P.A.C. No. 622

PUBLIC ACCOUNTS COMMITTEE (1977-78)

(SIXTH LOK SABHA)

SEVENTY-EIGHTH REPORT

WORKING OF SALARY CIRCLES

MINISTRY OF FINANCE

(Department of Revenue)

[Paragraph 49 of the Report of the Comptroller and Auditor General of India for the year 1975-76, Union Government (Civil), Revenue Receipts, Volume II, Direct Taxes, relating to working of Salary Circles.]

Presented to Lok Sabha on 27-4-1978
Laid in Rajya Sabha on 27-4-1978

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NEW DELHI
April, 1978/Vaisakha, 1900 (Saka)
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Page	Para	Line	For	Read
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59	Col 2		1.114	114
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65	-	8-9	Delete 'drawing employees of a company in Tamil Nadu,'	

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PART II*

Minutes of the Sittings of the Public Accounts Committee held on :—

2-2-1978 (A.N.)

3-2-1978 (A.N.)

20-4-1978 (A.N.)

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

PUBLIC ACCOUNTS COMMITTEE

(1977-78)

CHAIRMAN

Shri C. M. Stephen

MEMBERS

Lok Sabha

*2. Shri Halimuddin Ahmed
3. Shri Balak Ram
4. Shri Brij Raj Singh
5. Shri Tulsidas Dasappa
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12. Dr. Laxminarayan Pandeya
13. Shri Gauri Shankar Rai
14. Shri M. Satyanarayan Rao
15. Shri Vasant Sathe

Rajya Sabha

**16. Smt. Sushila Shankar Adivarekar
**17. Shri Sardar Amjad Ali

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*Elected with effect from 23 November, 1977 *vice* Sarvashree Sheo Narain and Jagdambi Prasad ceased to be Members of the Committee on their appointment as Ministers of State.

**Ceased to be Members of the Committee consequent on retirement from Rajya Sabha w.e.f. 2-4-1978.

18. Shri M. Kadershah
19. Shri Piare Lall Kureel *urf* Piare Lall Talib
20. Shri S. A. Khaja Mohideen

***21. Shri Bezawada Papireddi

***22. Shri Zawar Hussain

SECRETARIAT

1. Shri B. K. Mukherjee—*Joint Secretary*
2. Shri H. G. Paranjpe—*Chief Financial Committee Officer*
3. Shri Bipin Behari—*Senior Financial Committee Officer*

**Ceased to be Members of the Committee Consequent on retirement from Rajya Sabha w.e.f. 9-4-1978.

INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Seventy-Eighth Report of the Public Accounts Committee (Sixth Lok Sabha) on Paragraph 49 of the Report of the Comptroller & Auditor General of India for the year 1975-76, Union Government (Civil), Revenue Receipts, Volume II, Direct Taxes, relating to Working of Salary Circles.

2. The Report of the Comptroller and Auditor General of India for the year 1975-76, Union Government (Civil), Revenue Receipts, Volume II, Direct Taxes, was laid on the Table of the House on 13 June, 1977. The Public Accounts Committee (1977-78) examined the paragraph relating to Working of Salary Circles at their sittings held on 2 and 3 February, 1978. The Public Accounts Committee (1977-78) considered and finalised this Report at their sitting held on 20 April, 1978.

3. A statement containing conclusions/recommendations of the Committee is appended to this Report (Appendix II). For facility of reference these have been printed in thick type in the body of the Report.

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

5. The Committee would also like to express their thanks to the officers of the Ministry of Finance (Department of Revenue) for the cooperation extended by them in giving information to the Committee.

NEW DELHI;
April 24, 1978
Vaisakha 4, 1900 *(S)*.

C. M. STEPHEN,
Chairman,
Public Accounts Committee.

REPORT

WORKING OF SALARY CIRCLES

Audit paragraph:

Under the Income-tax Act, 1961, one of the heads of income is "salaries". The term salary has been defined by the Act to include gratuity, perquisites and any profit in lieu of or in addition to salary. Perquisite is comprehensively defined to include not only allowances but value of certain benefits and concessions allowed to the employee. The Act provides for recovery of tax by deduction at source. The amounts so recovered for the years 1975-76, 1974-75 and 1973-74 are as follows:

Year	Total deduction at source	Deduction at source on income chargeable under the head Salaries
	(In crores of rupees)	
1975-76	350·77	163·13
1974-75	310·26	169·51
1973-74	299·66	158·23

2. Separate salary circles have been set up in bigger charges. The number of such circles working in the country as on 31-3-1976 was 20. Salary cases constituted about 18 per cent of the total number of cases.

3. The total number of salaried employees assessed in salary circles during the assessment year 1975-76 is estimated at over 7 lakhs. The progress in the completion of assessments in salary cases is indicated by the following figures:

(i) Number of assessments pending on 1-4-1975	2,27,578
(ii) Number of current assessments	5,26,403
(iii) Total number of assessments for disposal	7,53,981
(iv) Number of assessments completed	
(a) Out of arrears	2,05,626
(b) Out of current	3,92,625
(c) Total	5,98,251
(v) Number of assessments pending on 31-3-1976	1,55,730

4. The Act and the Rules place a statutory responsibility on all persons responsible for paying 'Salary' to deduct tax, at the time of payment of 'salary income', at the average rate of tax computed on the basis of the rates in force for the financial year in which the payment is made and to pay the sums so deducted to the credit of the Central Government within one week from the date of deduction. In special cases, if so permitted by the Income-tax Officer it could be paid quarterly on June 15th, September 15th, December 15th and March 15th. In the event of failure to so deduct the income-tax or, after deduction, to pay the sums deducted as prescribed to the credit of the Central Government, the employer would have to pay simple interest at the rate of 12 per cent per annum on the amount outstanding from the date on which it was deductible to the date on which it is actually paid. The employer would also be treated as an assessee in default and thereby become liable to the penalties and prosecution proceedings prescribed in the Act.

5. A person deducting tax at source, as aforesaid, is required to furnish to the person from whose salary the deduction is made, a tax deduction certificate showing the amount of income chargeable under the head 'salaries', and the amount of tax deducted. This certificate forms the basis for the credit to be given to the employee in his income-tax assessment for the relevant year. Every employer is required to file with the Income-tax Officer, within 30 days from the 31st March in each year, an annual return of salary giving details of all amounts chargeable under the head 'Salaries' paid to the employee, and the amount of tax deducted and credited to the Central Government. This statement provides specific columns not only for various items of income assessable under 'salaries' such as wages, annuity, pension, gratuity, commission, bonus, fees or profits in lieu of or in addition to salary but also perquisites such as residential accommodation provided free of rent or at concessional rent, house-hold furniture provided by the employer, remuneration paid by the employer for personal services provided to the employee, free or concessional passages on home journeys or other touring provided by the employer, contribution to recognised provident fund in excess of 10 per cent of the employee's salary of interest on the provident fund balances credited at rates higher than those fixed by the Government or any other amenity provided by the employer free of cost or at concessional rate. In addition, the non-Government employers are also required to file with the Income-tax Officer a monthly return

giving details of the amounts of 'salaries' paid to each employee, the amount of tax deducted and the date of payment thereof to the credit of Government. The Commissioners of Income-tax are empowered to waive this requirement and allow the submission, instead of a monthly certificate of the tax deducted from salaries and paid to the credit of Government.

6. A general review of the working of salary circles in some of the charges revealed the following:

(i) *Certificates and Returns*

7. It would be apparent from the statutory provisions described above that the tax deduction certificate, the employers' monthly return|certificate and the employers' annual return constitute the important tools in the hands of the Income-tax authorities to ensure that the statutory obligations are not avoided. It is necessary to see that the credit claimed for tax deducted at source is supported by a tax deduction certificate, that the monthly return|certificate is received and the amount of tax collected and paid to the credit of Government tallies with the collection accounted for in the Treasury. The annual return should also be tallied with the details of monthly return|certificate on the one hand and the incomes returned and the claims filed in individual assessments of the employees on the other.

8. Test check conducted in some of the Commissioners' charges revealed that neither the timely receipt of these important certificates|returns nor the checks and counter-checks for which these are designed were receiving adequate attention. Cases were noticed in Bihar, Delhi, Kerala, Orissa, Rajasthan and Uttar Pradesh charges where credits for tax deducted at source were allowed without production of tax deduction certificates. In Rajasthan, in one case such credit was allowed on the basis of a certificate, though the name of the assessee did not appear either in the monthly or the annual return. In Bombay in the case of a Managing Director of a multinational corporation, lump sum amounts of Rs. 5,17,419 for the financial year 1969-70 and Rs. 2,91,737 for the financial year 1973-74 shown in the tax deduction certificates, were accepted for assessment without calling for any details, though the annual returns did not give any break-up of the salaries, perquisite or other amenities comprising the lump sum amounts. In Kerala, credits for tax deducted at sources were allowed without the tax deduction certificate on the plea that the assessees were

highly placed gazetted officers and their statements regarding deduction of tax at source could be accepted. In Tamil Nadu, monthly|annual returns are centralised in one ward for computerisation and the assessing officers have to rely on the tax deduction certificates for affording credit without any means of correlating the same with the monthly annual returns.

9. As for the monthly returns|certificates, it was noticed in 7 Commissioners' charges that these returns|certificates had not been received and no action had been taken in the matter. In 10 Commissioners' charges, the prescribed register for watching the receipt of these monthly return|certificates was not kept or where maintained, it was not in the prescribed form and manner. In all these cases, it was not clear how it was ensured by the words|circles that the tax deductible at source had actually been deducted in all cases and that the amounts deducted had been credited to Government account within the prescribed time.

10. There was a similar omission in regard to watching the receipt of the annual returns. In 5,871 cases, in 11 Commissioners' charges, these returns had not been received. The percentage of cases in which returns were not so received in these charges varied from 33 to 100. In 638 other cases in 5 Commissioners' charges, returns were received late by periods ranging from 1 month to 6 months upto December 1975. Under the Act, the defaulters could be prosecuted and would be liable [before amendment by the Taxation Laws (Amendment) Act, 1975 from 1st October, 1975] to a fine of upto Rs. 10 for every day of default. No action had, however, been initiated in any of these cases. In respect of 410 cases of delayed returns in the Commissioner's charges in Tamil Nadu, Calcutta and Andhra Pradesh alone, the fine leviable under the aforesaid provisions of the Act, would amount to Rs. 22,56,800 upto the end of December, 1975. A test check of the annual returns received revealed the following position in some cases:

(a) In 120 cases, in one circle in Calcutta, the total amount of tax paid as per challans fell short of the total amount shown in the annual returns by as much as Rs 1,18,61,232. No action had been taken to reconcile the discrepancy.

(b) In Andhra Pradesh, similar discrepancies between the amounts given in the returns and the amounts shown by the monthly returns and the challens were noticed in 11 cases. Of these, in 9 cases the amounts as per

challans fell short of the amounts shown in the annual returns by Rs. 3,20,931; in the other two cases the amounts shown in the annual return were more than those posted in the Register of employees from the monthly returns|certificates by Rs. 3,72,208.

(c) In Karnataka, in the case of 8 employers, the total tax deduction as per the annual returns was Rs. 1,98,423 but the amounts credited as per the challans totalled only Rs. 1,55,937.

(d) Similarly, in one case in Poona, the annual return showed a total tax deduction of Rs. 1,86,384 while the corresponding monthly returns and the challans totalled only Rs. 1,47,978.

(ii) *Deduction of tax*

11. The test check also revealed 4 cases in Tamil Nadu and 2 cases in Calcutta where tax deductable at source had not been deducted|deposited. In 89 cases, in Calcutta, Haryana, Madhya Pradesh, Tamil Nadu and Uttar Pradesh, there had been short deductions of tax at source were made to the credit of Government account after delays of 14 days to 3 years. The interest leviable in these cases under the law, amounting to Rs. 5,06,246, was not levied. There were similar cases of delay also in Gujarat, Karnataka and Rajasthan.

12. In the case of three assessees in Karnataka who were partners in a registered firm, tax deducted at source was adjusted twice, once in the assessments of the Hindu undivided families of which the assessees were *Kartas* and again in their "Individual" assessments, with a resultant short collection of Rs. 10,086.

13. The Income-tax Rules allow a discretion as stated earlier, to the Income-tax authorities to permit certain employers to pay the tax deducted at source to the credit of Government quarterly on the 15 July, 15th October, 15th January and 15th April. The Board issued executive instructions in November 1975 to the effect that such permission should be granted only to small business houses. The Board also desired in these instructions that the permissions already granted in any cases to large business houses should be withdrawn. In Bombay, such permission given in 17 cases where average monthly deduction of tax was of the order of Rs. 14,22,000, was not withdrawn. Interest forgone in these cases works out to Rs. 1,70,600 per year. In Kerala and Tamil Nadu also,

certain cases were noticed where permission granted earlier to big houses had not been withdrawn.

(iii) *Valuation and assessment of perquisites*

14. Many cases of incorrect computation|assessment of the perquisite value of various amenities provided by the employers were noticed in audit. The following are some of the instances:—

(a) Under the Rules, rent-free accommodation is evaluated at 10 per cent of the salary if unfurnished, and 12.5 per cent, if furnished (from 2nd April, 1974, however, the rent of furniture is separately added). The Rules also provide for increase in the aforesaid value if the fair rental value of the accommodation is far in excess of the above percentages and also for reduction thereof if the Income-tax Officer is satisfied that the fair rental value is less than the prescribed percentages.

In 53 cases, pertaining to different assessment years between 1969-70 and 1974-75, it was noticed in the Commissioners' charges in Assam, Calcutta and Uttar Pradesh that mistakes in valuing the perquisites involved in rent-free accommodation resulted in a total short levy of tax of Rs. 70,752. In seven cases pertaining to the assessment years, 1970-71 to 1973-74, it was noticed in Calcutta that the perquisite value of rent-free furnished accommodation was accepted at Rs. 85,131 as returned, though the amount computed at 12.5 per cent of the salary worked out to Rs. 1,31,[illegible]52 and there was nothing on record to show hat the Income-tax Officer was satisfied that the fair rental value was less than the prescribed percentage. In Tamil Nadu in the case of 3 foreign employees of a company, deriving salary income of Rs. 1,10,000 to Rs. 1,80,000 per annum, the value of rent-free accommodation was calculated for the assessment year 1971-72 based on the municipal valuation of fair rental value adopted in the assessment years 1966-67 and 1967-68. The value so computed worked out to a mere two to five per cent of salary income. If 12.5 per cent of salary income were taken as the value of the perquisite, there would be a further charge of tax of Rs. 90,480 in these cases. Similarly, in one case in Kerala, the perquisite value of rent-free accommodation fixed by the Tribunal sometime in 1954 was

still being accepted for assessment without any regard to the general rise in the fair rental values during this period. In Tamil Nadu also, in the case of a special director of a company belonging to a group, who was in receipt of salaries of Rs. 54,000 and Rs. 36,000 from two companies of the group, the value of rent-free accommodation for the assessment years, 1971-72 and 1972-73 was calculated at 12.5 per cent of Rs. 54,000 and not of the total salary income.

(b) Under the Act, "perquisite" includes any sum paid by the employer in respect of any obligation, which but for such payment, would have been payable by the employee. Thus, the provision of house building or other loans to the employees free of interest or on concessional interest would involve a perquisite in respect of the interest forgone. It was noticed, however, that the various banking and other financial institutions were advancing such loans to their employees either free of interest or at nominal interest which is far less than the concessional interest but the perquisite value in such cases was not computed and brought to tax. Such cases were noticed in Andhra Pradesh and Tamil Nadu. There is no specific rule or instruction from the Board on the valuation of this perquisite, though Rule 3(g) of the Income-tax Rules, 1962 does make a general provision to the effect that the value of any other benefit or amenity should be determined on such basis and in such amount as the Income-tax Officer considers fair and reasonable.

