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**STANDING COMMITTEE
ON FINANCE
(1998-99)**

TWELFTH LOK SABHA

**MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)**

**DEMANDS FOR GRANTS
(1998-99)**

FOURTH REPORT



सत्यमेव जयते

**LOK SABHA SECRETARIAT
NEW DELHI**

July, 1998/Asadha, 1920 (Saka)

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MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

DEMANDS FOR GRANTS
(1998-99)

*Presented to Lok Sabha on 10.7.1998
Laid in Rajya Sabha on 10.7.1998*



LOK SABHA SECRETARIAT
NEW DELHI

July, 1998/Asadha, 1920 (Saka)

C.O.F. No. 04

Price : Rs. 24.00

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Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Ninth Edition) and Printed by Printed by Jainco Art India, 13/10, W.E.A., Saraswati Marg, Karol Bagh, New Delhi-110 005.

CONTENTS

CORRIGENDA

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>	PAGE
6	10	14	85,000	58,000	(iii)
8	14	7	carrier	arrear	(v)
16	27	17	CBDI	CBDT	1
					25
					35
					38
					42
					46

CONTENTS

	PAGE
COMPOSITION OF THE COMMITTEE	(iii)
INTRODUCTION	(v)
REPORT	1
Statement of Conclusions/Recommendations	25

APPENDICES

I. Minutes of the sitting of the Committee held on 10 June, 1998	35
II. Minutes of the sitting of Committee held on 16 June, 1998	38
III. Minutes of the sitting of Committee held on 17 June, 1998	42
IV. Minutes of the sitting of Committee held on 29 June, 1998	46

COMPOSITION OF THE STANDING COMMITTEE
ON FINANCE (1998-99)

Shri Murli Deora — *Chairman*

MEMBERS

Lok Sabha

2. Shri Dhirendra Agarwal
3. Shri Mohanbhai Sanjibhai Delkar
4. Shri Haribhai Parathibhai Chaudhary
5. Shri Uttam Singh Pawar
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8. Shri Bhagwan Shanker Rawat
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18. Shri Varkala Radhakrishnan
- *19. Shri Beni Prasad Verma
20. Shri S. Murugesan
21. Shri M. Sahabuddin
22. Dr. S. Venugopalachary

*Nominated *w.e.f.* 25 June, 1998 *vice* Shri Jang Bahadur Singh Patel, M.P., who was nominated to Standing Committee on Transport and Tourism.

23. Shri Tathagata Satpathy
24. Kum. Kim Gangte
25. Dr. Bikram Sarkar
26. Shri S. Jaipal Reddy
27. Shri Joachim Baxla
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Rajya Sabha

31. Dr. Manmohan Singh
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42. Shri R.K. Kumar
43. Shri Gurudas Das Gupta
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45. Shri Suresh A. Keswani

SECRETARIAT

1. Dr. A.K. Pandey — *Additional Secretary*
2. Smt. P.K. Sandhu — *Director*
3. Shri S.B. Arora — *Under Secretary*
4. Shri L.V. Ramana — *Reporting Officer*

INTRODUCTION

1, the Chairman of the Standing Committee on Finance (1998-99), having been authorised by the Committee to submit the Report on their behalf present this Fourth Report on Demands for Grants (1998-99) of the Ministry of Finance (Department of Revenue).

2. The Demands for Grants of the Ministry of Finance were laid on the Table of the House on 10 June, 1998. Rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha provides that the Standing Committees shall consider the Demands for Grants of the concerned Ministries/Departments and make a Report on the same to the Houses.

3. The Committee took oral evidence of the representatives of Ministry of Finance (Deptt. of Revenue) at their sittings held on 16 and 17 June, 1998 in connection with the examination of Demands for Grants (1998-99) of Ministry of Finance (Deptt. of Revenue).

4. The Committee considered and adopted the Report at their sitting held on 29 June, 1998.

5. The Committee wish to express their thanks to the Officers of the Ministry of Finance for cooperation extended by them in furnishing written replies and for placing their considered views and perceptions before the Committee.

6. For facility of reference, the observations/recommendations of the Committee have been printed in thick type.

NEW DELHI;
6 July, 1998
15 Asadha, 1920 (Saka)

MURLI DEORA,
Chairman,
Standing Committee on Finance.

