructions of the Central Board of Direct Taxes have failed to secure total compliance. The review ordered by the Board is a device of desperation; it could be done only at the cost of current work and it cannot, in any case, ensure that the omissions would not continue in the subsequent assessment years. What is required is a thorough study of the prescribed systems and procedures, such as the duties and responsibilities assigned to the Income-tax Officers themselves and to the different levels of staff under them in the matter of completion of assessments, the records designed to ensure that such obvious mistakes do not occur, the part played by the organisational controls like the Inspecting Assistant Commissioners and the Internal Audit, etc. to find out the precise reasons for such simple, obvious but costly and repeated mistakes and to effectively put a stop to them. The Committee would strongly recommend that such a study should be carried out and the duties and responsibilities of different levels in the assessing units as well as in the inspecting organs like the Inspecting Assistant Commissioners and the Internal Audit should be clearly defined.

[S. No. 36 (Para 8.8)]

Action Taken

Paragraph 21(xvii) of Chapter XII of the Office Manual Volume-II, Section II published in 1954 prescribes a system of internal checks for different levels of functionaries for ensuring correct calculations of income-tax. The limits prescribed for internal check in the Manual were reviewed from time to time and instructions were issued time and again for strict compliance of the instructions on the subject.

2. With a view to avoiding the recurrence of the mistakes in calculation of tax and to strengthen the in-buiit systems of internal check in the organisation involved in calculation of tax, the duties of different functionaries responsible for tax calculation were defined with precision. The present position of the action taken for clearly defining the duties of various functionaries is given in Annexure-I.

3. As pointed out in the Annexure-I, the UDCs and Tax Assistants are priliminarily responsible for original calculations and preliminary check over arithmetical accuracy of tax calculations. Their duty lists have already been compiled by the DOMS and are presently under the consideration of the C.B. D.T. The supervisory staff comprising supervisors/Head Clerks exercise primary check over tax calculations in specified cases. Their duty list has already been finalised and ccirulated amongst the field officers. So far as the ITOs are concerned, they must satisfy themselves about the accuracy of tax calculations. Their duties were originally laid down in the Office Manual (Volume-II) (Section-II). They are required to personally check demands in cases of income over Rs. 1,00,000/- and refund over Rs. 10,000/-. The necessity of personal check has been reiterated by the Board from time to time. While the existing instructions laying down the duties of the ITOs with regard to the accuracy of tax calculations are sufficient, the DOMS is compiling a complete list of duties of the ITOs in view of various amendments in the Tax Laws. The duty list of the Inspecting Assistant Commissioners has already been compiled by the DOMS and is presently under the consideration of the C.B.D.T. The IACs are not directly responsible for the accuracy of the tax calculations but are required to ensure implementation of Board's Instructions and to inspect the work of the ITOs and give suitable guidance to the ITOs in handling of important cases. It is thus evident that the existing instructions for the internal check of tax calculations are adequate for the avoidance of the recurrence of such mistakes.

4. This issues with the approval of the Chairman (DT).

ANNEXURE-I

Designation of the functionaries	Whether study of duties and responsibilities carried out	Duties prescribed with view to avoid mistakes in calculation of tax	Action taken
1	2	3	4
1. U.D C	Duties laid down in office Manual (Vol. II Sec. II) were reviewed by the DOMS. Detailed duty list of UDCs was sent to the Board on 19.4.82 for approval.	1. Calculation of tax/refunds/interest on the total income/weath/gift/ principal value of Estate. 2. Calculatioa of tax/refunds/interest due to : (a) rectification; (b) revision of shares; (c) giving effect to appellate orders/ revision orders. etc. (d) any alteration in the assessed figure due to any other reasons. 3. Checking of tax/refund computed by another UDC. (Duties as provided in S. Nos. 21, 22 & 23 under the head "Assessment & Collection").	Approval of the CBDT the proposed duty list awaited

1	2	3	4
2. Tax Assistant	The posts of Tax Assistants were created only in May, 1978. Duty list has been drawn and sent to the Board on 19.4.1982 for approval.	1. Calculation of tax/refunds/interest on the total income/wealth/gift determined by the ITO/IAC (Asstt.) 2. Calculation of tax/refund/interest due to : (a) rectification; (b) revision of shares; (c) giving effect to appellate orders/revision orders etc. (d) any alteration in the assessed figures due to any other reason. 3. Checking of tax/refund made by U.D.C./TA (Duties as provided in S. No. 12, 13 & 14 under the head 'Assessment & Collection').	Awaiting Board's approval.