(c) Under Rule 86 of the Income-tax Rules, 1962 a director of a company can be admitted to the benefits of an approved superannuation fund maintained by the company only if he is a whole-time *bona-fide* employee of the company and does not beneficially own shares in the company carrying more than five per cent of the total voting power.

In Andhra Pradesh a director of a company was admitted to a superannuation fund though he was not a whole-time *bona fide* employee of the company. This resulted in short demand of tax of Rs. 28,152 in the assessment years 1972-73 and 1973-74. The assessee was also a Joint Managing Director of another company and receiv-

ed remuneration of Rs. 36,000 per year during the preivous years relevant to the assessment years 1972-73 and 1973-74. In two more cases of another company the Managing Director and the Joint Managing Director were admitted to the benefits of the superannuation fund though they were not whole-time employees of the company and were also beneficially owning shares of the company carrying more than five per cent of the total voting power. In Tamil Nadu, a director of a group of four companies was drawing salary from all of them. He was admitted to the benefits of the superannuation fund maintained by two companies. As he cannot be considered as a *bone fide* whole-time employee of any of the companies he was not entitled to relief on his contributions to the fund and the company's contributions were to be treated as income in the hands of the individual.

(d) In Calcutta, it was noticed from the statements furnished by a company for the assessment year 1973-74 that the company had spent a sum of Rs. 86,411 on account of decoration and flower arrangements in the gardens of the directors and high executives as well as for supply of other articles such as mattresses but the annual returns furnished by the company did not include any of this amount. A test check of the individual assessments of the employees indicated that the amounts were not added as perquisites.

(e) In Andhra Pradesh, a director of a company was allowed standard deduction in the assessment year 1972-73 on account of conveyance. It was pointed out in audit that the director might have been provided with car by the company. On enquiry, the Department found that the value of perquisites in the shape of rent-free accommodation, car, for the assessment years 1967-68 to 1972-73, amounting to Rs. 39,603 with a tax effect of Rs. 31,9[illegible]9 had not been brought to tax.

(f) In Andhra Pradesh also, a company sold 11 jeeps, vans and cars of the total book value of Rs. 2,36,260 to certain employees for a total sum of Rs. 93,558 during the assessment years 1973-74 and 1974-75. In the hands of the employees the perquisite representing the difference between market price and sale price was not taxed.

(g) In Assam in five cases mali allowance was assessed at a uniform rate of Rs. 720 per annum though the allowance actually received by the employees varied from Rs. 720 to Rs. 4560. This resulted in a short levy of tax of Rs. 33,629 in the assessment years 1969-70 to 1974-75.

(h) The Act [Section 40A (5)] also provides for the disallowance, in the assessment of the employer, of payments on account of salary and perquisites in excess of the limits laid down in the Act (salary to an employee in excess of Rs. 5000 a month and perquisites in excess of 1/5th of salary or Rs. 1000 p.m., whichever is less). In the case of 36 employees of four companies in West Bengal, salary and the value of perquisites exceeded the prescribed limits by Rs. 1,71,507 but the excess was not disallowed in the assessment of the companies resulting in under-assessment of tax of Rs. 98,004. Similarly, in the case of two foreign technicians of a company in West Bengal, the excess amounting to Rs. 1,09,370 of salary over the ceiling limit prescribed, was not disallowed in the assessment year 1972-73. In the case of 9 employees of four companies, there were discrepancies between the figures of salary shown in the annual returns and those shown in the statements under Section 40A (5) amounting to excess allowance to the extent of Rs. 78,179 during the assessment years 1972-73, 1973-74 and 1974-75.

(iv) *Reliefs and deductions*

15. (a) The Act allows a standard deduction in respect of certain obligatory expenses such as those on maintenance of conveyances, purchase of professional books etc. This deduction has to be limited to Rs. 1,000 in the case of an employee who is in receipt of a conveyance allowance or who is given the use of a conveyance by his employer. Prior to 1-4-1975 the Act allowed a separate deduction in respect of maintenance of conveyance by salaried employees on the condition that the deduction would not be admissible to an employee in receipt of a conveyance allowance. It was noticed in 34 cases in Assam, Karnataka, Rajasthan and Tamil Nadu that the standard deduction at the full rate without being limited to Rs. 1,000 was allowed even though the employees were either in receipt of conveyance allowance or were given the use of conveyance or free petrol by the employer. The under-charge of tax in these cases amounted to Rs. 41,363.

It was also noticed that many employers particularly in the Public Sector, who were paying conveyance or car allowances to their employees, had adopted the practice of calling this allowance by various other names such as 'local travelling expenses', 'personal allowance', 'vehicle/car allowance', 'reimbursement of motor vehicle expenses' etc. It is open to question if this does not amount to an attempt to circumvent the provisions of the law to enable the employees to claim the standard deduction upto the maximum amount of Rs. 3,500 without being limited to Rs. 1,000.

(b) The Act also contains a provision to the effect that any special allowance or benefit specifically granted to meet expenditure wholly, necessarily and exclusively incurred in the performance of duties of office or employment of profits is exempt from tax. In October, 1971, the Income-tax Tribunal at Bombay held that city compensatory allowance was exempt from tax under this provision. This decision of the Tribunal was confirmed by the Bombay High Court in August, 1974. Since this was not the intention, an explanation was added under the aforesaid provision in the Act by the Finance Act, 1975 retrospectively from 1-4-1962 to make it clear that city compensatory allowance was not exempt under this provision. The Bombay Tribunal held in June, 1975, that city compensatory allowance would still be admissible as a deduction in the computation of salary income under Section 16(v), which allowed a deduction in respect of any amount required to be spent by the assessee wholly, necessarily and exclusively in the performance of duties. This clause in Section 16 of the Act was deleted on the introduction of the standard deduction with effect from the 1st April, 1975. The Madhya Pradesh High Court have held in October, 1975 that city compensatory allowance is exempt *ab initio*, as it is not 'salary' at all. The position, therefore, continues to be uncertain and large groups of salaried employees in different areas continue to get the concession of tax being not paid on city compensatory allowance.

(v) *Other points*

16. (a) Although tax is deductible at source from income under the head 'salaries', there is nothing in the Act to exempt salaried employees from the provisions regarding the submission of returns of income (but for the limited provision in this regard made from 1-4-1975, in respect of persons with salaries not exceeding Rs. 18,000 per annum) or from those relating to the payment of tax in advance, because of the reason that salaried employees may, as well, have income, under other heads. It was, however, noticed that in a very large number of cases, even during the periods upto 1974-75, salaried employees failed to submit their returns of income and the Depart-

ment did not take any steps to issue notices calling for returns in such cases. In Bombay and Gujarat, 55 per cent and 30 to 40 per cent respectively of all the effective tax payers in this category were found to have defaulted in this regard. Similarly, it was noticed in the Commissioners' charges in Assam, Andhra Pradesh, Bombay, Calcutta and Uttar Pradesh that advance tax notices were also not issued in many cases.

(b) The Board had issued instructions in 1972 about the allotment of permanent account numbers to all salaried employees. They had also informed the Public Accounts Committee *vide* para 4.57 of the Committee's 51st Report (1972-73), that they had started giving permanent account number to all assessees. The Income-tax Act, 1961 has since been amended from 1-4-1976 to include a provision in this regard. It was noticed during the test check, however, that there were still many omissions in the allotment of permanent account numbers. Thus in Karnataka, in 5 wards, permanent account numbers had not been allotted till 31st March, 1976. In Rajasthan, Uttar Pradesh and West Bengal, the numbers had yet (31st March, 1976) to be allotted in 4,617, 6,381 and 5,000 cases respectively, seen in test check.

17. The paragraph was sent to the Department of Revenue and Banking in November, 1976; they have stated in February, 1977 that the audit objection is under active consideration.

[Paragraph 49 of the Report of the Comptroller and Auditor General of India for the year 1975-76, Union Government (Civil), Revenue Receipts, Volume II, Direct Taxes.]

18. In place where there are a large number of salaried employees, the Board in exercise of its powers under section 121 of the I. T. Act, 1961 confers jurisdiction over salary cases, in multi-Commissioners charges with one Commissioner of Income-tax. The cases of the salaried employees are normally assigned to a Circle which is called 'a Salary Circle'. Depending upon the number of private sector and Government employees, a Salary Circle is bifurcated into two separate Circles—one dealing exclusively with Private Sector employees and other with Government employees. In addition to this, for purposes of administrative convenience, under section 126 of the I.T. Act, 1961 the Board by Notification in the Official Gazette empowers the Commissioners, AACs, IACs or the ITOs to perform such functions in respect of such areas or such classes or such persons or of such classes of income as may be specified in the Notification. An instance of this is the case of the Army Personnel who are assessed with an ITO at Poona.

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19. The main duties of a 'Circle' are stated to be:

(i) To ensure that the tax is deducted at source by the employer.

(ii) To ensure that tax deducted is paid to the credit of the Central Government.

(iii) To ensure that proper assessments are made. This would include proper valuation of perquisites.

(iv) Collect the taxes demanded.

20. Department of Revenue have, in a note, clarified that linking of deductions allowed in the assessment of the employers with the incomes returned by the employees is not one of the duties of the Salary Circle ITO. The ITO assessing the employer is however, expected to examine at the time of the assessment whether tax is deducted in respect of all employees who are chargeable to tax. Generally he does this by asking whether Sec. 206 returns are submitted and by having a broad reconciliation of the deduction claimed with the amount shown in Sec. 206 returns.

21. There are at present 20 Salary Circles. Six Inspecting Assistant Commissioners (IACs) are managing these Circles exclusively and 84 IACs are managing with other Circles.

22. In a note dated 7-1-1978, Department have intimated that the latest position about assessment, pendency and collection in Salary Circles is as under:

Expected assessment for disposal for the current year	Nos.	551019
Assessments disposed of upto 31-8-77	Nos.	14602
Balance of assessments to be disposed of on 1-9-1977	Nos.	405417
Taxes outstanding for collection as on 1-4-1977	Rs.	20,40,93,000
Demand raised upto 31-8-1977	Rs.	3,81,80,000
Collection made upto 31-8-1977	Rs.	3,36,62,000
Outstanding as on 1-9-77	Rs.	20,86,11,000

(Information is awaited from 4 charges)

23. Audit paragraph has revealed that collection from the tax deducted at source on salaries has gone down by Rs. 6.38 crores during 1975-76 as compared to the collections during 1974-75. Department of Revenue have intimated that this fall in collection was due to the following main reasons:

"(a) By the Finance Act, 1975, the exemption limit in the case of individual etc. was raised from Rs. 6,000 to

Rs. 8,000. The deduction from the salaries was required to be made on the basis of the exemption limit so raised.

(b) Payment of Bonus (Amendment) Ordinance, 1975, was promulgated on 25 September, 1975. Under this Ordinance, the minimum bonus payable was reduced from 8-1/2 per cent to 4 per cent of the salary or wage earned by the employee and that also if there was an allocable surplus in the accounting year. As the amount of bonus forms part of the salary, the collections of tax deducted at source were adversely affected.

(c) Under the Additional Emoluments (Compulsory Deposit) Act, 1974, from and after 6th July, 1974, additional wages were to be deposited in the Additional Wages Deposit Account and no tax was to be payable on such wages for one year till they remained in the said Deposit Account. Likewise, under the said Act, one-half of the Additional Dearness Allowance was to be credited in the Additional Dearness Allowance Deposit Account to remain in that Account for a period of 2 years. No tax was payable on this amount during the previous year in which it was credited. During the financial year 1974-75, this Act was applicable for a period of about 9 months only *i.e.*, from 6th July, 1974 to 31st March, 1975. However, during the year 1975-76, the Act was applicable for the whole year and as such there was some shortfall in the collection of tax deducted at source on this score also."

24. The number of salaried persons in the country assessed to tax, under the Central and State Governments, local authorities, public sector etc. is as under:

	As per Sec. 206 Returns		As per registers of the Department	
	1976-77 Financial Year	1977-78 Current Year	1976-77 Financial Year	1977-78 Current Year
Under Central Government	80195	56568	65772	64684
Under State Governments	89744	80429	97845	95740
Under Local Authorities	43243	29934	12267	11967
Public Sector	332947	279124	250887	245068
Cooperative Sector	13512	11735	7300	7853
Private Sector	535703	495986	241392	237796
	1095344	953776	675463	663108

25. Though the percentage of Central Government employees was 11.63, the amount of income tax collected by way of deduction at source and as a result of assessment of the salaries of the Central Government employees was 15.49 per cent of the total collecon of tax on salary of Rs. 163.13 crores during 1975-76.

26. The number of Employers on Income Tax Registers was as under:

As on	No. of Employers on Income Tax Registers
31-12-1975	64,518
31-12-1976	64,862
31-12-1977	71,202

27. According to the Department of Revenue there are 683 cases exceeding Rs. 1 lakh (total income) assessed in Salary as well as Company Circles. In July, 1973, the Central Board of Direct Taxes issued instructions that the Directors and Senior Executives of important companies may be assigned to the ITOs having jurisdiction over the cases of companies. Asked if under this arrangement a Salary Circle would know whether a particular case, which should normally be asessed in the Salary Circle, had been assigned to the Company Circle, the Department have, in a note, replied in the affirmative but have added that the Salary Circle "will not know any assessment details".

28. A test check by Audit has brought to light a number of shortcomings in the working of Salary Circles. These shortcomings fall under the following categories:

(i) Non-receipt or delayed receipt of returns and certificates including tax credit certificates;

(ii) Non-deduction of tax at source or delays in depositing the tax deducted;

(iii) Incorrect computation/assessment of perquisite value of various amenities provided by the Employers;

(iv) Irregularities in Reliefs and Deductions.

(v) Other shortcomings.

A. Salaries and perquisites of top executives

29. A statement showing the salaries and perquisites of Top Executives of 20 big business houses in the private sector furnished by the Department of Revenue is enclosed (Appendix I).

30. Under Section 198 of the Companies Act, the overall maximum managerial remuneration payable to Directors, Managing Agents, Secretaries, treasurers and Managers has been fixed at 11 per cent of the net profits, inclusive of any monthly payments made by way of remuneration but exclusive of fees payable to Directors for attending Board meetings. If a company earns no profit or the profits are inadequate, it may pay to any Director, including a Managing or wholetime Director, its Managing Agents or Secretaries and Treasurers, if any, or if there are two of them holding office in the company, to all of them together a minimum remuneration not exceeding Rs. 50,000 per annum. This is subject to the approval of the Central Government.

31. According to Section 309 of the Companies Act, the remuneration to a Director is to be determined in accordance with Section 198. Where there is more than one full time Managing Director, the percentage of net profits payable to all of them can be raised to 10 taking into consideration the overall limit of 11 per cent imposed by Section 198. The provisions are applicable to public companies and a private company which is subsidiary of the public company.

32. According to the guidelines issued by the Department of Company Affairs the maximum amount allowed as salary/remuneration of a Director/Manager is Rs. 7500/- p.m. In addition he may get commission at 1 per cent. of net profit but such commission shall not exceed 50 per cent. of salary remuneration. He is also entitled to perquisites such as rent-free accommodation, free use of motor-car, holiday travel, super-annuation, provident-fund and gratuity facilities as available to any other employee, not exceeding 4 months' salary/remuneration. He is further entitled to Medical Expenses not exceeding Rs. 15000/- per annum.

33. The main differences between the provisions in the Companies Act, 1956 and the Income-tax Act, 1961, are—

(i) The provisions of Section 40A(5) of the I.T. Act, 1961 applies to any assessee, while the provisions of Sections 198 and 309 apply only to a public company and a private company only if it is a subsidiary of a public company.