REPORT

Demand No. 36

DEPARTMENT OF REVENUE

Computerisation of Income-Tax Operations

The Computerisation of Income tax operations was started a decade ago and is still in progress. On the basis of the recommendations of the working Group set up for implementing comprehensive Computerisation in the Deptt. and approved by the Govt. in October, 1993, in the First Phase, Regional Computer Centres were set up and commissioned during January/February, 1995 at Delhi, Mumbai and Chennai. These three cities account for 60% of direct tax collections and 25% of the tax payers. Modern RS 6000/59H computer system with nearly 1117 Personal Computers has been installed. All Personal Computers except those supplied during the current financial year, are linked to respective Regional Computer Centre. The three Regional Computer Centres are linked to each other through 64 kbps leased data circuits.

2. To facilitate decentralised input/output and to enable users to work on various application systems, Terminal banks have been set up in all the buildings at Delhi, Mumbai and Chennai.

3. As part of the Second phase of the Comprehensive Computerisation, the old SN-73 Computer Systems at 33 centres are being replaced with RS 6000/F40 & F50 Computer Systems with 450 Personal Computers, as an interim measure, to carry out certain essential computer related activities. The installation of some of these systems has been completed or is in progress.

4. The Secretary, Revenue during the oral evidence responding to a query about the state of computerisation of direct taxes has inter-alia stated as follows:—

“The computerisation of the income-tax department has been an on-going process for over a decade or so. We have so far succeeded in the allotment of Permanent Account Numbers to three major metropolitan cities, which we hope to extend in the

course of the next twelve months or so to cover the other 33 important tax paying centres.

In respect of computerisation of some of the other elements particularly accessing of data, processing of income-tax returns themselves and utilisation of the software developed for minimising the incidence of evasion, the Tata Consultancy Services who have worked closely with the CBDT have evolved a software programme.

Pilot programmes of credible nature have been taken up but the progress in the area certainly needs to be accelerated. The apprehension of Sh. Chavan that there is a resistance to move towards computerisation is not a misplaced one. We have had extensive discussion with several Unions to persuade them to accept the computerisation programme. We have made considerable progress in securing the acceptance as far as Mumbai and Delhi are concerned. But I think that the progress in this area needs to be made more credible in respect of the other centres. We have a time-bound programme for the completion of the computerisation"

5. Supplementing to the reply given by the Secretary regarding the progress made in net working in all the major centres, the Chairman, CBDT has deposed as follows:—

"We totally share the concern of Hon'ble Members that the ambitious plan of the income tax cannot really materialise unless we have significant achievement in the sphere of computerisation. I also concede that in the beginning, our pace of allotment of PAN was little slow. Last year when we introduced the two out of four criteria, we realised that introduction of a system whereby the PAN could be allotted immediately was essential to the success of that scheme. We introduced that scheme in 12 cities. At that time, we modified our PAN allotment application form. Earlier, it was consisting of 29 parameters. That was causing delays. We have simplified the PAN allotment application form. With the result that in the three cities of Mumbai, Delhi and Chennai, we have achieved allotment of Permanent Account

Number to 85 per cent of the total tax payers. In the 12 cities where two by four criteria was applicable last year, all applicants were allotted Permanent Account Number across the counter. In some cases, it was allotted within 48 hours but each one of those applicants has got Permanent Account Number. Now this year, we are planning to extend the system to 33 centres throughout the country. I am very happy to inform the Committee that in several cities including small cities like Allahabad, Patiala and bigger cities like Hyderabad and Pune, the position as on 16.6.1998 is that thousands of Permanent Account Numbers have been allotted. We are following the same system which we tried in the 12 centres last year all over the country. All the 33 centres have to be linked to the national centre in Delhi. That work is going on. Out of 33 centres, 18 centres have already been linked and the remaining 15 centres are going to be linked within a month's time. That will take care of allotment of Permanent Account Number.

Other programmes are also being introduced. We hope that by end of this financial year, most of our assessment work and storing up data will also be done on computers".