3. Supervisory Staff (Supervisors & Head Clerks)	Duties and responsibilities of Supervisor and Head Clerks as provided in the Office Manual (Vol. II Sec. II) were received in October, 1981.	1. Checking of tax calculations in cases where income over Rs. 20,000/-, wealth over Rs. 3 lakhs, taxable gifts over Rs. 10,000, all estate duty cases and refunds exceeding Rs. 500/-. 2. Checking of all tax calculations due to : (a) rectifications; (b) revision of shares; (c) giving effect to appellate orders/revision orders etc. (Duties as provided in S. No. 1, 2 & 3 under the head 'when posted in field offices').	This has already been circulated to the field officers in Oct. '81.

1	2	3	4
4. Income-tax officer	Office Manual (Vol. II) (Sec. II) provides the duties to be performed by the ITO's. This is being updated in view of the amendments in law. Various instructions, however, have been issued from time to time regarding checking of tax calculations. Under the I.T. Act and other direct taxes Chapter XII para 21 (xvii) of Vol. II Sec. II provides that the Income-tax Officer's responsibility does not cease with determination of income/ net wealth etc. but he must satisfy himself that calculations are being properly made. ITOs are required to personally check demands in cases of incomes over Rs. 1 lakh and refunds Rs. 10,/000-. The necessity of checking tax calculation was reiterated by the Board *vide* F. No. 36/40/67-IT	For effective check on the accuracy of calculations of demand and refund comprehensive instructions have already been issued fixing responsibilities at different levels for ensuring the correctness of the tax calculations.	

Audit dt. 13.12.68 and F.No. 9/37/68-IT (Audit) dt. 23.10.1970. The ITOs are also required to check the tax calculations of wealth-tax, Gift-tax and Estate Duty as provided in DI (IT & Audit)'s instruction No. 52 (F. No. 5/4/69-IT(Audit) dt. 26.5.69) The limits for checking calculation of tax by the ITOs as under :

(i) *W.T.*	(ii) *G.T.*	(iii) *E.D.*
Wealth over Rs. 10 lakhs and refund exceeding Rs. 5000/-	Taxable gift of 1 lakh or over and refund exceeding Rs. 5,000/-	Principal value of estate is Rs. 2 lakhs or over or Refund exceeds Rs. 5000/-

1	2	3	4
5. I.A.C.	Updated list of duties of IAC was drawn by this Directorate on March, 81. This was subsequently recast on March, 82, and was sent to the Board on 3.4.1982 for approval.	1. To ensure implementation of Board's instructions, (duties as provided in S. No. 2 under the head Organisational functions).	
		2. Annual inspection of the work of at least six ITOs in his range. Besides undertaking a comprehensive appraisal of performance of the ITO in all areas of tax administration, the IAC is required to inspect Approx. 8 assessments in detail including 3 assessments selected by the ITO himself as his best performance. The idea behind the inspection by the IAC is to provide	

to the ITO guidance on handling of important cases.

(Duties as provided in S. No. 12 under the head (Technical control).

[Ministry of Finance (Department of Revenue)
[F. No. 241/2/82-A & PAC I Dated 14th October, 1982)]

NEW DELHI ;
March 23, 1984
Chaitra 3, 1906 (Saka)

SUNIL MAITRA,
Chairman,
Public Accounts Committee

APPENDIX

Conclusions/Recommendations

S. No.	Para No.	Ministry/Department Concerned	Conclusion Recommendations Observations
1	2	3	4
1	1·3	Finance (Department of Revenue)	The Committee desire that final replies to the recommendation in respect of which only interim replies have so far been furnished should be submitted to them expeditiously after getting the same duly vetted by Audit.
2.	1·7	-do-	The Committee observe that the Ministry of Finance, after consulting the Ministry of Law, had informed the Committee in December, 1968 that on the question of allowance of depreciation on assets acquired on hire-purchase basis, the ratio of the decision of

			the Supreme Court in K.L. Johar's case given in 1965 was equally applicable to Income-tax and thus, in accordance with the law, as it stood, no depreciation allowance could be given to the lessee in respect of assets acquired on hire-purchase basis. The PAC (1981-82) were unhappy to note that even after 14 years the concession continued to be given under executive instructions and law on the point had not till then suitably amended. the Committee strongly recommend that the necessary amendment may be made without any delay.
3.	1.8	-do-	In their action taken reply, the Ministry have stated that the amendment of the relevant provisions of the Act, *viz.* Section 32-33, would depend upon the prior amendment being contemplated by the Ministry of law to the provisions of the Hire Purchase Act, 1972. The Ministry of Law have confirmed that the Hire Purchase Act has not vet come into force. Till such time, the executive instructions dated 19.9.1977 would continue to operate. The Committee are amazed that even though 12 years have elapsed since the Hire Purchased Act was enacted by Par-