(ii) The provisions of Section 40A(5) are applicable to the expenditure incurred in respect of all employees or former employees while the provisions under the Company Law are applicable to payments made to Directors and Managers only.

34. In a note furnished to the Committee the Department of Revenue have expressed the view that:

"The two limits one for the company Law and another for Income-tax Law cannot be regarded as contrary. While a ceiling on the salary and perquisites of the Director/Manager is considered necessary and this is taken care of by the Company Law by fixing a ceiling, the Income-tax Act provides that if the employer is desirous of paying the maximum salary and perquisites permissible under the Company Law, he should pay an additional amount as tax. These two limits are, therefore, complementary to each other."

35. According to a recent study made by the Reserve Bank of the distribution of highly paid company employees in the organised private sector, in some industries like non-ferrous metals (basic), tobacco, dyes and dyestuffs and Tuminium (basic), the highest annual remuneration per executive ranges well above Rs. 60,000 per annum. Again, according to this study the highest paid executives are in the tobacco industry getting over Rs. 60,000 per annum, 24 getting over Rs. 80,000 per annum and 19 getting over Rs. 1,00,000 per annum. This is followed by aluminium and dyes and dyestuffs in which the number of employees getting over Rs. 60,000 per annum is 45 and 36, those getting over Rs. 80,000 per annum is 26 and 17 and those getting over Rs. 1,00,000 per annum is 14 and 13 respectively. In the context of this study, the Central Board of Direct Taxes have agreed in a note:

(a) That it would be worthwhile to conduct limited review in the case of those industries and in respect of their top executives to see if the assessment of salaries and perquisites in the hands of the employees on the one hand and the employers on the other is correctly made.

(b) To arrange to have a review conducted of these cases in respect of the assessments of the employees and the employers.

B. Employers Register

36. The Committee desired to know whether the work of updating of Employers Register which had been in progress for more than a decade, was now over. In reply, the representative of the Department of Revenue said in evidence:—

> "We have issued instructions to all the Commissioners of Income-tax that the employers registers should be updated. Each Salary Circle has got an employers' register. This updating is done by getting information from the various sources. For example, we take from our own records a list of big companies and we see whether these cases are entered in the employers' registers. Then, we take information from the Telephone Directory. We take the names of the concerns from there and tally them with our employers' register. If any name is found missing, it is entered in the employers' register. Similarly, we get information from the Provident Fund Commissioner's office regarding the employers who pay provident fund."

37. The aforesaid instructions were stated to have been issued on 3-2-1975 and 29-5-1976.

38. During evidence, the representative of the Deptt. of Revenue admitted that "in many charges, the employers' registers are not updated".

39. In a note furnished after evidence, Department of Revenue have stated:

> "The updating of the Employers' Register is constantly being done. This can be seen from the fact that as on 31-12-77 there are 71,202 employers on the register as against 64,862 employers on 31-12-76. The information for the earlier years i.e. 1966 to 1975 is being collected from the field formations and will be sent in due course."

C. Certificates and Returns

40. The Committee pointed out that according to Audit, in 5,871 cases, in 11 Commissioners Charges, annual returns had not been received. In 638 other cases in 5 Commissioners' Charges, returns were received late by periods ranging from 1 month to 6 months upto December, 1975. Though under the Act, the defaulters could be prosecuted and would be liable before amendment by the Taxation Laws (Amendment) Act, 1975 from 1-10-1975 to a fine of upto

Rs. 10 for every day of default, no action was initiated in any of these cases. In respect of 410 cases of delayed returns in the Commissioners Charges in Tamil Nadu, Calcutta and Andhra Pradesh alone, the fine liable under the aforesaid provisions of the Act would amount to Rs. 22.57 lakhs upto the end of December, 1975. The Committee desired to know the names of parties involved and the reason for non-levy of penalty in each case. In reply, Department of Revenue replied:

> "The information has been called for from the concerned Commissioners. As it involves verification of 5,871 cases, it would take sometime to furnish the information."

41. During evidence, the representative of the Department of Revenue deposed:

> "I have got a break-up of these which shows that quite a number of these are Government Officers. Probably that is one of the reasons why the Department had not been that very serious or not taken very serious step."

42. Asked if public sector undertakings had been submitting the returns in time, the witness said:

> "There has been some delay on the part of the public sector undertakings also. But, by and large, they do submit the returns."

43. The Committee wanted to know if it would be far wrong to infer from such continued failures that amendments of the law to make penal provision more stringent were, in fact, rendered nugatory by the lack of executive action. In reply, the Department of Revenue stated in a note:

> "It is not correct to infer that amendments of the law to make penal provisions more stringent are rendered nugatory by lack of executive action. However, it is true that there is scope for considerable improvement and the Board is taking and will continue to take action to see that the penal provisions are strictly enforced and the machinery perfected. During the last few years there has been considerable improvement in the working of the department in the matter of tax deduction at source. The penal provisions are being more increasingly used."

44. As stated in the Audit paragraph, in 120 cases, in one Circle in Calcutta, the total amount of tax paid as per Challans fell short of the total amount shown in the annual returns by as much as

Rs. 1.19 crores. Department of Revenue have intimated that of these 120 cases relating to the years 1970-71 to 1974-75 (5 years) they have been able to reconcile discrepancies in 118 cases. This leaves behind only two cases unresolved involving Rs. 1,384|-. This amount, it has been stated, is to be recovered from R.C.T.C. and Simon Carves (I) Ltd. These discrepancies, the Committee have been informed, arose "mainly due to the non-entry of certain challans in the alphabetical registers and omission to place these in the files".

45. The Committee desired to know why in these cases the challans were not posted in the Registers. In reply, the Department of Revenue have, in a note, explained:

> "They payments were mad by the companies on different dates in the respective years. The challans used to be received in the Commissioner's Office and then sent to the Salaries Circle for posting in the relevant registers. In the years 1972 the salary section was in 3 Government Place West. In 1973 it was shifted to Poddar Court. In 1974 it was shifted to Bamboo Villa. In the course of these shiftings the challans have been misplaced."

46. Asked that if the challans had been misplaced, on what basis was the Department able to reconcile the discrepancies in 118 cases and how, if at all, the fact of payment of tax in each case was verified, the Department have intimated:

> "After receipt of the audit objection, the companies were addressed individually. In the case of some companies the Inspector was sent personally."

47. As regards similar discrepancies between amounts given in the returns and the amounts shown by the monthly/annual returns in 11 cases in Andhra Pradesh Vide paragraph 10(b), the Department have stated that "the main reason for the discrepancy was the non-availability of challan or arthmetical/typographical error." It has been stated that in these cases "there is no short payment by the employer."

48. Referring to the case of 8 Employers in Karnataka where total tax deduction as per the annual returns was Rs. 1,98,423 but the amounts credited as per the challans totalled only Rs. 1,55, 937, the Department of Revenue have intimated:

"In the alphabetical register, all payments made by Companies during the financial year were entered. In some cases, employers credited the tax deducted at source for the month of March during April. This April payment was wrongly entered in the register of the subsequent financial year."

49. The Department of Revenue have opined that for reconciliation of tax deducted at source (in such cases) "It is necessary that the payments made during April of the financial year has to be added".

50. According to the reconciliation done by the Department "on this basis", there is, it has been reported, "no short remittance of tax deducted at source" in these 8 cases.

Commenting on the case in Poona [International Computers (India) Ltd.] where, according to the audit, annual return showed a total tax deduction of Rs. 1.86 lakhs while the corresponding monthly returns and the challans totalled only Rs. 1.48 lakhs, the Department of Revenue have, on verification, found that "there is no difference in the figures of tax deducted at source as per annual/monthly return and challans".

51. In para 1.105 of their 150th Report (Lok Sabha), the Committee had stressed the need for a satisfactory system of reconciliation between the amount of tax deducted at source and the amount credited to Government Account in the Income-tax Department as is in vogue in the United Kingdom.

52. Asked what final action had been taken by the Department in this regard, the Committee have been informed that:

"The suggestion for introducing a Central Control/Account system as prevalent in the United Kingdom, appears to have been considered by the Committee appointed by the Board on accounting and collection procedures. It would appear that they have not considered the suggestion as suitable of introducing in this country, though they have not specifically dealt with this in their report.

It is, however, thought that the objects of this system will be achieved when the computerisation of tax deductions work is introduced all over the country. Under this system, each employer will have a separate file. Through the computer we will be watching the receipt of annual return

from each employer and will also verify whether the tax paid as shown in the Return have actually been paid. If this is done in respect of all the employers, the objects of the control system will be achieved."

53. Conceding that these cases of non-entry of challan in the Register, lack of watch on receipt of Returns etc. were due to "clerical and supervisory inefficiency", the witness said in evidence:

"But I am not condoning the defects or underestimating the importance of these things......It is a human failure."

54. The Committee enquired whether apart from discrepancies which had occurred due to challans having misplaced, the system of posting of challans was otherwise working satisfactorily. In reply, the representative said in evidence:

"Previously, we used to pass on the challans to the Income-tax Officers for doing necessary postings. But we did not have control to ensure that the particular challans were posted in the daily collection register. There was no feed back previously. We have now introduced a system by which there is feed back by which we will be able to find out whether all the challans which have been received in the Income-tax Office have been duly posted in the daily collection register. We have streamlined our accounting procedure after we have taken over the receipt accounting. Now, under the new accounting procedures that we have adopted, we are able to trace the challans right upto the last register that is the daily collection register that is to be maintained."

55. The new accounting procedure had been introduced w.e.f. 1 April, 1977.

56. The Committee pointed out that it was not enough to introduce a new system unless it was supervised well. In reply, the witness assured the Committee:

"We have been sending out our inspection teams to various centres to check up whether this particular procedure is being strictly followed. In the initial stages, because of certain teething troubles, there were certain problems. But now, by and large, these problems have been sorted out and we feel that it is running smoothly......The

sytem is such that automatic checking is there. But to see if automatic checking is properly done, we send out our inspection teams. We have also got the Controller of Accounts. They do the supervision."

57. The witness replied in the affirmative to the question whether under the new system, it would be possible for the Department to verify deductions of tax in a particular case from their own records instead of looking up to the assessees for reconciliation of discrepancies.

D. Deduction of tax

Penal Provisions

58. Section 201 provides for the penal consequences of failure to deduct tax at source or for the non-payment or late payment thereof. This reads as under:

"201: (1) If any such person and in the cases referred to in section 194, the principal officer and the company of which he is the principal officer does not deduct or after deducting fails to pay the tax as required by or under this Act, he or it shall, without prejudice to any other consequences which he or it may incur, be deemed to be an assessee in default in respect of the tax:

Provided that no penalty shall be charged under section 221 from such person, principal officer or company unless the Income-tax Officer is satisfied that such person or principal officer or company, as the case may be, has (without good and sufficient reasons) failed to deduct and pay the tax.

(1A) Without prejudice to the provisions of sub-section (1) of any such person, principal officer or company as is referred to in that sub-section does not deduct or after deducting fails to pay the tax as required by or under this Act, he or it shall be liable to pay simple interest at twelve per cent per annum on the amount of such tax from the date on which such tax was deductible to the date on which such tax is actually paid.

(2) Where the tax has not been paid as aforesaid after it is deducted the amount of the tax together with the amount of simple interest thereon referred to in sub-section (1A)

shall be a charge upon all the assets of the person, or the company, as the case may be, referred to in sub-section (1)."

59. Section 221 under which penalty is leviable reads as under:

"221: (1) When an assessee is in default or is deemed to be in default in making a payment of tax, he shall, in addition to the amount of the arrears and the amount of interest payable under sub-section (2) of section 220 be liable, by way of penalty, to pay such amount as the Income-tax Officer may direct and in the case of a continuing default such further amount or amounts as the Income-tax Officer may, from time to time, direct, so, however, that the total amount of penalty does not exceed the amount of tax in arrears:

Provided they before levying any such penalty, the assessee shall be given a reasonable opportunity of being heard:

Provided further that where the Income-tax Officer is satisfied that the default was for good and sufficient reasons, no penalty shall be levied under this section.

(Explanation:—For the removal of doubt, it is hereby declared that an assessee shall not cease to be liable to any penalty under this sub-section merely by reason of the fact that before the levy of such penalty he has paid the tax)

(2) Where as a result of any final order the amount of tax, with respect to the default in the payment of which the penalty was devied, has been wholly reduced, the penalty levied shall be cancelled and the amount of penalty paid shall be refunded."

60. The failure to deduct tax at source or for non-payment thereof leads to the prosecution of the persons responsible for paying the salary income under section 176B. The prosecution in such cases is launched at the instance of the Commissioner. Section 276B reads as under:

"276B: If a person, without reasonable cause or excuse, fails to deduct or after deducting fails to pay the tax as required by or under the provisions of sub-section (9) of section 80E or Chapter XVII-B, he shall be punishable—

(a) in a case where the amount of tax which he has failed to deduct or pay exceeds one hundred thousand rupees, with rigorous imprisonment for a term which shall not be less than six months but which may extend to seven years and with fine;

(b) in any other case, with rigorous imprisonment for a term which shall not be less than three months but which may extend to three years and with fine."

61. Another shortcoming noticed by Audit in the Working of Salary Circles during the course of test check was that either the tax was not deducted at source or if deducted was not credited to the credit of Government account in time. As stated in the Audit Paragraph:

(i) There were 4 cases in Tamil Nadu and 2 cases in Calcutta where tax deductible at source had not been deducted| deposited.

(ii) In 89 cases, in Calcutta, Haryana, Madhya Pradesh, Tamil Nadu and U.P., there had been short deductions of tax at source to the extent of Rs. 1.11 lakh. No penal action was taken in these cases;

(iii) In 85 cases, in Bombay, Calcutta, Kerala, Tamil Nadu and U.P. the payments of tax deducted at source were made to the credit of Government account after delays of 14 days to 3 years. The interest leviable in these cases under the law, amounting to Rs. 5.02 lakhs was not levied.

(iv) In Bombay, permission to deposit tax on quarterly basis instead of monthly given already in 17 cases where average monthly deduction was of the order of Rs. 14.22 lakhs was not withdrawn despite Board's executive instructions of November, 1975 to confine the relaxation "only to small business houses". Interest foregone in these cases works out to Rs. 1.71 lakhs.

62. From the details of the aforesaid cases furnished to the Committee by the Department of Revenue, it emerges that:

"(i) Out of 4 cases in Tamil Nadu, one case (M|s. Sowedombike Finance (P) Ltd.) has since been dropped by Audit in

July, 1977. The position of remaining 3 cases of Tamil Nadu is:

(1) In the case of M|s. Anamalai Agencies the amount of taxable income worked out in the 206 return is not correct as deduction u|s 16 was not deducted. The actual amount of short deduction in this case works out to Rs. 552. A sum of Rs. 511 has already been collected and the balance of Rs. 41|- will be collected. Since the amount involved is very small action u|s 276B is not considered necessary.

(2) In the case of A.B.T. Parcel Service the actual amount of tax that should have been deducted has been worked out after hearing the assessee. It is seen that figures of taxable income shown in the return under Section 206 are not correct as deduction under Section 16 has not been taken into account. Hence, the amount of Rs. 789|- shown in the audit para as non-deduction in the case of some employees is not correct as taxable income in all these cases comes to Nil.

Similarly, the amount of short deduction of Rs. 4.466 is also not correct for the same reason. The actual amount of short deduction comes to Rs. 2040|-. This has been collected and interest of Rs. 265|- under Section 201(1A) has been charged.

(3) In the case of Coimbatore Distt. Central Co-operative Supply & Marketing Society Ltd. the Appellate Asssistant Commissioner, Coimbatore Range, Coimbatore *vide* his order dated 27-11-76 has cancelled the levy of interest u|s 201(1A)."