6. The Committee observe that though the computerisation of income tax operations was initiated a decade ago, that Deptt. still reels under some bottlenecks which need to be addressed with greater vigour and acceleration. The Committee note that the Deptt. is yet to receive the concurrence of the Unions to implement the computerisation in all the major centres except Delhi and Mumbai. The Committee recommend that the Deptt. of Revenue should take immediate steps to bring the Unions across the table to arrive at a consensus decision. The Deptt. in their reply have stated that 33 more centres are to be covered so as to allot PAN numbers to the assesses. The Committee are of the opinion that the obligatory filing of returns under 'ONE BY SIX' Scheme and compulsory quoting of PAN is expected to bring an estimated 80 lakh new assesses under the net and the Deptt. should gear up their machinery to meet this daunting task. The Committee, therefore, recommend that the Deptt. of Revenue should constitute a task force that can look into the existing bottlenecks, address them on priority basis and make the comprehensive computerisation of income tax operations a reality. The Committee would also like to be apprised of the progress made in this direction.

Demand No. 36
DEPTT. OF REVENUE
Major Head : 2045
Minor Head : 00.200
Detailed Head : 02.00.50

Foreign Travel Taxes

Other charges

7. The details of Budgetary Estimates, Revised Estimates and Actuals contained under the Head Foreign Travel Taxes is given below:

	(In Rupees)		
Year	BE	RE	Actuals
1994-95	50,00,000	50,00,000	37,37,000
1995-96	55,00,000	50,00,000	37,46,000
1996-97	60,00,000	66,00,000	37,02,000
1997-98	70,00,000	81,00,000	
1998-99	1,32,00,000		

8. Responding to a query regarding the reasons for under-utilisation under this Head, the Deptt. of Revenue in their written reply has explained as follows:—

“The Foreign Travel Tax is payable in respect of international journey undertaken by a passenger. The tax is collected by various airlines/air taxi operators and deposited to the Govt. account for which collection charges at 1/3rd per cent of the tax collected

are paid to them. As such, the allotment of budget provision depends upon the estimated collection of taxes in every year. The funds provided under this head are re-allocated to various Commissionerates of Customs. The under-utilisation of funds might have occurred on account of less collection of taxes by carriers than the estimates amount. For the year 1998-99, consequent to the hike in the rates of Foreign Travel Tax from Rs. 300/- to Rs. 750/- with effect from 26.9.1997, it was expected that the collection under Foreign Travel Tax would be Rs. 262.5 crore in the year 1997-98 against the original estimate of Rs. 190 crore and Rs. 396 crore in the year 1998-99. Accordingly, a provision of Rs. 81 lakhs in Revised Estimates 1997-98 and Rs. 1.32 crore in the Budget Estimates 1998-99 was made. However, with effect from 1.1.1998, the Foreign Travel Tax per passenger was reduced to Rs. 500/-. Accordingly, there will be less requirement for collection charges. It has now been estimated that the Foreign Travel Tax to be collected in 1998-99 would be around Rs. 286.22 crore. The collection charges @ 1/3rd per cent will be around Rs. 95 lakh. Accordingly, the Revised Estimates for 1998-99 can be reduced at the appropriate stage."

9. The Committee are constrained to note that the Deptt. has taken the shield of forwarding an assumption that the shortfall under this head might have occurred due to less collection of taxes by carriers than the estimated amount, as one of the main reasons for under-utilisation of budgetary allocations. The Committee deprecate the casual attitude of the Deptt. in knowing the exact reasons for the shortfall in the utilisation of budgetary grants. The ignorance of pointing out the concrete reasons for underutilisation clearly speaks of lack of concern on the part of Deptt. in identifying the main reasons for underutilisation and prior projecting of the fund requirements for this head. The Committee, therefore, recommend that the Deptt. should evince greater attention henceforth in projecting realistic estimates so that B.E. and R.E. would be closer to the actuals.