1	2	3	4
			liament, it is yet to come into force. Even though two notifications to bring the Act into force were issued in 1973, these were subsequently superseded/rescinded the reason given by the Ministry of Law for not enforcing the Hire Purchase Act is that the Banking Law Committee in its report on Personal Property Security Law (1977) has proposed certain far-reaching amendments to the Act. The Committee are surprised at this explanation. More than six years have elapsed since the Banking Law Committee submitted its report to Government and it should have been possible by now for them to examine and take decision on the recommendations of the Banking Law Committee. The Committee desire that the matter should be expedited and necessary action to bring the Hire Purchase Act in force should be taken without any further delay so that executive instructions dated 19.9.1977 are provided statutory support at the earliest. The Committee need hardly emphasise the

			imperative need for immediate action as power to grant a concession in taxation is a substantive power which must flow from statute whether by express grant or by express authorisation.
3.	1.11	-do-	Though the observations of the Committee have been accepted, the Ministry have not replied to the specific point raised by the Committee as to how the Ministry could, on its own, and before actual completion of assessments for all the other six years—1965-66 to 1971-72 involving demands of over Rs. 53 lakhs, come to the conclusion, that the original demands were unrealistic. The Committee would await to hear from the Ministry in this regard.
4.	1.14	-do-	The Commiitee note that Surtax Act provides for the companies voluntarily filing returns of chargeable profits as well as for the income-tax Officers calling for such returns by notice. The Act does not provide for any time-limit for the completion of Surtax assessments. In their successive Reports, the Public Accounts Committee have taken adverse note of cases where neither the asses-

1	2	3	4
			sees had themselves filed Surtax voluntarily nor had the Income-tax Officers called for such returns, with the result that Surtax assessments remained to be completed long after the corresponding income-tax assessments had been made. Pursuant to a recommendation of the Committee, the Central Board of Direct Taxes issued instructions in October 1974, laying down that proceedings for completion of regular Surtax assessments should be taken up along with income-tax proceedings so that the Surtax assessments are finalised immediately after the Income-tax assessments are completed. The instructions further laid down that the time-lag between the date of completion of income-tax assessments and Surtax assessments should ordinarily not exceed a month unless there are special reasons justifying the delay. However, even after the issue of the aforesaid instructions, a large number of cases came to notice where Income-tax assessments.

			were completed/revised, but no action had been taken to complete the corresponding Surtax assessments, with the result that considerable amounts of Surtax remained to be assessed and collected. The PAC (1981-82), which examined these cases, strongly recommended that the suggestion about the inclusion of a time-limit for completion of assessments under the Surtax Act should be seriously consideredy and given effect to.
5.	1.15	-do-	In their action taken reply, the Minist have stated that "Surtax assessments were delayed for reasons like the Income-tax Officer not being aware of the Board's instructions, oversight, change in the jurisdiction of the case the assessing officer being busy in the time-barring asse sments, pendency of income tax appeals, collection of relevant information etc." The Ministry have also stated that the need for issue of fresh instructions was under consideration of the Ministry. The Committee are unhappy to note the reasons given by the Ministry for the inordinate delay on the part

1	2	3	4
			of the Income-tax Officers in completing Surtax assessments. In the opinion of the Committee, these reasons are totally unconvincing. They only indicate that the Board's instructions in the matter have remained unheeded by the lower formations. As the Committee have repeatedly pointed out, instructions have value if they are followed by the lower formations in letter and spirit. The Committee trust that the Board will take effective action to ensure that this is done.
6.	1.16	-do-	The Committee note that in their reply, the Ministry have said nothing regarding the amendment of the Surtax Act to provide for a time-limit for the completion of Surtax asseessments. The Committee desire that the Ministry should take immediate action for the amendment of the Surtax Act so as to provide for a time-limit for the completion of Surtax assessments.

5.	1.19	In there earlier Report, the Committee had desired the Ministry of Finance to fix responsibility for the loss of revenue to the tune of Rs. 4,57,353 caused by delay first in initiating action after the receipt of the Audit objection and then in completing the action after the issue of notices, which resulted in the assessments getting barred by limitation. The Committee regret to observe that although nearly two years have elapsed since the Committee made the above recommendation, responsibility in the matter is yet to be fixed, and in the meanwhile the concerned officer has retired from service. In the opinion of the Committee, the present case underscores the need for quick action in such matters, for any undue delay in holding an enquiry defeats its very purpose. In a recent Report, the Committee have stressed that in cases of the present type resulting in undue delays/losses, the Ministries/Departments, in the interest of efficient administeration, should, on their own, investigate the delays/losses, without waiting for a directive from

1	2	3	4
			the Public Accounts Committee. The Committee trust that the Ministry of Finance would bear this in mind. In the meanwhile, the Committee desire that the action already initiated to fix responsibility in the matter should be speeded up.
	1.22		The Committee are not convinced by the aboue reply of the Ministry. In their opinion, the responsibility of the Inspecting Assistant Commissioner and the Commissioner of Income-tax in such matters should not cease just with ensuring that the remedial action is initiated. They feel that it should also be the responsibility of the Inspecting Assistant Commissioner and the Commissioner of Income-tax to see that the remedial action initiated is completed well in time. The Committee would like the Central Board of Direct Taxes to issue suitable instructions to the lower formations in this regard.