63. While in one case of Calcutta (Jute Technological Research Laboratories) interest of Rs. 143 has been charged, in the other case (of Calcutta Clinical Research Association Ltd.) IAC has issued a show cause notice to consider the matter in detail. This Association registered under Small Scale Industries of Government of West Bengal, has intimated that it is facing "precarious financial difficulties" and that as the salaries were paid to employees "in instalments ranging from Rs. 50/- to Rs. 200/- it was not possible to deduct tax at source in time but as soon as the salaries were cleared, the employees taxes in respect of that were paid."

64. Department of Revenue have intimated that of the 89 cases of short deduction of tax at source, 39 were in Calcutta, 20 in Haryana,

1 in Madhya Pradesh, 5 in Tamil Nadu, 24 in UP. The position of these cases in as under:

"(a) The 39 cases of Calcutta consist of two groups, 12 employees (15 entries) of Incheck Tyres and 10 employees (24 entries) of National Rubber Mfg. Co. The reasons for shortfall in both groups were "Mistakes in calculation of perquisites and|or wrong allowance of relief in excess". The later company had declared a lock out which was still continuing. The company has already been taken over by State Government. Commissioner has been advised to consider the question of prosecution of its principal officer.

(b) In 20 cases of Haryana, the total short deduction reported by Audit is Rs. 945/-. On actual checking of the returns under section 206 and verification of tax calculations it has been found that the actual short deduction amounts to only Rs. 995|-. The Commissioner has reported that Revenue Audit in number of cases did not exclude HRA exempted under section 10(13A) which led to calculation of tax payable on the salary at a higher figure. Certain allowances were included twice over in determining the taxable salary. In some cases amounts deductible from gross salary receipts by way of L.I.P. and cumulative Time Deposits were not shown in the appropriate columns in the returns under section 206 by the employer though in arriving at taxable salary, the amount appears to have been taken into consideration in certain cases. The amount of Rs. 904/- (out of Rs. 995/-) has been collected in respect of 17 cases. In the remaining 3 cases the amounts involved are Rs. 46|-, 41|- and 4|-. These amounts being nominal, no remedial action is considered necessary.

(c) One case of M.P. is assessed in Gwalior and pertains to the case of Shri V. L. Joshi. He was paid a salary of Rs. 39905.04 for the period from April, 73 to Oct.|Nov., 73 on which tax aggregating to Rs. 5100|- was deducted at source by M|s Central India Machinery Mfg. Co. Ltd., (Employer). After deducting professional tax of Rs. 15|- and items under section 80C, the Revenue Audit has calculated the net salary at Rs. 34,284|- (Excluding the net adjusted gratuity actually paid next year) on which tax payable worked out Rs. 9263|-. As against this the employer had deducted Rs. 5100|-. Thus, there was a short

deduction of Rs. 4263 in the financial year 73-74 as has been pointed out by C&AG and employer Company could be treated to be as assessee in default to that extent only within the meaning of Section 201 of Income-tax Act. No penal action has been taken by the ITO for the default. However, the annual return under section 206 for the financial year 73-74 was due in April, 74 and entire balance tax of Rs. 13284 including the earlier short deduction of Rs. 4263 and tax payable on the gratuity amount actually paid next year was deducted on 3-5-74 and paid on 11-5-1974......interest of Rs. 252|- has since been charged under section 201(1A) on Rs. 4263|-.

(d) The position in respect of 5 cases of Tamil Nadu has been verified and the Audit Objection has not been found acceptable.

(e) So far as 24 cases of U.P. are concerned, one pertains to Kanpur and the remaining 23 to Meerut Charge. In the case of Kanpur charge interest of Rs. 583 under section 201(1A) of the I.T. Act has been charged and penalty of Rs. 250|- under section 221 has been imposed. In 23 cases of Meerut charge regular assessment have since been completed and extra tax wherever necessary has been charged. I.T.O. has been directed to levy interest with regard to short deduction of tax in appropriate cases. In certain cases action u|s 276(B) is also being considered."

65. As regards 85 cases of delays in crediting of tax deducted at source to Government Account, Department of Revenue have intimated that 3 cases were in Poona, 22 in Calcutta, 8 in Karnataka, 3 in Tamil Nadu and 22 in UP. The position of these cases is stated to be as follows:

"*Poona*: Of the three cases of Poona, in one case the factory was under lock out for 75 days and as no salary|wages were paid to the employees, no tax was deductible by the company and the question of charging interest did not arise. In one case the interest has been charged and collected. In the remaining case, the I.T.O. considering the explanation that only in one month the payment was delayed was satisfied and waived the interest. However, since no discretion has been given in the matter of charging the interest, the I.T.O. has been directed to levy itnerest and collect the same.

Calcutta: 22 cases of Calcutta in which there was delay in crediting the tax deducted at source to Government account.

* * * *

(b) Precise reasons for the delay as reported by Commissioner of Income-tax generally are:—

(i) The employees included a large number of field staff who are paid advances. Later on the salaries were actually calculated and the deductions were made and credited to the Government. The month of payment refers only to the *ad hoc* payments.

(ii) In some cases the employees included staff and flying staff whose salary deduction would depend upon the number of days worked. In some of these cases the employees had to work outside India for short periods. They were paid advances which had to be regularised later. On actual calculations the month of payment given in the audit report related to these *ad hoc* payments and later on when the actual salary was calculated the amount of tax was deducted and paid to the Government.

(iii) In some cases the employees are scattered throughout India and pay roll sheets did not arrive in the Head Office in time. Meanwhile the employees were made advance payments of salaries. When the regular salaries were calculated tax was deducted at source and paid to the Government.

(iv) In some cases the company was facing trouble like strike or amalgamation etc. The accounts could not be regularised and settled then and there. Some payments were made as advances to be regularised later. The month of payment in the audit report relates to these advances and not to the regular salaries which were calculated later on and tax deducted and paid to the Government account. As can be seen from the list* enclosed in some cases interest has been levied and collected. In some cases interest has been levied and demand notices issued. In some other cases, show-cause notices have been issued and companies have taken adjournments. In some cases the month of payment is disputed. In some cases like the Corporation of Calcutta, there is no compliance with the show-cause

*Not printed.

notices. In some of the cases the companies had protested against the charge of tax and these are under scrutiny. In a few other cases interest which was charged had been deleted in appeal. Show cause notices for launching prosecutions have been issued in several cases.

Kerala: In the 8 Kerala cases the interest under section 201(1A) has been charged. The interest charged in these cases amounting to Rs. 1275|- has been cancelled by the AAC. In the remaining 5 cases interest has been charged Rs. 3149|-.

Tamil Nadu: Out of three cases of Tamil Nadu (which now pertain to Coimbatore Charge) interest under section 201(1A) has been charged in respect of two cases. In the third case delay in paying of tax deducted at source has been due to delay in clearance of the cheque and hence interest under section 201(1A) has not been charged.

Uttar Pradesh: Out of 49 cases, 15 cases pertain to Kanpur charge, 27 cases to Meerut and 7 to Lucknow. The position is as under:—

"15 cases:—No interest has been charged in 5 cases as the delay in payment of TDS was for less than a month or the amount of interest leviable was small. The remaining 10 cases pertain to 3 employees and interest has been charged.

27 cases:—Show cause Notices have been issued in all the 27 cases but default in only 14 cases has been noticed. Interest under section 201(1A) amounting to Rs. 2,225|- has been levied in these 14 cases.

7 cases:—Interest in all these cases has since been charged."

66. The Committee wanted to know why prosecution was not launched in cases where tax was deducted but not credited to Government Account. The representative of the Department said in evidence:—

"We have no information about prosecution, obviously, the prosecution has not been launched."

67. Referring to 17 cases in Bombay of non-withdrawal of permission to deposit tax realised from salaried employees on quarterly basis, the Department of Revenue have stated:

"It has once again been verified from Commissioner of Income Tax at Bombay and he has confirmed that concessions granted in 17 cases stand withdrawn."

68. The Committee enquired whether the Central Board of Direct Taxes was aware of the practice being followed by certain employers in the public sector and even the Railways of not depositing|crediting part of the taxes deducted from salaries till the end of the year and themselves allowing refunds to the employees before depositing|crediting the balance. In reply, the Department of Revenue have intimated:

"The position has been checked up from the Commissioners of Income-tax. Reports so far received from them show that there is no such practice being followed. The reports from 10 charges are awaited. Final position will be intimated in due course."

69. The Committee wanted to know whether prosecutions were being launched in cases of failure to deduct the tax or for its non-payments to Government. In reply the representative of the Department said in evidence that the actual number of prosecutions launched during the last 3 years (given below) showed an upward trend:

Year	No. of Prosecutions launched
1975-76	303
1976-77	290
1977-78 (Upto Dec. 77).	479

E. Valuation and Assembly of Perquisites

(i) *Rent-free Accommodation*

70. Many cases of incorrect computation/assessment of the perquisite value of rent-free accommodation provided by the employers have been noticed by Audit in the test check. Audit paragraph gives some instances.

71. Of the 53 cases pertaining to different assessment years between 1969-70 and 1974-75, it was noticed in the Commissioners' Charges in Assam (5), Calcutta (42) and Uttar Pradesh (6) that mistakes in valuing the perquisites involved in "rent-free accommo-

dation" had resulted in a total short levy of tax of Rs. 70,752. Intimating the action taken on these cases, Department of Revenue have, in a note, stated that:

> "Out of the 6 cases of Uttar Pradesh, in 4 cases the assessment has been revised by including the value of perquisite in the total income. In the remaining two cases no revision has been found necessary and the audit objection has not been found acceptable. As regards (4 cases of) Calcutta, considering the nature of mistakes, instructions are being issued by the Board."

72. In Tamil Nadu in the case of 3 foreign employees of a Company, deriving salary income of Rs. 1,10,000 to Rs. 1,80,000 per annum, the value of rent-free accommodation was calculated for the assessment year 1971-72 based on the municipal valuation of fair rental value adopted in the assessment years 1966-67 and 1967-68. The value so computed worked out to 2 to 5 per cent of salary income. If 12.5 per cent of salary income were taken as the value of the perquisite, there would be a further charge of tax of Rs 90,480 in these cases. In a note furnished to the Committee, Department of Revenue have contended:

> "In the three cases of Tamil Nadu, the observation of the Audit is that considering the status and salaries drawn by the officers and the increase in the value of urban properties year by year there is a case for revision of the value of perquisites. Under proviso to rule 3(a) (iii) (A) of the I.T. Rules, 1962 where the ITO is satisfied that the sum arrived at on the basis provided in the Rules exceeds the fair rental value of the accommodation the value of perquisite to the assessee shall be limited to such fair rental value. In all the three cases the ITO did consider the question of fair rental value and arrived at the figure after taking into consideration the relevant factors to arrive at the value he has taken. Therefore, there is no loss of revenue and consequently no remedial measures are necessary."

73. Similarly, Audit have pointed out that in one case in Kerala, the perquisite value of rent free accommodation fixed by the Tribunal sometime in 1954 was still being accepted for assessment without any regard to the general rise in the fair rental values during this period. Explaining the position about this case, the Department of Revenue have, in a note, stated:

> "As regards the one case of Kerala it is seen that the decision of the Tribunal was in respect of assessment years 1959-

60 and 1960-61. The matter of the valuation of rent free accommodation pertains to the accommodation of Managers and Assistant Managers of various Tea Estates and had come up for consideration before the Income-tax Appellate Tribunal. Taking into consideration all the particulars relating to rent-free quarters, the Tribunal fixed the value of the quarters at Rs. 1,960 in the case of Managers and Rs. 1,092 in the case of Assistant Managers. When attempts were made by the Department for revising the value for subsequent years, the matter again came up before the Tribunal and the Tribunal in their order dated 9-12-65 had, *inter-alia,* stated "although the rent of buildings have been generally on the increase, still, this general increase does not affect the quarters which are provided for the employees of the company". The value of these bungalows were fixed by the Panchayats and continued to be the same as that at the time of fixing the value by the Tribunal. In these circumstances the assessment of these employees upto 1973-74 have been completed on the above basis. It is reported by the Commissioner that the replies given to the Accountant General had satisfied the AG and in his letter RA(HQ) IT|G-921|75-76 dated 22-11-76 he had stated that the objection in this particular case was not being pursued."

(ii) *Super-annuation Fund*

74. Audit paragraph has reported a case where a Director of a Company in Andhra Pradesh was admitted to a superannuation fund though he was not a whole time *bona fide* employees of the company. This resulted in short demand of tax of Rs. 28,152 in the assessment years 1972-73 and 1973-74. The assessee was also a Joint Managing Director of another company and deceived remuneration of Rs. 36,000 per year during the previous years relevant to the assessment years 1972-73 and 1973-74. The Committee have been informed, in a note, that in this case:

"remedial action under Section 147(b) of the I.T. Act, 1961 has been taken. The re-assessments have also been completed. Recovery action is being pursued."

(iii) *Expenditure on Decoration and Flower Arrangements.*

75. According to Audit Paragraph, in Calcutta, it was noticed from the statements furnished by a company for the assessment year 1973-74 that the company had spent a sum of Rs. 86,411 on account of decoration and Flower arrangements in the gardens of the directors and high executives as well as for supply of other articles such as mattresses but the annual returns furnished by the company did not include any of this amount. The test check of the individual assessments of the employees indicated that the amounts were not added as perquisites.

76. Answering the objection on this case, the Department of Revenue have stated:

> "The perquisite value of rent free accommodation assessable in the hands of the company has to be determined under Rule 3A of the Income-tax Rules. Expenses incurred by the employer company on repairs and maintenance, providing furniture and mattresses, interior panelling (decoration) of room etc. which are to be taken into consideration for arriving at the amount disallowable under second part of Section 40A(5) (a) (ii) cannot be taken as perquisites in the assessments of the employees."

77. Asked if it was a fact that the company itself had mentioned this amount of Rs. 86,411 as expenditure on decoration and flower arrangement and if so how it could be treated as expenditure on repair and maintenance, the Department of Revenue have stated:

> "In the statements filed by the GEC for the assessment year 1973-74, the company has included this item of Rs. 86,411 in the repairs and maintenance expenses in a total of Rs. 1,02,001."

78. In reply to a question as to how the ITO assessing the company had viewed this item of expenditure, the Department of Revenue have intimated:

> "The ITO assessing the company had proposed the disallowance of this amount under section 40A(5). It was in the draft order dated the 19th March, 1976 that the Income-tax Officer had mentioned that the balance of Rs. 86,411 represents expenses on quarters of the Directors and High Executives in the form of decoration and flowering and supplying curtains and mattresses etc. and that these were

clearly perquisites given to the Directors and High Executives and as such should have been included in the 40A(5) statements."

79. The Assistant Commissioner while dealing with the draft order under Section 144B directed the ITO to verify such expenditure and make proper dis-allowance. The ITO in the final assessment order has given the following findings:

"These flats were kept by the company only for providing rent free residential accommodation to its employees. These flats were also maintained in proper and good condition for providing amenity to the employees who may be occupying them. Hence the expenditure incurred by the company as maintenance of the flats and other assets used by the employees will also be within the purview of the limit over the deductible amount of expenditure in providing perquisite benefits of amenities to the employees. The expenditure for repairs, maintenance of the flats and also replacement of furniture and fittings etc. will, therefore, be included in the computation of perquisites for the purpose of section 40A(5). Keeping these guidelines in view I find that out of Rs. 1,02,001 spent on account of repairs and maintenance to employees' quarters only Rs. 1700 relating to darwan's quarters is to be excluded and the balance is included in the 40A(5) statement. The assessee had submitted that a sum of Rs. 39,761 out of the above is already included in the 40A(5) statement filed by it. I have verified the details filed in this respect and I am satisfied that this sum has been included in column 5 of the 40A(5) statement. Therefore, addition of this amount is restricted to Rs. 60,540 in place of the proposed addition of Rs. 86,411."