Demand No. 36**DEPTT. OF REVENUE****Major Head : 2047****Minor Head : 00.101****Detailed Head : 01.00.14***Enforcement Directorate**Rent, Rates and Taxes*

10. The Budgetary Estimates, Revised Estimates and Actuals contained in this Head since 1994-95 are as follows:—

(In Rupees)			
Year	BE	RE	Actuals
1994-95	36,22,000	35,75,000	23,68,000
1995-96	36,54,000	30,00,000	88,26,000
1996-97	79,00,000	79,00,000	72,18,000
1997-98	58,00,000	85,00,000	
1998-99	68,00,000		

11. When asked about the reasons for an increase of actuals by Rs. 58 lakhs to that of R.E. during 1995-96 and the rationale behind fixing lower budgetary allocations in the subsequent years, the Ministry in their written note has stated that:—

“As per standardised classification of object head, Rent, Rates and Taxes will include payment of rent for hired buildings, municipal Rates and Taxes etc. It will also include lease charges for land.

During the year 1995-96, the rent of the premises occupied by the Bombay zonal unit of the Enforcement Directorate was revised with retrospective effect from 1992. As such, the actual expenditure in 1995-96 was more than the Budget Estimates/ Revised Estimates due to one time arrear payment. Lower budgetary allocation during the years 1996-97 and 1997-98 as compared to the actual expenditure incurred during 1995-96 was for the reason that no additional expenditure was incurred on account of arrear payment due to rent revision.”

12. The Committee note that during 1995-96 an amount to the tune of Rs. 58 lakhs was spent in excess of the amount which was allocated while making revised estimates. In support of the reasons advanced for excess of expenditure, the ministry has stated in their written reply that the amount had to be incurred on account of revision of rent of the premises occupied by Bombay Zonal Unit of the Enforcement Directorate with effect from 1992. The Committee are constrained to find that no reasons have been advanced by the Ministry as to what had actually necessitated them to revise the rent retrospectively. The Committee are, therefore, unable to appreciate the justification for having incurred the heavy amount in excess of budgetary provisions during the said year. They, therefore, desire that the full details in this regard should be furnished to them without further delay. They also recommend that in future at least efforts should be made to make realistic estimates after having taken into account all the relevant factors/variables.

Demand No. 36

DEPARTMENT OF REVENUE

Direct and Indirect Taxes

13. Kar Vivad Samadhan Scheme

Kar Vivad Samadhan Scheme seeks to provide a quick and voluntary settlement of tax dues outstanding as on 31.3.98, both in various direct tax enactments as well as indirect taxes enactment by offering waiver of a part of the arrear taxes and interest and providing immunity against prosecution and imposition of penalty. The assessee on his part shall seek to withdraw appeals pending before various appellate authorities and Courts. The Scheme comes into force on the first day of September, 1998 and ends on 31st day of December, 1998.

14. The Deptt. of Revenue in their detailed note submitted to the Committee on the above scheme has stated as follows:—

“The tax arrears under direct taxes enactments and indirect taxes enactments are more than Rs. 50,000 crore. Most of these arrears are locked up in disputes pending at various stages of litigation. Litigation is time consuming and delays realisation of tax dues. Kar Vivad Samadhan Scheme seeks to provide a quick and voluntary settlement of tax dues outstanding on 31.3.98 both under direct taxes enactments and indirect taxes enactments along with reduction in litigation.

As per the provisions proposed in the Scheme, any tax payer availing the Scheme in regard to direct taxes arrears shall be required to pay his outstanding tax at the current rates, *i.e.* @30% (35% in the case of firms and companies) in relation to income tax and corporate tax. For other direct taxes, the arrears shall be similarly paid at current rates. The tax payers will not be required to pay interest. However, if the tax carrier consists only of interest and penalty, the tax payer shall be required to pay 50% of such tax arrears. Where the tax arrears relates to demand determined in any assessment on the basis of search and seizure proceedings, the outstanding tax shall be payable at a higher rate than the current rate, *i.e.* @ 40% (45% in the case of firms and companies). In the case of Wealth tax arrear, it will be calculated at 2%. The tax payers making declaration under the Scheme shall be given immunity from imposition of penalty and institution of prosecution. The tax payers, on their part, shall be required to withdraw the appeals pending before various appellate authorities and courts and to make quick payment of outstanding dues within the time stipulated under the Scheme.

In respect of tax arrears under indirect tax enactments, there shall be abatement of 50% of the duty along with waiver of interest, penalty and immunity from prosecution. When the tax arrears consists only of penalty without involving any payment of duty or tax, there will be waiver of 50% of such penalty.