6. 125

In their earlier Report, the Public Accounts Committee had considered a case where in response to the notice issued under Section 148 of the Income-tax Act, 1961, the assessee had made a statement that she had already filed a return on 6.1.1968 and had also paid a tax of Rs. 1,33,158 under Section 140-A on 2.2.1968. However, the Income-tax Officer in January, 1977 proceeded to complete the assessment without verifying the veracity of the assessee's claims which, as it turned out later, were true and duly authenticated by Departmental receipts. Commenting upon the above case, the PAC (1981-82) observed that this was a case of sheer callousness and harassment and the Income-tax Officer seemed to have become a law unto himself rather than acting quasi-judicial capacity. In their action taken reply, the Ministry of Finance have stated that the recommendation of the Committee is under consideration. The Committee are astonished at this casual reply. They need hardly point out that it is lapses such as these

1	2	3	4
			which tarnish the image of the Department in the public eye. The Committee would like the Ministry to take a serious view of the lapse so that such responsible officers as ITOs who are supposed to act in a quasi-judicial capacity do not act callously, causing unnecessary harassment to assessees.
	1.26		
7.	1.29		In their reply, the Ministry have not said anything about the disciplinary action taken against the Income-tax officer concerned in the case. The Committee would like to know the action taken in the matter.
			The Committee feel that mere issue of instructions is not enough. There should be a system to ensure that follow up action on the instructions by the concerned officers is prompt and proper.

PART II

MINUTES OF THE SIXTY-SIXTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE HELD ON 20 MARCH, 1984 (AN)

The Public Accounts Committee sat from 1500 hrs. to 1720 hrs.

PRESENT

Lok Sabha

Shri Bhiku Ram Jain —*In the Chair*

2. Shri Chitta Basu
3. Smt. Vidyavati Chaturvedi
4. Shri G.L. Dogra
5. Shri Jamilur Rahman

Rajya Sabha

6. Shri Syed Rahmat Ali
7. Smt. Pratibha Singh

SECRETARIAT

1. Shri H.S. Kohli —*Chief Financial Committee Officer*
2. Shri K.K. Sharma —*Senior Financial Committee Officer*
3. Shri Krishnapal Singh —*Senior Financial Committee Officer*
4. Shri R.C. Anand —*Senior Financial Committee Officer*
5. Shri K. Sahai —*Senior Financial Committee Officer*

REPRESENTATIVES OF THE OFFICE OF THE C & AG

1. Shri R.K. Chandrasekharan —*Addl. Dy. C & AG of India (Reports*
2. Shri S.R. Mukherjee —*Addl. Dy. C & AG of India (Railways)*
3. Shri K.N. Row —*Director of Audit, Defence Services*
4. Shri A.N. Biswas —*Director of Audit P & T*

5.	Shri V. Sundaresan	—*Director of Receipt Audit-I*
6.	Shri N. Sivasubramanian	—*Director of Receipt Audit-II*
7.	Shri A.N. Mukhopadhyay	—*Jt. Director (Report—Central)*
8.	Shri K.H. Chaya	—*Jt. Director (Railways)*
9.	Shri S.K. Gupta	—*Jt. Director (Receipt Audit)*
10.	Shri N.R. Rayalu	—*Jt. Director (Defence)*
11.	Shri T.G. Srinivasan	—*Jt. Director Audit, P & T*
12.	Shri N. Balasubramaniam	—*Jt. Director (Receipt Audit)*
13.	Shri R.S. Gupta	—*Jt. Director of Audit, Defence Services*

2. In the absence of the Chairman, PAC, Shri Bhiku Ram Jain, was chosen to act as Chairman for the sitting.

** ** **

4. The Committee also considered and adopted the following draft Reports without any amendments/modifications :

1. Action Taken on 85th Report of PAC (7th Lok Sabha) on Corporation-Tax, Income-tax and Wealth-tax.

** ** **

The Committee also authorised the Chairman to finalise the Reports in the light of modifications/amendments suggested by Audit as a result of factual verification and present the same to the House.

The Committee then adjourned.

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