80. The Department of Revenue have intimated that main objection of the assessee was that "there is a personal benefit to him but it is something which the company provides in order to keep up the maintenance and good appearance and prestige of the company."

81. The Commissioner of Income-tax feels that on facts it was not possible to treat these benefits as personal perquisites of the employees. It has been further stated by him that the employees are eligible for transfer and the benefits, if at all, are enjoyed by them only for a short duration and that was why they could not be taken as a perquisite.

(iv) *Standard Deduction for conveyance*

82. The Department of Revenue have informed the Committee that as far as the Andhra Pradesh case relating to the allowance

of standard deduction on account of conveyance was concerned, the Audit have in their communication dated 5 May, 1977 had agreed with Department's view and had decided not to pursue their objection. In view of this, no remedial action is called for.

(v) *Sale of Jeep/Cars*

83. In Andhra Pradesh, a company (Vizir Sultan Tobbacco Co.) sold 11 Jeeps, Vans and cars of the total book value of Rs. 2,36,260 to certain employees for a total sum of Rs. 93,558 during the assessment years 1973-74 and 1974-75. According to Audit, in the hands of the employees the perquisite representing the difference between market price and sale price was not taxed. Particulars of these cases, as furnished by the Department of Revenue, are:

In whom sold	Sl. No	Description	Date of Acquisition	Original value	Book W. D. value	I.T. W.D. value	Value realised	Date of sale
Mrs. Shameem Afsar (Hyderabad)	1.	willys Jeep (APU 9441)	Feb 67	20,212	1011	6,623	8,550	July 72
Mr. R. Anwar (Secunderabad)	2.	Willys Jeep (APU-3122)	Oct. 64	17,456	973	3,662	5,500	Aug. 72
Mr. Khushroo Hasan (Hyderabad)	3.	Standard (AAX-2435)	Nov. 68	30,752	11,532	7,865	6,799	Sept. 72
Mr. K. Bahl (Hyderabad)	4.	Standard Herald Car (ADX-3325)	Sept. 67	19,814	991	6,493	6,500	Oct. 71
Mr. J. N. Batra (Bangalore)	5.	Ambassador (ADY-242)	Feb. 69	20,034	7,513	10,257	11,000	May 73
Mr. P. Shankar Rao	6.	Standard Van (Max-2436)	May 68	28,294	1,415	4,756	8,026	Oct. 72
Mr. Lakshminasaikh (Hyderabad)	7.	Willys Jeep (ADY-4120)	March 66	18,792	940	3,943	9,100	Dec. 72
Mr. A. R. Prasad (Hyderabad)	8.	Ambassador (ADX-5109)	Feb. 67	20,256	1,013	5,311	13,151	Jan. 73
Do.	9.	Willys Jeep (ADX-155)	Dec. 66	20,489	1,024	5,372	9,532	Jan. 73
Mr. Ahmad Bin Abdullah Hyderabad)	10.	Willys Jeep (APU-9774)	May 67	20,212	1,011	5,300	8,800	July 73
Mr. A. K. Mukerji . (Deceased)	11.	Ambassador (ADX-4764)	Jan. 68	20,129	1,006	6,596	6,600	April 73

84. Out of the 11 vehicles only one is reported to have been sold to an employee (Mr. M. Bahl). In the remaining cases, the persons concerned were outsiders. Their Personal Account Numbers, it has been stated, are not known.

85. The perquisite in the case of Mr. K. Bahl was not assessed to tax in the assessment year 1972-73 by the I.T.O. Pointing out that what constitutes a perquisite is the difference between market value and sale price, the Department of Revenue have informed the Committee that in this case "sanction for re-opening the assessment has since been granted."

86. Durig evidence, the Committee were informed by audit that the Commissioner of Income-tax had addressed a letter to the Board for re-opening these cases and that he had seen a copy of that letter in the Commissioner's office. The Committee wanted to know if it was a fact that the then Member in the Central Board of Direct Taxes had agreed with the Commissioner that income tax in these cases was leviable, but the then Chairman of the Board had directed that no action be taken. The Committee desired that the correct position be ascertained from all the possible sources and records. In reply, the Department of Revenue have intimated, in a note dated 18 March, 1978, that:

> "As far as sale of the 11 Jeeps in Andhra Pradesh Charge is concerned, we have not been able to locate any correspondence/notings of orders in this regard...... The issue had been examined and we have not been able to locate any letter addressed by the Commissioner to the Board about the sale of the 11 Jeeps, nor is there any file available in the Board's office in which the then Chairman of the Board had directed that no action need be taken on this case relating to the sale of 11 Jeeps. In view of the above, it has not been found possible to furnish a note and a copy of the Commissioner's letter which was claimed to have been seen by a representative of the Audit in the Commissioner's Office."

87. As regards incidence of such transactions in other charges, Department of Revenue have intimated:

> "Reports were called for from all the Commissioners to find out the incidence of such transaction and the Commissioners have reported that only very few cases of this type have come to their notice. It was thought that it is not necessary to issue any general instructions but considering the fact that the Cs. I.T. might not have come

across more such cases, because the ITOs have not been looking out for them, we have issued general instructions to the effect that the ITOs assessing employers should specifically enquire at the time of their assessment, whether any assets have been sold to their directors or employees. If so, to examine whether the sale was effected at less than the market price and if so, to tax the difference as a perquisite."

(vi) *Mali Allowance*

88. Audit paragraph states that in Assam in 5 cases, mali allowance was assessed at a uniform rate of Rs. 720 per annum though the allowance actually received by the employees varied from Rs. 720 to Rs. 4,560. This resulted in a short levy of tax of Rs. 33,029 in the assessment years 1969-70 to 1974-75. Department of Revenue have reported that in these cases "what was paid was not cash allowance to the employees". The employees had made payments to Malis and were in turn re-imbursed by the employer. The house belonged to the employer. According to the Department "Nothing was taxable as perquisite as per the Board's Circular No. 122 dated 19-10-73."

(vii) *Disallowance of payments on account of salary and perquisites.*

89. Section 40A(5) of the Income Tax Act provides for the disallowance, in the assessment of the employer of payments on account of salary and perquisites in excess of the limits laid down in the Act *i.e.* salary to an employee in excess of Rs. 5,000 a month and perquisites to an employee in excess of 1/5th of salary of Rs. 1,000 p.m., whichever is less.

90. Audit have reported that in the case of 36 employees of four companies in West Bengal, Salary and the value of perquisites exceeded the prescribed limits by Rs. 1,71,507 but the excess was not disallowed in the assessments of the companies resulting in under-assessment of tax of Rs. 98,004. Similarly, in the case of two foreign technicians of a company in West Bengal, the excess amounting to Rs. 1,09,370 of salary over the ceiling limit prescribed was not disallowed in the assessment year 1972-73. The Department of Revenue have intimated in a note that:

> "the issue whether these two technicians (of Indian Aluminium Co. Ltd) come under clause b(ii) of Section 40A(5) so that no disallowance is called for, is under consideration."

91. As regards 36 cases of employees of four companies the Department of Revenue have, in a Note*, pointed out that:—

"(i) In the case of the Calcutta Electric Suplly Corporation, the accounting year of the company is different from the accounting year of the employee. In the case of the company it is the calendar year whereas in the case of the employees it is the financial year. Whether this difference has any impact from the revenue angle is being considered.

(ii) In the case M|s Shaw Wallace also, the accounting periods of the company and the employees differ. In the case of the employees the financial year is the accounting year whereas in the case of the company it is the calendar year. As in the case of the Calcutta Electric Supply Corporation whether this will make any difference is under examination.

(iii) In the case of the Burmah Shell, it was pointed out by the Revenue Audit that there are certain discrepancies in the computation of disallowance under Section 40A(5), in the case of one Shri P. K. Bose relating to the assessment years 1972-73 and 1973-74, the discrepancies pointed out by Audit was Rs. 1230 and Rs. 750|-. The company was then asked to reconcile the figure given by the Audit and as per their record it was stated by the company that it maintained books of account on calendar year basis and the return under section 206 was filed on financial year basis. The company has, however, asked for some time to furnish further details in the matter."

F. Reliefs and deductions

(i) Conveyance Allowance

92. Section 16(1) provides for allowance or standard deduction on the following basis:

"In respect of expenditure incidental to employment of the assessee a sum calculated out in the basis shown below namely—

(a) Where salary derived from such employment does not exceed Rs. 10,000	20% of such salary.
(b) Where salary derived from such employment exceeds Rs. 10,000.	Rs. 2,000 plus 10% of the amount by which such salary exceeds Rs. 10,000 or Rs. 2500 whichever is less."

*The Note received from the Department of Revenue did not indicate the position in respect of the fourth Company viz., M/s. India Leaf Tobacco Co. Ltd.

93. Explaining the legal provisions in this regard, the Department of Revenue have, in a note, stated that before 1-4-1968, Section 16(1) (iv) enabled an assessee not in receipt of conveyance allowance and owning conveyance for his use for purposes of his employment to a deduction of such sum as the ITO would estimate in respect of such use as representing the expenditure incurred by him in its maintenance and normal wear and tear.

94. By the Finance Act, 1968, this clause was changed and an assessee not in receipt of a conveyance allowance was given a deduction as per a system of gradation if he owned a vehicle or did not own a vehicle. With effect from 1-4-1970 the clause was further amended making a change in the amount of deduction available.

95. By Finance Act, 1970 *w.e.f.* 1-4-1971 the clause was further amended and again an assessee who was in receipt of conveyance allowance for the purposes of travelling for his employment was given certain amounts as deductions. This clause was further amended by the Finance Act, 1971 and again the change was only in respect of the quantum of deductions. Thus even before the introduction of the standard deduction the deductions envisaged in Section 16(1) (iv) as it then stood was in respect of an assessee who was not in receipt of conveyance allowance. The present provision was substituted by the Finance Act, 1974. The main reason for the change was more of administrative convenience and instead of separate deductions in respect of expenditure incurred for the purposes of employment one deduction to take care of all expenses incidental to employment was provided.

96. In case of employees who are supplied with the conveyance by the employer or given a conveyance allowance, the standard deduction is restricted to Rs. 1,000.

97. In reply to a question the Department of Revenue have expressed the view that provision of a conveyance by an employer wholly and exclusively in the performance of his duties will not disentitle an employee from higher deduction.

98. The Committee have been informed that the Central Board of Direct Taxes is aware of the fact that some employers who were paying conveyance or car allowance to their employees adopted the practice of calling conveyance allowance by various other names. Inquiries made by the Board show that in the case of Life Insurance Corporation of India, conveyance allowance has been renamed. As in the cases of many other public sector undertakings the payment is shown as re-imbursement of actual expenses. In all these cases, the standard deduction had been restricted to Rs. 1,000/-.

99. On the distinction between an 'allowance' and 're-imbursement' of actual expenses, the Department is of the view that:

> "A distinction has to be made between an allowance and re-imbursement of actual expenses. An allowance is in the nature of a fixed amount paid at a periodical interval of say a month. Reimbursement on the other hand refers only to the actual expenses incurred by an employee in the performance of his duties. It may also be stated that journeys from the residence to the office are not considered as official journeys and instructions to this effect have been issued every year after the presentation of the budget for facility of calculating the tax deducted at source."

100. The Committee pointed out that change of nomenclature of conveyance allowance amounted to an attempt to circumvent the provisions of the law to enable the employees to claim the standard deduction upto the maximum amount of Rs. 3,500 without being limited to Rs. 1,000/-. The Committee wanted to know what steps had been taken by the Department to put an end to such a practice. In reply, the Department of Revenue have, in a note furnished after evidence, intimated:

> "Instructions have since been issued on 27-1-78 wherein it has been clarified that if the employee is in receipt of an allowance which partakes the character of a conveyance allowance. Position about reimbursement of expenses has Rs. 1000/- whatever be the nomenclature given to the allowance. Position about reimbursement of expenses has also been clarified in this circular."

(ii) *City Compensatory Allowance*

101. In the case of Shri D. R. Pathak (99 ITR 14) Bombay High Court held that the City Compensatory Allowance could not be considered as the additional salary or perquisite u/s 17(1) or 17(2) of the Income-tax Act, 1961.

102. In the case of Shri Bishamber Dayal the assessee had claimed exemption of tax on the amount received by him as city compensatory allowance u/s 10(14) of the Income-tax Act 1961 alternatively as a deduction u/s 16(v) of the Act. The ITO upholding the assessee's contention held that the compensatory allowance was not liable to be included in the taxable income. However, the A. CIT on a perusal of the assessment records of the case, was of the view that the order passed by the ITO accepting the return filed by the assessee, was erroneous in so far as it was prejudicial to the interests of the Revenue as, in his view the amount received by the assessee as compen-

satory allowance was liable to tax. He held that the assessee was not entitled to the exemption of any part of the compensatory allowance received by him, while computing his total income. In the result he set aside the order of assessment passed by the ITO and directed him to make a fresh assessment in accordance with law. On appeal, the Tribunal has dismissed the reference. On a reference u/s 256(1) at the instance of the assessee, the Appellate Tribunal referred three question for the opinion of the M.P. High Court out of which two were not answered and the remaining question answered by the High Court is as under: ....

> "Whether on the facts and in the circumstances of the case, the ITAT was right in holding that the compensatory allowance, received by the assessee under the provisions of Art. 222(2) of the Constitution of India was liable to be included in his total income under the head 'salaries' for the purpose of Income-tax assessment.?"

103. Madhya Pradesh High Court (103 ITR 813) answered the above question in favour of the assessee.

104. Application of the Central Board of Direct Taxes for leave to appeal to Supreme Court against the Judgement of Madhya Pradesh High Court has been dismissed. The filing of SLP under Art. 136 of the Constitution was not considered necessary in view of the then learned ASG'Cs opinion. The ASG's opinion is reproduced below:

> "The main question whether a sum of Rs. 4,567/75 received as compensatory allowance under a Presidential order under Article 222(2) of the Constitution, by a retired Chief Justice of the Madhya Pradesh High Court ought to have been included in his total income, has bee nanswered by the Madhya Pradesh High Court against the Revenue. The High Court has also refused certificate of fitness for leave to appeal to the Supreme Court. Consequential questions depending on the answer to the main question aforesaid also therefore been had against the Revenue. Though there is a question of law involved. I do not think it either substantial enough or of sufficient general importance to justify an application for special leave to the Supreme Court. Cases of payment of compensatory allowance to High Court Judges on transfer arise only in very few cases. Moreoer the revenue implication is also negligible. The High Court has written a well reasoned order in coming to its conclusion. I do not advise an appeal."

105. The Committee desired to know if it was a fact that in the meanwhile exemptions were being allowed in respect of City Compenseatory Allowance in some places either in initial assessments or at the appeal stage. In reply, the Department of Revenue have stated:

> "The Board have come to know of the decision by the Appellate Tribunal at Bombay, Delhi and Hyderabad which allowed the assessee's claim under Section 16(v) or after placing reliance on the decision in Bishamber Dayal's case. In some cases where deduction was allowed under sec. 16(v) the orders of the ITAT have been accepted mainly on the consideration of low revenue effect and higher cost of litigation."

106. Asked whether in view of the uncertainty of the position due to which large groups of salaried employees in different areas continued to get the tax concession on City Compenseatory Allowance, should not the law be suitably amended, the Department of Revenue have intimated:

> "The Board have issued instructions to the Commissioners to keep the issue alive by filing reference where such deduction was allowed on the ground that CCA did not form part of the sealary at all.... Further, suitable amendment of law to get over the difficulty caused by the judgement of M.P. High Court is under consideration of the Board."