The proposed Scheme is to come into force on the 1st day of September and shall end on 31st Day of December, 1998. The tax payers willing to come under the Scheme shall file declarations before the notified designated authorities who will administer the Scheme. The Scheme shall not be applicable to any person against whom prosecution has been instituted on or before the date of filing of the declaration for offences punishable under the following enactments.

- (i) Chapter IX or XVII of the Indian Penal Code, 1860.
- (ii) Narcotic Drugs and Psychotropic Substances Act, 1985.
- (iii) Terrorists and Disruptive Activities (Prevention) Act, 1987.
- (iv) Prevention of Corruption Act, 1988.
- (v) Any person against whom an order of detention has been made under Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974.

- (vi) Any person notified under the Special Court (Trial of Offences Relating to Transaction in Securities) Act, 1992.

In addition, in those cases where prosecution has been instituted for concealment under any direct tax enactment or for any offence punishable under any provision of any indirect tax enactments, the relevant tax arrears shall not be benefited under the Scheme”.

15. Responding to the suggestion regarding the need to broaden the definition of eligibility for availing the Samadhan Scheme, the Secretary, Department of Revenue has stated as follows:—

“Your first point is about the definition of eligibility for the availing of the Samadhan Scheme that it is confined to arrears and does not extend to covering disputes. This is a good suggestion. We will have considered look at it. We will also consult the Ministry of Law on the subject.”

16. The Committee find that the Kar Vivad Samadhan Scheme is proposed to come into force *w.e.f.* 1.9.1998 to 31.12.1998 for collection of arrears as on 31.3.1998 as well as for reduction of disputes. It aims at declogging of the system which today has lakhs of appeals pending before various authorities both under direct and indirect taxes.

The Committee however, find a basic flaw in clause 91 under which a declarant can make declaration under this Scheme only if tax is in arrears. This creates an unnecessary hardship to those assesses who are contending certain items in appeal which involve dispute of tax levied on such items. However, if the assessee has either in order to cooperate with the Department or due to coercive steps of recovery, paid the disputed tax while the dispute of tax is still pending in appeal, he cannot make a SAMADHAN declaration as in his case there would be no tax arrears. Thus, those who have disputed the tax in appeal but not paid the disputed tax have an advantage over those who have disputed the tax in appeals still pending but have paid the tax pending decision.

The Revenue Secretary during his deposition before the Committee also agreed to the suggestion that the definition of eligibility for availing of the Samadhan Scheme needs to be broadened for which the Ministry of Law could be consulted.

The Committee, therefore, desire that the entire matter should be re-examined in consultation with the Ministry of Law without further delay.

Demand No. 36

DEPARTMENT OF REVENUE

Taxing Internet gains

17. The technological advancements in general and the development of electronic commerce or E-commerce in particular have the potential of adversely affecting tax revenues of the country. With more and more companies acquiring web sites on the internet, and E-commerce providing a significant global market place to trade in traditional goods and services, computer software, data and info products, audio and videos compositions etc. the production, storage, transmission, sale and all such transactions can be made in the cyber space from mobile establishments and by anonymous entities and therefore is likely to create holes not only in direct taxes but also in sales tax, octroi, customs and excise duty collections.

18. In the written reply to a query whether the Government has envisaged to evolve a policy of taxation for dealing with E-commerce, transactions the Ministry of Finance (Deptt. of Revenue—Central Board of Direct Taxes (CBDT) has stated as follows:—

“Businesses run on websites and transaction carried out by E-Commerce are highly mobile and operate through cyber space. With these modern technologies, the taxpayer can swiftly move away from countries where tax laws are inflexible tax rates are high and procedures are complicated. In India during the last few years, the successive Finance Acts have brought the Direct Tax rates for corporate and non-corporate taxpayers to a very reasonable level in comparison to most of the countries in world. Steps have also been taken to simplify and rationalise tax procedures. Hence there is very little possibility of the businesses moving from India to other countries through cyberspace.