(iii) *Interest-free loans*

107. The Committee enquired if the Board had examined the question of taxing the perquisite involved in loans given by employers free of interest or on concessional rates of interest. In reply, the Committee have been informed that:

> "The Board has considered the question of the perquisites involved in loans given by employers free of interest or on nominal rates of interest. The Board is of the opinion that interest element in such interest free loan or on nominal rates of interest is not a perquisite. No general instruction have been issued on this point. However, on a reference from an individual employer we have intimated that the interest element is not a perquisite."

108. The Committee have been informed by Audit that following the Judgement of the Madras High Court (100 ITR 629) that where a company had given an interest-free loan to a debtor who is also an employee such a benefit is to be included in the salary income the Department had, on the advice of the Ministry of Law, called for the views of the Commissioners of the question whether difference between standard interest and the interest leviable on loans given should be treated as perquisite.

109. The view of the Commissioners is stated to have been forwarded to the Ministry of Law on 7 March, 1978 for advice.

G. Remedial Measures

110. The representative of the Department of Revenue stated in evidence that the existing system of maintenance of Employers Register, receipt and entry of Annual and monthly returns of tax deducted at source was "out-dated" as it was entirely dependent on the manual checking. He disclosed that it had been decided to introduce computerisation in 8 Salary Circles (Calcutta, Bombay, Madras, Delhi, Ahmedabad, Hyderabad, Kanpur and Bangalore) *w.e.f.* 1 April 1978. Giving justification for this decision, the witness said:

> "This existing system was introduced long back. When it was introduced it was quite alright. At that time the number of employers and employees was very few but with the expansion of our economy and the number of employers and the employees going up we find the system—while it was alright when it was introduced—is how outdated as this system is entirely dependent on the manual checking. For instance, in Bombay alone we have got 10,000 employers and probably 3,00,000 employees. As regards the three lakh employees every month we have to enter in the register the name of the employees. It is a very mamoth task."

111. Disclosing that while administratively the present system sometimes laid stress on unimportant items, the witness said:

> "We found the monthly returns are not so important as the annual register but the staff has been putting emphasis on monthly returns, that is, certain non-essential items of work are given importance."

112. In a note furnished after evidence the Department of Revenue have intimated that:

"The procedures regarding the proper deduction of tax at source and its timely payment to the Central Government account were examined by a Committee of Experts on Accounting & Collection Procedures in the Income-tax Department which was set up by the Board in April, 1973. Its report was received in May, 1975. It, *inter-alia,* recommended the appointment of separate ITOs to be known as ITOs (TDS) to look after, exclusively the work relating to the deduction of tax at source from salaries and other types of income. 27 posts of ITOs with complementary staff were allocated to various Commissioners' charges in June, 1975. These officers were to be designated as ITOs, Salary Circle, and all matters relating to tax deduction at source from salaries were equ ed to be handled by those officers. It was also felt by the Board that the number of entries in the annual returns of salaries furnished by the employers under section 206 of the Incometax Act having gone up significantly, there was need to get these returns checked with the help of the computers on a systematic basis. On the basis of a study made by the DOMS, it was decided to computarise the verification of the annual retruns prescribed under section 206 of the Income-tax Act and the payment of TDS from salaries at 8 metropolitan centres to begin with. A directory of employers has been prepared and TDS Numbers allotted to them at each of the 8 centres. The revised proformae of the challan and the cash book have been devised and printed copies supplied to the field officers at these centres. The writing of the programmes, etc. by the computer consultants are being finalised. The work of preparing the masterfile of employers and processing the TDS challans of salaries through the computer is being undertaken.

Pending computerisation, instruction were issued to the Commissioners of Income-tax in May, 1976 requiring them to ensure that the performance of the Department in this area of work improves further and that the enforcement work such as the charging of interest, levy of penalty for non-payment/short payment/delay in payment of tax deducted at source, launching of prosecutions should be attended to continuously particularly after the appointment of ITOs (TDS) exclusively for this work."

113. The Committee are distressed to find that despite various measures taken by Government from time to time the working of 'Salary Circles', an important limb in the Income-tax administration, has not shown any perceptible improvement in the tax collection over salary incomes. In fact, if the test check by Audit of the records relating to assessment of persons other than companies is any indication, salary circles continue to be plagued by serious shortcomings and unless Government undertakes a complete overhaul of the working of these circles, the situation may deteriorate still further. The existing network consists of as many as 20 salary circles looked after by 6 Inspecting Assistant Commissioners exclusively and by 84 Inspecting Assistant Commissioners along with other circles. The main duties of a salary circle are to ensure that (i) tax is deducted at source by the employer; (ii) tax deducted is paid to the credit of the Central Government; (iii) proper assessment including valuation of 'perquisites'; and (iv) taxes demanded are collected. The examination by the Committee of the working of salary circles has revealed that these circles have, by and large, been woefully remiss in the discharge of these duties. In this context it may be noted that the number of assessments pending with the salary circles has gone up from 1.55 lakhs as on 31-3-1976 to over 4 lakhs in 1977.

114. It is no secret that private sector has larger number of employees than employees under the Central Government. Not only that, it is common knowledge that the salaries and perquisites in the case of private sector are far higher than those under Central Government. According to a recent study made by the Reserve Bank of the distribution of highly paid company employees in the organised private sector, in some industries like non-ferrous metals (basis), tobacco, dyes and dye-stuffs and aluminium the highest, annual remuneration per executive ranges well above Rs. 60,000 per annum. Again, according to this study the highest paid executives are in the tobacco industry getting over Rs. 60,000, 24 getting over Rs. 80,000 and 19 getting over Rs. 1,00,000 per annum. This is followed by aluminium and dye & dyestuffs in which the number of employees getting over Rs. 60,000 per annum is 45 and 36, those getting over Rs. 80,000 per annum is 26 and 17 and those getting over Rs. 1,60,000 is 14 and 13 respectively. The Committee recommend that in the context of RBI study, the Central Board of Direct Taxes should undertake a review at least in the case of selected industries and in respect of their top executives to see if the assessment of salaries and perquisites in the hands of the employees and the em-

ployers is being made with the care and attention that it deserves. The Committee would like to be assured that there is no evasion of tax whatsoever in these cases.

115. The Committee find that though the Employers' Register, Tax Deduction Certificate, and the annual/monthly returns furnished by the Employers constitute important tools in the hands of the Income-tax authorities, these are not receiving adequate attention. Though the work of updating of Employers' Registers had been in progress for more than a decade and the number of employers had increased from 64,862 on 31-12-1976 to 71,202 on 31-12-1977, the Employers' Registers are still far from complete and admittedly "not updated". The Committee deplore the inaction in regard to updating the Emloyer's Register, an important regulatory mechanism, during the last 10 years. They recommend that updating of these Registers should be accorded priority and the work should be completed according to a time-bound programme.

116. The Committee are perturbed to note that not only the Employers' Registers are incomplete, but the timely receipt of returns from the Employers are also not being closely watched. In as many as 5,871 cases, in 11 Commissioners' charges, annual returns had not been received at all. In 638 other cases in 5 Commissioners' charges, returns were received late by periods ranging from 1 month to 6 months upto December, 1965. It is surprising that though under the Act, the defaulters could be prosecuted and were liable to a fine of upto Rs. 10 for every day of default, no action was initiated in any of these cases. As pointed out by Audit, in respect of 410 cases of delayed returns in the Commissioners' charges in Tamil Nadu, Calcutta and Andhra Pradesh alone, the fine liable under the Act works out to Rs. 22.57 lakhs upto the end of December 1975. The Committee wanted to know the names of the parties involved and reason for non-levy of penalty in each case but have been informed that as it involves verification of 5,871 cases, it would take some time to furnish that information. The desired information has not been made available to the Committee. The Committee feel that had monitoring of the cases by the salary circles and the supervision by the CBDT over the work of these circles been effective, such vital information should have been readily available with the Central Board of Direct Taxes, particularly when it had a close bearing on a point included in the Audit Report. The Committee would like the Board to obtain this information from the lower formations at the earliest. Meanwhile, the Committee would like the CBDT to apply themselves to the question of how best to ensure that the

monthly/quarterly/annual returns are received from all the employers who are required to send them under the Income-tax Act and that in the case of defaulters penalty as provided for in the Act is actually levied.

117. Another glaring shortcoming noticed by the Committee in the working of salary circles is that challans pertaining to amounts of tax deducted at source are not being posted in the relevant Registers. In 120 cases, in one circle in Calcutta, the total amount of tax paid as per challans fell short of the total amount shown in the Annual Return by as much as Rs. 1.19 crores. The Committee have been informed that this discrepancy had arisen due to misplacement of challans during shifting of the salary section from one premises to another. The discrepancies are stated to have since been reconciled in 118 cases leaving behind only 2 cases involving a discrepancy of Rs. 1,384. The Committee are unable to accept the explanation that frequent shifting of office had led to these discrepancies for they find that these discrepancies have occurred even in Charges where shifting of offices was not involved. For example, in 11 cases, in Andhra Pradesh it has been noticed that the main reason was non-availability of challan or arithmetical/typographical errors. Again, in the case of 8 Employers in Karnataka total deduction as per annual returns was Rs. 1,98,423 but the amounts credited as per challans totalled Rs. 1,55,937. This discrepancy is stated to have arisen due to the fact that tax deducted at source for the month of March was credited to Government account in April and was wrongly entered in the Alphabetical Register of the subsequent financial year.

118. In the context of these lapses, the representative of the Department admitted during evidence that they "did not have control to ensure that the particular challans were posted in the daily collection register" but assured the Committee that the new accounting system introduced w.e.f. 1-4-1977 provides a "feed-back" by which it would be possible for the Department to find out whether all the challans have been posted. The Committee wish to point out in this connection that misplacement of challans or non-posting of challans in the Employers Register would also result in harrasment of assessees on whom demand notices are issued and recovery proceedings are pursued without giving credit to the tax already paid. In this connection attention is invited to paragraph 15.5 of the Audit Report, Revenue Receipts—Direct Taxes for 1974-75 wherein it is pointed out that on a test check of 10 Tax Recovery officials in West Bengal, it was noticed that in 251 cases involving Rs. 3.52 crores, the certificate debtors denied claims on

the ground that the demands had either been paid or subsequently reduced or set aside in appeal. The Committee recommend that the new system should be supervised well and its effectiveness should be kept under constant watch so that such discrepancies do not recur.

119. The Committee view with grave concern the cases brought to light by Audit in which either the tax was not deducted at source by employers or if deducted at source was not credited to Government account in time. There were 4 cases in Tamil Nadu and 2 cases in Calcutta where tax deductible at source had not been deducted/deposited. In 89 cases in Calcutta, Madhya Pradesh, Tamil Nadu and U.P., short deductions of tax at source to the extent of Rs. 1.1I lakhs have been noticed. No penal action was taken in these cases. In 85 cases in Bombay, Calcutta, Kerala, Tamil Nadu and U.P., the payments deducted at source were credited to Government account after delays of 14 days to 3 years. The interest leviable in these cases under the law, amounting to Rs. 5.06 lakhs was not levied. Section 276B stipulates that "if a person, without reasonable cause or excuse, fails to deduct or after deducting fails to pay the tax, he shall be punishable in a case where the amount of tax which he has failed to deduct or pay exceeds Rs. 1 lakh, with rigorous imprisonment for a term which shall not be less than six months but which may extend to 7 years and with fine and, in any other case, with rigorous imprisonment for a term which shall not be less than 3 months but which may extend to 3 years and with fine." During evidence, the representative of the Department said "we have no information about prosecution; obviously the prosecution has not been launched." The Committee cannot view with equanamity such a lamentable lack of concern displayed by the CBDT in this matter. Laws passed by Parliament providing for prosecution in such cases of default were meant to be implemented and if they have not been, the Central Board of Direct Taxes must accept its share of responsibility for lack of supervision and direction. The Committee would like the Board to enjoin upon the Commissioners that the Income-tax Officers should not hesitate in invoking the punitive provisions of the law in cases of non-compliance by employers of their statutory responsibility for deducting tax due from their salaried employees and depositing them in time.

120. The Committee are perturbed to note that there have been many cases of incorrect computation/assessment of the perquisite value of various amenities provided by the employers. Of the 53 cases pertaining to different assessment years between 1969-70 and 1974-75, it has been noticed that in the Commissioners Charges in

Assam, Calcutta and Uttar Pradesh, mistakes involved in valuing the perquisites involved in "rent-free accommodation" had resulted in a total short levy of tax of Rs. 70,752. The Committee understand that considering the nature of mistakes in 42 Calcutta cases suitable instructions are being issued by the Board. In the case of 3 foreign employees of a company in Tamil Nadu, drawing salary income of Rs. 1.10 lakhs to Rs. 1·80 lakhs per annum, the value of rent free accommodation was calculated for the assessment year 1971-72 based on the municipal valuation of fair rental value adopted in the assessment years 1966-67 and 1967-68. As pointed out by Audit, the value so computed worked out to hardly 2 to 5 per cent. If 12·5 per cent of salary income was taken as the value of the perquisite, there would have been a further charge of tax of Rs. 90,480 in these cases. The Committee feel that the rules in this regard should be enforced strictly and instructions should be issued for effective and proper valuation of the perquisite of rent-free accommodation.

121. The Committee are surprised to note that in the statement furnished by a company in Calcutta for the assessment year 1973-74 a sum of Rs. 86,411 was shown as having been spent on "decoration and flower arrangements in the gardens of the Directors and high executives as well as for supply of other articles, such as mattresses but the annual returns by the company did not include any of this amount. The test check of the individual assessments af the employees have indicated that the amounts were not added as perquisites. The main objection of the assessee was that though this was a "personal benefit" to him but it was something which "the company provided in order to keep up the maintenance and good appearance and prestige of the company." The Commissioner, it is stated, "feels that on facts it was not possible to treat these benefits as personal perquisites of the employees" and that as "the employees are eligible for transfer. . . , the benefits, if at all, were enjoyed by them only for a short duration." The Committee are of the view that perquisite is a perquisite irrespective of the period for which it is enjoyed by an employee. The Committee, therefore, feel that this matter should be re-examined.

122. The Committee find that in Andhra Pradesh, a company (Wazir Sultan Tobacco Co.) sold during the period October, 1971 to July, 1973, 11 jeeps; vans and cars of the total original value of Rs. 2.36 lakhs to certain persons for a total sum of Rs. 0.94 lakh. A Standard Herald car was sold to one of the serving employees of the Company. Acquired in 1967, the original price of this car was Rs. 19,814 whereas it was sold to him in October 1971 for Rs. 6,500. In the hands of the employee the perquisite representing the differ-

ence between market price and sale price of the car was not taxed. The Department of Revenue have intimated that the aforesaid assessment is being reopened. The Committee do not appreciate the long time taken in reopening the assessment in the case of the employee. It should have been done soon after the case was pointed out in Audit.

123. Section 40A(5) of the Income-tax Act provides for the disallowance, in the assessment of the employer of payments on account of salary and perquisites in excess of the levels laid down in the Act, i.e. salary to an employee in excess of Rs. 5,000 a month and perquisites to an employee in excess of 1/5th of salary or Rs. 1,000 p.m. whichever is less. The Committee find that in the case of 36 employees of 4 companies in West Bengal salary and perquisites exceeded the prescribed limits by Rs. 1,71,507 but the excess was not disallowed in the assessments of the companies resulting in under-assessment of the tax to the tune of Rs. 98,004. The Committee have been informed that in these cases the accounting year of the assessee is different from the accounting year of the company. The question whether this difference has any impact from the revenue angle "is stated to be under consideration." Similarly, in the case of two foreign technicians of Indian Aluminium Company in West Bengal, the excess amounting to Rs. 1.09 lakhs of salary over the prescribed limit was not disallowed in the assessment year 1972-73. The Committee have been informed that these cases too are under examination of the Department. The Committee depricate the delay in finally deciding about these matters. They would like to be apprised of the final outcome.

124. The Committee regret to note that some employers both in the private and public sector, who were paying conveyance allowance to their employees had adopted the practice of calling that allowance by various other names, such as 'local travelling expenses', 'personal allowance', 'vehicle/car allowance', 'reimbursement of motor vehicle expenses', etc. For example, according to enquiries made by the Central Board of Direct Taxes, Life Insurance Corporation of India have re-named conveyance allowance. As in the case of many other public sector undertakings the payment is shown as re-imbursement of actual expenses. It is to be seen whether the change of nomenclature of conveyance allowance is an attempt to circumvent the provisions of the law to claim the standard deduction up to the maximum amount of Rs. 3500 without being limited to Rs. 1000. If it is found to be so, this attempt to defraud revenue cannot but be deplored. The Committee have been informed that the Board have since issued instructions to the

Commissioners on 27-1-1978 just before the sitting of the PAC wherein it has been clarified that if the employee is in receipt of an allowance which pertakes the character of a conveyance allowance, the standard deduction should be restricted to Rs. 1000 whatever be the nomenclature given to the allowance. The Committee trust that the Board would keep a watch that no company, whether in the public or private sector, indulges in such a practice. They would also urge that if conveyance allowance, by whatever name it was called pertook the character of conveyance allowance, the cases of erroneous deductions should be re-opened.

125. The Committee note that the Bombay and Madhya Pradesh High Courts have held that the City Compensatory Allowance could not be considered as an additional salary or perquisite u|s 17(1) or 17(2) of the Income Tax Act, 1961 and as such is not taxable. The Department of Revenue are legally advised against filing a Petition for special leave before the Supreme Court. Meanwhile exemptions were being allowed in respect of City Compensatory Allowance in some places either in initial assessments or at the appeal stage. The Committee have been informed that the question of making suitable amendment of law to get over the situation is under consideration of the Board. The Board have also issued instructions to the Commissioners to keep this issue alive by filing reference where such deduction is allowed on the ground that CCA does not form part of the salary at all. The Committee desire that a final decision on amendment of law should be taken soon.

126. It is noticed that the various banking and other financial institutions were advancing house building or other loans to the employees free of interest or on concessional interest but the perquisite value in such cases was not computed and brought to tax.

1.27. The Committee note that following the judgment of the Madras High Court (100 ITR 629), the Department of Revenue had, on the advice of the Ministry of Law, called for the views of the Commissioners of Income-tax on the question whether difference between interest at standard rate and that actually charged on loans given by employers for house building, purchase of conveyance etc. should be treated as a perquisite. The Commissioners viewpoints are stated to have been forwarded to the Ministry of Law on 7-3-1978 for advice. The Committee would like to be apprised of the final decision taken in this matter.

128. The Audit Report has revealed some very serious lapses in the working of the salary Circles. It would be remembered that

the mistake/irregularities that have been pointed out by audit are only symptomatic of the maladies that beset the Salary Circles, the audit scrutiny being confined to a test check only. The Committee are inclined to think that the type of cases of omissions that have been pointed out by audit in a few selected Commissioner's charges and for a particular period must have occurred in other Commissioner's charges and in years prior to or after the period covered by audit. It is, therefore, of utmost importance that other commissioner's charge should review the cases of the type mentioned in audit para for last 5 years.

129. The Committee have been informed that in recent years the Department of Revenue had taken certain steps to improve the working of Salary Circles. These include (i) appointment of separate Income-tax Officers for this work in pursuance of recommendations of the Committee of Experts on Accounting & Collection Procedures (1975), (ii) computerisation of annual returns and payment of salaries at source at 8 metropolitan cities to begin with, (iii) preparation of directory of employers and allotment of IDS numbers at the 8 centres, (iv) revision of the proformae of the Challan and the cash book. The Committee welcome these measures but feel that more drastic steps are necessary to effect improvement in the functioning of salary circles, which, as the present examination has revealed, is far from satisfactory.

130. The Committee are pained to know that even though the audit paragraph was sent by Audit to the Ministry in November 1976, till 31-3-1977, the Ministry had only stated that the audit objections were under consideration. The Ministry sent only partial replies to Audit just on the eve of the meeting of the Committee on 30-1-1978 contesting a lot of relatively smaller facts given in the Audit paragraph. It would help the work of the Committee if the Government take care to see that the facts contained in the Audit paragraph are verified well in time before the Audit Report is printed. The Committee expect the Ministry of Finance to set an example for other Ministries in this regard rather than defaulting themselves.

C. M. STEPHEN,
Chairman,
Public Accounts Committee.

April 24, 1978.

Vaisakha 4, 1900 (*Saka*).

APPENDIX I

(*Vide* para 29)

Statement showing the Salaries and perquisites of Top Executives of 20 Big Business Houses.

Name	Assess-ment Year	Salary	Perquisites	Total
	I. *Birla Group*			
1. Sh. D. P. Mnadellia	1977-78	1,94,700	2,700	1,97,400
2. Sh. R. P. Poddar	1977-78	1,63,560	5,400	1,68,960
3. Sh. R. M. Mehta	1976-77	1,35,000	20,340	1,55,340
4. Sh. H. L. Shrimal	1977-78	1,48,000	Nil	1,48,800
5. Sh. S. S. Chouradi	1977-78	1,39,800	1,764	1,41,564
	II. *Tata Group*			
1. Sh. K. M. Chinnapa	1977-78	1,35,300	17,170	1,52,170
2. Sh. B. Nehru	1977-78	1,18,076	32,437	1,50,513
3. Sh. D. S. Seth	Break-up has been called for.			1,50,136
4. Sh. N. H. Tata	1977-78	1,35,000	8,386	1,43,386
5. Sh. J. E. Talaulicar	Break-up has been called for.			1,26,429
	III. *Mafatlal Group*			
1. Sh. R. M. Mafatlal	Break up has been called for.			2,26,098
2. Sh. P. K. Shah				1,19,363
3. Sh. C. C. Maniar				1,16,281
4. Sh. J. D. Vasa				1,10,643
5. Sh. V. Ramudra				1,03,988
	IV. *Scindia Group*			
1. Sh. Shanti Kumar Morarji	1977-78	1,57,300	Nil	1,57,300
2. Shrimati Sumati Morarji	1977-78	1,56,750	Nil	1,56,750
3. Sh. M. G. Stone	Break-up has been called for.			1,14,710

Name	Assessment year	Salary	Perquisites	Total
4. Sh. J. S. Aiyar	.	has been called for.		1,14,710
5. Sh. J. S. Gandhi				1,11,315
	V. *Thapar Group*			
1. Sh. N. M. Wagle	1977-78	2,34,100·28	Nil	2,34,10,028
2. Sh. P. R. Deshpande	. 1977-78	1,53,935·00	15,949·25	[illegible]4·25 (30,000/ Commission)
3. Sh. M. B. Bhaskare	. 1977-78	93,050·00	17,260·00	[illegible] (45,000/ Commission)
5. Sh. S. S. Lal	.	60,000	20,996	30,996
6. Sh. K. L. Sehgal	.	63,240	2,152	70,392
	VI. *Bangur Group*			
1. Sh.. C. M. Peterson	. Inform- ation	3,01,879	35,237	3,37,116
2. Sh. G. I. Harris	. has been called	2,38,387	28,641	2,67,020
3A. Sh. B. G. Bangur	. for.	1,09,000	Nil	1,09,000
3B. Sh. B. D. Bangur		1,09,000	Nil	1,09,000
4. Sh. R. P. Maloo	.	97,668	Nil	97,668
5. Sh. S. A. Marian	.	80,000	7,225	87,825
	VII. *Shri Ram Group*			
1. Sh. Lala Shridarji	. Inform- ation	1,13,000	29,303	1,42,303
2. Sh. B. Sahay . .	. has been called	69,600	15,191	84,791
3. Sh. D. K. Sen	. for.	Not separately available		33,600
4. Sh. R. K. Jain	.	53,410	24,533	82,943
5. Sh. S. N. R. Dongre	.	59,000	17,320	76,320
	VIII. *Sarabhai Group*			
1. Sh. Gautam Sarabhai	. 1975-76	3,76,552	15,199	3,91,751
2. Smt. Gira Sarabhai	. 1975-76	1,81,824	1,6,156	1,97,980
3. Sh. H. T. Dhavanam	. 1977-78	1,36,284	4,456	1,40,741
4. Sh. B. V. Bhatt	1977-78	1,21,221	1,367	1,22,588
5. Sh. R. B. Conntradtor	. 1977-78	83,671	1,200	84,871

Name	Assessment year	Salary	Perquisites	Total
		IX. *Walchand Group*		
1. Sh. Vinodi Doshi .				1,29,992
2. Sh. A. R. Doshi .				1,15,493
3. Sh. B. G. Doshi .	1977-78	39,700	15,881	1,05,509
4. Sh. P. N. Venkatecon. .				77,900
5. Sh. S. D. Joshi .	1977-78	73,460	Nil	73,460
		X. *I. C. I. Group*		
1. Sh. K. V. Raghavan .	Information has been called for.	1,35,000	17,032	1,52,032
2. Dr. Gangulii .		98,650	23,406	1,45,353
3. Sh. P. K. Banerji .		98,278	30,264	1,28,542
4. Sh. P. K. Mukherji .		1,25,357	20,496	1,27,058
5. Sh. P. K. Bhattacharji .		98,662	19,563	1,18,225
		XI. *Kriloskar Group*		
1. Sh. S. L. Kirloskar .	1976-77	1,85,014	30,771	2,15,785
2. Sh. C. S. Kirloskar .	1976-77	1,85,984	17,400	2,03,384
3. Sh. H. M. Mohite .	1976-77	1,46,250	25,250	1,71,500
4. Sh. R. K. Kirloskar .	1977-78	1,68,787	Nil	1,68,787
5. Sh. B. M. Lambe] .	1977-78	1,19,955	Nil	1,19,955
		XII. *A C C, Group*		
1. Sh. Ramaljit Singh .	Break-up has been called for.			1,19,564
2. Sh. B. K. Reporter .	1977-78	84,000	20,027	1,04,027
3. Sh. P. N. Bam .	Break-up has been called for.			93,213
4. Sh. J. P. Munsiff .		Do.		91,042
5. Sh. H. J. Canteenwala		Do.		81,505
		XIII. *Parry Group*		
1. Sh. K. V. Ramakrishnan	1977-78	83,700	22,050	1,05,750
2. Sh. R. N. Ratnam .	1977-78	80,100	20,768	1,00,868
3. Sh. S. H. K. Kange .	1977-78	76,700	21,220	97,920
4. Sh. K. Achyathan .	1977-78	76,600	19,712	96,392
5 Sh. N S Parathasarathy	1977-78	72,387	19,874	92,261

Name	Assessment year	Salary	Perquisites	Total
XIV *Mahindra Group*				
1. Sh. K. U. Sardesai	Break-up has been called for.			1,30,701
2. Sh. K. V. Sardesai	1977-78	90,000	32,210	1,67,201 (45,000 Commission)
3. Sh. Keshab Mahindra	1977-78	1,20,000	19,720	1,39,728
4. Sh. B. R. Sule	Break-up has been called for.			1,28,309
5. Sh. Harish Mahindra	1977-78	97,500	13,724	1,11,224
XV. *Bajaj Group*				
1. Sh. Rajul Kumar Bajaj	1977-78	1,36,000	25,950	1,61,950
2. Sh. H. K. Pirodia	1977-78	90,000	22,150	1,12,150
3. Sh. J. H. Shah	1977-78	90,000	21,406	1,11,406
4. Sh. Rahul Kumar Bajaj	1977-78	84,000	21,690	1,05,690
5. Sh. S. N. Deshmukh	1977-78	75,340	17,340	92,680

Name	Assessment year	Salary	Perquisites	Others	Total
XVI. *J. K. Singharia Group*					
1. Sh. Vijaypat Singhania	1974-75	82,831	13,354	2,34,697	3,30,882
2. Shri Gopal Krishan Singhania	Do.	90,000	26,199	1,50,581	2,66,880
3. Shri Sivaram Singhania	1974-75	62,757	63,190	14,713	1,40,650
4. Shru Ajaiopat Singhania	1974-75	36,000	7,850	90,432	1,34,282
5. Shri P. D. Singhania	1975-76	60,000	30,600	23,046	1,13,646
XVII. *Kastur Bhai Lal Bhai Group*					
1. Shri Pal Chinubhai	1977-78	90,000	56,329	45,000	1,91,329
2. Shri Ajay Chamanbhai	1977-78	90,000	54,094	45,000	1,88,994
3. Shri Chembhai Chimanbhai	1977-78	90,000	42,578	45,000	1,87,578
4. Shri Shrenik Kasturbahi	1977-78	90,000	42,504	51,000	1,83,502
5. Shri Gannotam P. Hutheesingh	Do.	90,000	45,572	45,000	1,89,572
XVIII. *Larsen & Tubro Group*					
1. Shri D. L. Poadhan	Break-up has been called for.				1,44,718
2. V. V. Rao	Do.				1,42,307
3. Shri B. G. M. Patel	Do.				1,42,007

Name	Assessment year	Salary	Perquisites	Others	Total
4. Shri N. H. Desai .	1977-78	90,000	25,190		1,15,190
5. Shri H. H. Larsen .	1977-78	90,000	20,153		1,10,153
		XIX. *Modi Group*			
1. Shri Y. X. Modi .	1977-78	2,17,500	Nil	Nil	2,1 7,500
2. Shri Sudrashan Kumar Modi.	1976-77	1,43,266	Ni.	Nil	1,43,266
3. Shri Suresh Kumar Modi.	1976-77	81,181	Nil	Nil	1,43,266 91,275 (10,094 Commission)
4. Shri Gulab Kumar Modi	1977-78	69,686	5,400	Nil	75,086
5. Shri Kedar Nath Modi	1977-78	52,800	10,439	Nil	63,239
		XX. *Killicks Group*			
1. Shri R. C. Kapur .	1977-78	56,800	4,880		61,680
2. Shri D. S. Kurana .	1977-78	55,800	5,580		61,380
3. Shri A. T. Kothavale .	1977-78	61,200	4,880		66,080
4. Shri P. J. Kapadia .	1977-78	57,162	4,577		61,739
5. Shri B. M. Maniar .	1977-78	55,800	5,580		61,380

APPENDIX II

Statement of Conclusions/Recommendations

S. No.	Para No. of Report	Ministry/ Deptt.	Conclusions/Recommendations
1	1.110	Ministry of Finance (Deptt. of Revenue)	The Committee are distressed to find that despite various measures taken by Government from time to time the working of 'Salary Circles', an important limb in the Income-tax administration, has not shown any perceptible improvement in the tax collection over salary incomes. In fact, if the test check by Audit of the records relating to assessment of persons other than companies is any indication, salary circles continue to be plagued by serious shortcomings and unless Government undertakes a complete overhaul of the working of these circles, the situation may deteriorate still further. The existing network consists of as many as 20 salary circles looked after by 6 Inspecting Assistant Commissioners exclusively and by 84 Inspecting Assistant Commissioners along with other circles. The main duties of a salary circle are to ensure that (i) tax is deducted at source by the employer; (ii) tax deducted is paid to the credit of the Central Government; (iii) proper assessment including valuation of 'perquisites'; and (iv) taxes demanded are collected. The examination by the Committee of the working of salary circles has revealed that these circles have, by and large, been woefully remiss in the discharge of these duties. In this context it may be noted that the number of assessments pending with

			the salary circles has gone up from 1.55 lakhs as on 31-3-1976 to over 4 lakhs in 1977.
2	1·114	-do-	It is no secret that private sector has larger number of employees than employees under the Central Government. Not only that, it is common knowledge that the salaries and perquisites in the case of private sector are far higher than those under Central Government. According to a recent study made by the Reserve Bank of the distribution of highly paid company employees in the organised private sector, in some industries like non-ferrous metals (basic), tobacco, dyes and dye-stuffs and alluminium the higheset annual remuneration per executive ranges well above Rs. 60,000 per annum. Again, according to this study the highest paid executives are in the tobacco industry getting over Rs. 60,000, 24, getting over Rs. 80,000 and 19 getting over Rs. 1,00,000 per annum. This is followed by aluminium and dye & dye-stuffs in which the number of employees getting over Rs. 60,000 per annum is 45 and 36, those getting over Rs. 80,000 per annum is 26 and 17 and those getting over Rs. 1,00,000 is 14 and 13 respectively. The Committee recommend that in the context of RBI study, the Central Board of Direct Taxes should undertake a review at least in the case of selected industries and in respect of their top executives to see if the assessment of salaries and perquisites in the hands of the employees and the employers is being made with the care and attention that it deserves. The Committee would like to be assured that there is no evasion of tax whatsoever in these cases.