The issue of taxation of transactions through E-Commerce is still in the nascent stage even in advanced economies. In the developed countries, where that gains of businesses conducted through internet are much higher there is till date no consensus

as to how to tax such transactions. In Australia there is a debate on introducing a "bit tax" a charge on data exchange on volume of data transmitted. Alternatively, it is suggested that a consumption tax would take care of the direct tax requirements as it is tough to identify and tax the highly mobile website/E-Commerce transaction. In the U.S.A. there is a debate as to whether there should be a tax at all on such transaction. The proposed Internet Development Act of the U.S.A. proposes to impose single Statewise Sales Tax on all E-Commerce transaction.

In India, such transactions are still not very large in volume and monetary terms at present, however they are expected to have an exponential growth in future. In June, 1994, Reserve Bank of India had constituted a Committee on Technology Issues headed by W.S. Saraf (Saraf Committee). This Committee has given its recommendation on Electronic Fund Transfer System in India. It has stated that it is imperative to enact a suitable legislation for electronic fund transfer. In January, 1996 RBI has taken out a report of the Committee for proposing legislation on Electronic Fund transfer and other electronic payments. The RBI has in September, 1997 issued procedural guidelines monitoring the electronic fund transfer system in India.

We have recognised the need for updating our technology to tax E-Commerce transactions. We recognise the importance of this subject for the future and we are preparing ourselves for the same. Last year, two senior officers were nominated to attend a seminar organised by International Fiscal Association to discuss the subject of E-Commerce. Two senior officers were also deputed to London to attend a seminar on this subject. The literature available on the subject and the knowledge derived by our officers will be utilised to equip ourselves to deal with the developments in the field of E-Commerce".

19. The Committee are concerned to note that E-Commerce technology, a fast emerging technology to carry out transactions through cyber space, has the potential of affecting adversely the tax revenue collections as the tax payers can swiftly move away from the countries where tax laws are inflexible, rates are high and procedures complicated. They are of the opinion that even though the direct tax rates of corporate and non-corporate tax payers in India are brought down to a reasonable level in comparison to other

countries in the world and the procedures are simplified, certain unscrupulous tax payers who have access to 'E'-commerce technology will try to exploit the lacunae that exists in both the direct and indirect tax laws.

The Committee also note the fact that the E-commerce transactions are expected to have an exponential growth in the future and there is every possibility that the Ministry of Finance (Deptt. of Revenue) may be caught unawares by the fast changing developments taking place in the cyber space. The Committee, therefore, recommend the Government to constitute an expert group to suggest necessary changes for evolving a policy of taxation for dealing with E-commerce without any further delay.

Demand No. 36

DEPARTMENT OF REVENUE

Asymmetry between the Direct and Indirect taxes

20. Over the last six years Government has simplified and the rationalised the complex and opaque tax structure in a calibrated way with the objective of moderating rates, reducing number of exemptions, simplifying procedural rules and regulations, achieving better compliance and widening the tax base.

21. In their written note on the tax policy and the asymmetry that exist between direct and indirect taxes and the steps taken/proposed to be taken to do away with the above anomaly, the Ministry of Finance (Deptt. of Revenue) has stated as follows:—

"In the realm of tax policy, it is the objective of the Govt. to rationalise the rate-structure to reduce the multiplicity of rates and ensure convergence towards a mean rate of 18% *ad valorem*. As stated by the Finance Minister in his budget speech for this year, the ideal tax structure should have three-tiers: where barring the mean rate, there is one lower rate for items deserving concession and a higher rate for what may be described as demerit goods. In order to achieve this objective, the rates which are higher than the mean rate would have to be lowered and concessional rates below the mean rate would have to be removed. If this is to be achieved with minimum disruptions, the process has to be gradual one.

The percentage contribution of direct and indirect taxes to the gross tax revenue of the Central Govt. for the period 1992-93 to 1997-98 is indicated in the Table at Annexure I. It is evident that indirect taxes *viz.* customs and excise duties continued to account for as much as 64% of gross tax revenues in 1997-98 as against 36% from direct taxes. This is indicative of excessive dependence on indirect taxes as a source of revenue. Ideally, the dependence on indirect taxes should reduce as the economy develops. The correction of this anomaly would require an expansion in the tax-base for direct taxes *viz.* corporate and personal income tax. Several measures have already been initiated by the Government in this direction last year”.