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3.	115	Ministry of Finance (Department of Revenue)	The Committee find that though the Employers' Register, Tax Deduction Certificate, and the annual/monthly returns furnished by the Employers constitute important tools in the hands of the Income-tax authorities, these are not receiving adequate attention. Though the work of updating of Employers' Registers had been in progress for more than a decade and the number of employers had increased from 64,862 on 31-12-1976 to 71,202 on 31-12-1977, the Employers' Registers are still far from complete and admittedly "not updated". The Committee deplore the inaction in regard to updating the Employers' Registers, an important regulatory mechanism, during the last 10 years. They recommend that updating of these Registers should be accorded priority and the work should be completed according to a time-bound programme.
4.	116	-do-	The Committee are perturbed to note that not only the Employers' Register are incomplete, but the timely receipt of returns from the Employers are also not being closely watched. In as many as 5,871 cases, in all Commissioners' charges, annual returns had not been received at all. In 638 other cases in 5 Commissioners' charges, returns were received late by periods ranging from 1 month to 6 months upto December, 1965. It is surprising that though under the Act, the defaulters could be prosecuted and were liable to a fine of upto Rs. 10 for every day of default, no action was initiated in any of these cases. As pointed out by Audit, in respect of 410 cases of delayed returns in the Commissioners'

charges in Tamil Nadu, Calcutta and Andhra Pradesh alone, the fine liable under the Act works out to Rs. 22.57 lakhs upto the end of December 1975. The Committee wanted to know the names of the parties involved and reason for non-levy of penalty in each case but have been informed that as it involves verification of 5,871 cases, it would take some time to furnish that information. The desired information has not been made available to the Committee. The Committee feel that had monitoring of the cases by the salary circles and the supervision by the CBDT over the work of these circles been effective, such vital information should have been readily available with the Central Board of Direct Taxes, particularly when it had a close bearing on a point included in the Audit Report. The Committee would like the Board to obtain this information from the lower formations at the earliest. Meanwhile, the Committee would like the CBDT to apply themselves to the question of how best to ensure that the monthly/quarterly/annual returns are received from all the employers who are required to send them under the Income-tax Act and that in the case of defaulters penalty as provided for in the Act is actually levied.

117 —do— Another glaring shortcoming noticed by the Committee in the working of salary circles is that challans pertaining to amounts of tax deducted at source are not being posted in the relevant Registers. In 120 cases, in one circle in Calcutta, the total amount of tax paid as per challans fell short of the total amount shown in the Annual Return by as much as Rs. 1.19 crores. The Committee have

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			been informed that this discrepancy had arisen due to misplacement of challans during shifting of the salary section from one premises to another. The discrepancies are stated to have since been reconciled in 118 cases leaving behind only 2 cases involving a discrepancy of Rs. 1,384. The Committee are unable to accept the explanation that frequent shifting of office had led to these discrepancies for they find that these discrepancies have occurred even in Charges where shifting of offices was not involved For example, in 11 cases, in Andhra Pradesh it has been noticed that the main reason was non-availability of challan or arithmetical/typographical errors. Again, in the case of 8 Employers in Karnataka total deduction as per annual returns was Rs. 1,98,423 but the amounts credited as per challans totalled Rs. 1,55,837. This discrepancy is stated to have arisen due to the fact that tax deducted at source for the month of March was credited to Government account in April and was wrongly entered in the Alphabetical Register of the subsequent financial year.
6	118	Ministry of Finance (Department of Revenue)	In the context of these lapses, the representative of the Department admitted during evidence that they "did not have control to ensure that the particular challans were posted in the daily collection register" but assured the Committee that the new accounting system introduced w.e.f. 1st April, 1977 provides a "feed-back" by which it would be possible for the Department to find out whether all the challans have been posted. The Committee wish to point out

in this connection that misplacement of challans or non-posting of challans in the Employees' Registers would also result in harassment of assessees on whom demand notices are isued an drecovery proceedings are pursued without giving credit to the tax already paid. In this connection attention is invited to paragraph 15.5 of the Audit Report, Revenue Receipts—Direct Taxes for 1974-75 wherein it is pointed out that on a test check of 10 Tax Recovery officials, in West Bengal, it was noticed that in 251 cases involving Rs. 3.52 crores, the certificate debtors denied claims on the ground that the demands had either been paid or subsequently reduced or set aside in appeal. The Committee recommend that the new system should be supervised well and its effectiveness should be kept under constant watch so that such discrepancies do not recur.

119 -do- The Committee view with grave concern the cases brought to light by Audit in which either the tax was not deducted at source by employers or if deducted at source was not credited to Government account in time. There were 4 cases in Tamil Nadu and 2 cases in Calcutta where tax deductible at source had not been deducted/deposited. In 89 cases in Calcutta, Madhya Pradesh, Tamil Nadu and U.P., short deductions of tax at source to the extent of Rs. 1.11 lakhs have been noticed. No panel action was taken in these cases. In 85 cases in Bombay, Calcutta, Kerala, Tamil Nadu and U.P., the payments deducted at source were credited to Government account after delays of 14 days to 3 years. The interest leviable in these cases under the law, amounting to Rs. 5.06 lakhs

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			was not levied. Section 276B stipulates that "if a person, without reasonable cause or excuse, fails to deduct or after deducting fails to pay the tax, he shall be punishable in a case where the amount of tax which he has failed to deduct or pay exceeds Rs. 1 lakh, with rigorous imprisonment for a term which shall not be less than six months but which may extend to 7 years and with fine and, in any other case, with rigorous imprisonment for a term which shall not be less than 3 months but which may extend to 3 years and with fine." During evidence, the representative of the Department said "we have no information about prosecution; obviously the prosecution has not been launched." The Committee cannot view with equanamity such a lamentable lack of concern displayed by the CBDT in this matter. Laws passed by Parliament providing for prosecution in such cases of default were meant to be implemented and if they have not been the Central Board of Direct Taxes must accept its share of responsibility for lack of supervision and direction. The Committee would like the Board to enjoin upon the Commissioners that the Income-tax Officers should not hesitate in invoking the punitive provisions of the law in cases of non-compliance by employers of their statutory responsibility for deducting tax due from their salaried employees and depositing them in time.
8	120	Ministry of Finance (Department of Revenue)	The Committee are perturbed to note that there have been many cases of incorrect computation/assessment of the perquisite value of various amenities provided by the employers. Of the 53 cases per-

			taining to different assessment years between 1969-70 and 1974-75, it has been noticed that in the Commissioners Charges in Assam, Calcutta and Uttar Pradesh, mistakes involved in valuing the perquisites involved in 'rent-free accommodation" had resulted in a total short levy of tax of Rs. 70,752. The Committee understand that considering the nature of mistakes in 42 Calcutta cases suitable instructions are being issued by the Board. In the case of 3 foreign employees of a company in Tamil Nadu, drawing employees of a company in Tamil Nadu, drawing salary income of Rs. 1.10 lakhs to Rs. 1.80 lakhs per annum, the value of rent-free accommodation was calculated for the assessment year 1971-72 based on the municipal valuation of fair rental value adopted in the assessment years 1966-67 and 1967-68. As pointed out by Audit, the value so computed worked out to hardly 2 to 5 per cent. If 12.5 per cent of salary income was taken as the value of the perquisite, there would have been a further charge of tax of Rs. 90,480 in these cases. The Committee feel that the rules in this regard should be enforced strictly and instructions should be issued for effective and proper valuation of the perquisite of rent-free accommodation.
9	121	-do-	The Committee are surprised to note that in the statement furnished by a company in Calcutta for the assessment year 1973-74 a sum of Rs. 86,411 was shown as having been spent on "decoration and flower arrangements" in the gardens of the Directors and high executives as well as for supply of other articles, such as mattresses but the annual returns by the company did not include any of this

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			amount. The test check of the individual assessments of the employees have indicated that the amounts were not added as perquisites. The main objection of the assessee was that though this was a "personal benefit" to him but it was something which "the company provided in order to keep up the maintenance and good appearance and prestige of the company." The Commissioner, it is stated, "feels that on facts it was not possible to treat these benefits as personal perquisites of the employees" and that as the "the employees are eligible for transfer......, the benefits, if at all, were enjoyed by them only for a short duration." The Committee are of the view that perquisite is a perquisite irrespective of the period for which it is enjoyed by an employee. The Committee, therefore, feel that this matter should be re-examined.
10	122	Ministry of Finance (Depatment of Revenue)	The Committee find that in Andhra Pradesh, a company (Wazir Sultan Tobacco Co.) sold during the period October, 1971 to July, 1973, 11 jeeps, vans and cars of the total original value of Rs. 2.36 lakhs to certain persons for a total sum of Rs. 0.94 lakh. A Standard Herald car was sold to one of the serving employees of the Company. Acquired in 1967, the original price of this car was Rs. 19,814 whereas it was sold to him in October 1971 for Rs. 6,500. In the hands of the employee the perquisite representing the difference between market price and sale price of the car was not taxed. The Department of Revenue have intimated that the aforesaid assessment is being reopened. The Committee do not appreciate

			the long time taken in reopening the assessment in the case of the employee. It should have been done soon after the case was pointed out in Audit.
11	123	-do-	Section 40A(5) of the Income-tax Act provides for the disallowance, in the assessment of the employer of payments on account of salary and perquisites in excess of the levels laid down in the Act. i.e. salary to an employee in excess of Rs. 5.000 a month and perquisites to an employee in excess of 1/5th of salary or Rs. 1.000 p.m. whichever is less. The Committee find that in the case of 36 employees of 4 companies in West Bengal salary and perquisites exceeded the prescribed limits by Rs. 1.71,507 but the excess was not disallowed in the assessments of the Companies resulting in under-assessment of the tax to the tune of Rs. 98,004. The Committee have been informed that in these cases the accounting year of the assessee is different from the accounting year of the company. The question whether this difference has any impact from the revenue angle "is stated to be under onsideration". Similarly, in the case of two foreign technicians of Indian Aluminium Company in West Bengal, the excess amounting to Rs. 1.09 lakhs of salary over the prescribed limit was not disallowed in the assessment year 1972-73. The Committee have been informed that these cases too are under examination of the Department. The Committee depricate the delay in finally deciding about these matters. They would like to be apprised of the final outcome.
12	124	-do-	The Committee regret to note that some employers both in the private and public sector, who were paying conveyance allowance

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			to their employees had adopted the practice of calling that allowance by various other names, such as 'local travelling expenses', 'personal allowance', 'vehicle/car allowance', 'reimbursement of motor vehicle expenses', etc. For example, according to enquiries made by the Central Board of Direct Taxes, Life Insurance Corporation of India have re-named conveyance allowance. As in the case of many other public sector undertakings the payment is shown as reimbursement of actual expenses. It is to be seen whether the change of nomenclature of conveyance allowance an attempt to circumvent the provisions of the law to claim the standard deduction upto the maximum amount of Rs. 3500 without being limited to Rs. 1000. If it is found to be so, this attempt to defraud revenue cannot but be deplored. The Committee have been informed that the Board have since issued instructions to the Commissioners on 27-1-1978 (just before the sitting of the PAC) wherein it has been clarified that if the employee is in receipt of an allowance which pertakes the character of a conveyance allowance, the standard deduction should be restricted to Rs. 1000 whatever be the nomenclature given to the allowance. The Committee trust that the Board would keep a watch that no company, whether in the public or private sector, indulges in such a practice. They would also urge that if conveyance allowance, by whatever name it was called pertook the character of conveyance allowance, the cases of erroneous deductions should be re-opened.

13	125	-do-	The Committee note that the Bombay and Madhya Pradesh High Courts have held that the City Compensatory Allowance could not be considered as an-additional salary or perquisite u/s 17(1) or 17(2) of the Income Tax Act, 1961 and as such is not taxable. The Department of Revenue are legally advised against filing a Petition for special leave before the Supreme Court. Meanwhile exemptions were being allowed in respect of City Compensatory Allowance in some places either in initial assessments or at the appeal stage. The Committee have been informed that the question of making suitable amendment of law to get over the situation is under consideration of the Board. The Board have also issued instructions to the Commissioners to keep this issue alive by filing reference where such deduction is allowed on the ground that CCA does not form part of the salary at all. The Committee desire that a final decision on amendment of law should be taken soon.
14	126	-do-	It is noticed that the various banking and other financial institutions were advancing house building or other loans to the employees free of interest or on concessional interest but the perquisite value in such cases was not computed and brought to tax.
15	127	-do-	The Committee note that following the judgment of the Madras High Court (100 ITR 629), the Department of Revenue had, on the advice of the Ministry of Law, called for the views of the Commissioners of Income-tax on the question whether difference between interest at standard rate and that actually charged on loans given by employers for house building, purchase of conveyance etc, should be treated as a perquisite. The Commissioner's viewpoints are

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			stated to have been forwarded to the Ministry of Law on 7-3-1978 for advice. The Committee would like to be apprised of the final decision taken in this matter.
16	128	Ministry of Finance (Department of Revenue)	The Audit Report has revealed some very serious lapses in the working of the Salary Circles. It would be remembered that the mistakes/irregularities that have been pointed out by audit are only symptomatic of the maladies that beset the Salary Circles, the audit scrutiny being confined to a test check only. The Committee are inclined to think that the type of cases of ommissions that have been pointed out by audit in a few selected Commissioner's charges and for a particular period must have occurred in other Commissioner's charges and in years prior to or after the period covered by audit. It is therefore, of utmost importance that other commissioner's charges should review the cases of the type mentioned in audit para for last 5 years.
17	129	-do-	The Committee have been informed that in recent years the Department of Revenue had taken certain steps to improve the working of Salary Circles. These include (i) appointment of separate Income-tax Officers for this work in pursuance of recommendations of the Committee of Experts on Accounting & Collection Procedures (1975). (ii) computerisation of annual returns and payment of salaries at source at 8 metropolitan cities to begin with, (iii) preparation of directory of employers and allotment of IDS

			numbers at the 8 centres. (iv) revision of the proformae of the Challan and the cash book. The Committee welcome these measures but feel that more drastic steps are necessary to effect improvement in the functioning of salary circles, which, as the present examination has revealed, is far from satisfactory.
18	130	-do-	The Committee are pained to know that even though the audit paragraph was sent by Audit to the Ministry in November 1976, till 31-3-1977, the Ministry had only stated that the audit objections were under consideration. The Ministry sent only partial replies to Audit just on the eve of the meeting of the Committee on 30-1-1978 contesting a lot of relatively smaller facts given in the Audit paragraph. It would help the work of the Committee if the Government take care to see that the facts contained in the Audit paragraph are verified well in time before the Audit Report is printed. The Committee expect the Ministry of Finance to set an example for other Ministries in this regard rather than defaulting themselves.

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