ANNEXURE I

Tax Revenue as percentage of Gross Tax Revenue

	1992- 93	1993- 94	1994- 95	1995- 96	1996- 97	1997- 98 BE	1997- 98 RE
Direct Taxes (a)	24.3	26.8	29.2	30.2	30.2	29.8	35.9
Indirect Taxes (b)	73.7	71.6	70.6	69.6	69.6	70.1	63.9

22. Supplementing on the above issue in their written note, the CBDT has stated as follows:—

“In India, as in most developing countries, direct taxes have traditionally yielded a smaller percentage of tax revenue when compared to indirect taxes. Gross tax revenues of the country have generally been to the tune of 10 to 11% of the GDP. Till 1990-91, direct tax revenues formed only 2% of the GDP. The Tax Reforms Committee formed in 1991 recommended that the share of direct tax revenue as a proportion of both total revenue and GDP should be increased. As a result of these recommendations, direct tax laws were simplified and rationalised, the tax rates were lowered while eliminating exemptions and widening the tax net. This has resulted in increase in direct tax revenue which now forms 3.5% of the GDP (revised estimate 1997-98). There is a shift towards more collection from direct tax revenue. In 1990-91, direct tax revenues accounted for less than 20% of total tax revenue while in 1997-98, they accounted for over 35% of

total tax revenue. This increase in direct tax revenue share is remarkable and it shows that the Government is aware of the asymmetry that exists between direct and indirect taxes and is taking steps to do away with this anomaly while also increasing the tax GDP Ratio. The Government recognises that indirect taxes are regressive by their very nature, while direct taxes being progressive in nature result in more equitable economic growth".

23. The Committee are concerned to note that despite tax reforms process having been initiated by the Government since 1992-93, the revenue accruing from direct taxes still accounts for 35.9% of gross tax revenue and indirect taxes hover at about 64% of the total revenue collected. The Committee feel that this sort of existing asymmetry between the direct and indirect taxes is undesirable because higher reliance on indirect taxes casts a heavy burden of taxes on the poor. In their view this can be possible only when the nation reaps more revenues from the direct taxes. The Committee note that the Government have initiated certain measures recently to correct this anomaly; however, keeping in view, continuous heavy dependence on indirect taxes; the Committee urge the Government to broaden the existing tax net, take punitive action against those potential tax payers who continue to evade taxes, strengthen enforcement machinery and beef up the search and seizure operations. As regards indirect taxes, the long standing need to initiate a comprehensive excise reform policy should also be taken up on priority basis.

Demand No. 36

DEPARTMENT OF REVENUE

24. During the course of evidence, the following items were also discussed:—

- (i) Eligibility criteria in the case of Judicial Member of the Income Tax Tribunal has been downgraded from Grade I to Grade II in the case of Central Legal Service and in the case of Accountant Member from that of Commissioner to Additional Commissioner of Income Tax Service.
- (ii) Section 48 of Income Tax Act which relates to the mode of computation of capital gains tax in the case of Capital Assets.

- (iii) Withdrawal of income tax exemptions in the case of Educational Institutions, hospitals or other institutions which are being run for the reception and treatment of persons suffering from illness or mental defectiveness and are being run purely for philanthropic purposes.
- (iv) As regards item No. 1, it has been explained that Members of Central Legal Service as well as Income Tax Service join the Appellate Tribunal at a very late age whereas the Chartered Accountant can become a Member of the Tribunal at a younger age as they are required to put in only 10 years of service.

25. In reply to a query as regards new provisions under Section 48 of the Income Tax Act, the Revenue, Secretary Stated as follows:

“You have also made certain specific observations about the manner of evaluation of property in respect of stamp duties, evaluation given by Registrar. You have made a point about 269 UC. These are all suggestions which we will definite like to consider.”

26. Deposing in response to a query regarding the withdrawal of income tax exemption to educational and medical institutions, the Chairman, Central Board of Direct Taxes has stated as follows:

“This proposal to withdraw the blanket exemption to institution giving educational service by academic surveys arose out of repeated misuse by some institutions, of these provisions. We do not deny that there is a very large number of institutions which are rendering genuine service in these two years. Since, this proposal was introduced through the Budget documents in Parliament number of representations were received pointed out that this would hit those institutions which are rendering genuine service. Although, our proposal was not meant to hit those genuine institutions, we should give them a chance. However, it has been pointed out that the number of applicants covered under those sections will be very large. It has also been pointed out that a proposal be made that they can perhaps be given time to change the institution pattern, etc. Certain alternate modalities also have been suggested which distinguish between genuine and non-genuine institutions. All these points are receiving our attention and I think some mechanism will be worked out.”

27. The Committee are of the considered view that instead of lowering the eligibility criteria in the case of Judicial and Accountant Member, the eligibility criteria in the case of Chartered Accountants can suitable be changed by providing 20 years of service instead of 10 years which has presently been provided in order to ensure that only those persons opt for such jobs who have acquired sufficiently long experience in their respective fields and the prestige of the office is also maintained. Similarly, the Committee have apprehensions that Section 48 of IT Act could be misused particularly due to the different standards/parameters adopted by the State Governments while calculating the valuation of the capital assets. Likewise, the withdrawal of income tax exemptions in the case of hospitals, philanthropic and educational institutions which are not engaged in any profit making activities does not seem to be justified. The Committee, therefore, desire that the Ministry of Finance should consider reviewing all these proposed amendments as already conceded by the Secretary, Revenue and Chairman, CBDI.

Demand No. 37

DEPARTMENT OF REVENUE

Direct Taxes

Major Head : 2020

Minor Head : 01.101

Detailed Head : 01.00.12

Commissioner and their offices

Foreign Travel Expenses

28. The Budgetary Estimates, Revised Estimates and the actual expenditure incurred under the Head Foreign Travel Expenses since 1995-96 is as under:

(In Rupees)			
Year	Budget Estimates	Revised Estimates	Actuals
1995-96	20,00,000	16,50,000	2,64,000
1996-97	20,00,000	15,00,000	64,000
1997-98	17,00,000	17,00,000	
1998-99	16,50,000		

29. Explaining the reasons for gross under utilisation of budgetary provisions under this head, the Ministry of Finance (Deptt. of Revenue) have stated as follows:

“Accurate estimation of expenditure on Foreign Travel cannot be made as the visits of officers abroad depend on various factors including plans/schemes for training abroad, policy of the government etc.

As less visits were undertaken than anticipated, the budgetary provisions were under-utilised”.

30. The Committee observe that despite the reduction in Revised Estimates during 1995-96 and 1996-97, the actual expenditure incurred under this head fell far below the budgetary allocations. The Committee are of the opinion that the Ministry have not been making realistic estimates and desire that the estimates henceforth be made with greater scrutiny so that the Budgetary Estimates are fixed at realistic levels closer to the actuals.

Demand No. 38

DEPARTMENT OF REVENUE

Indirect Taxes

Excise duty on branded edible preparations and other agro processing items

31. In the Budget 1998-99, excise duty of 8% was imposed on Branded edible preparations like sweet meats, snacks, namkeens etc. produced in factories and some of the agro-processing items such as spices and 5% on rubberised coir mattresses.

32. Replying to a query whether the economic gains accrued out of the imposition of the above taxes do balance with the resources spent on the Excise collection machinery, the Revenue Secretary has stated as follows:—

“Some specific points which are raised relating to the incidence of new excise on some products like sweets and things of that kind and the suggestions that the revenue stream is going to be very nominal and the cost of collection is going to be so high and whether it is really advisable to impose any excise liability

on this. This is a concrete suggestion which we shall certainly have a look at".

33. The Committee are of the opinion that the sweetmeat making is a traditional labour intensive business which provides employment to thousands of unorganised labour wherein the manufacturers sustain their business operations on meagre profits that accrue from the stiff domestic competition. An excise duty of 8% on sweet meat industry and on agro-processing items such as spices and 5% duty on rubberised coir mattresses put undue pressure on the sustenance of these indigenous industries in the long run and calls for an immediate review. Moreover, the Committee feel that collection of such duties will be cumbersome and cause undue harassment and hardship to small traders. The Committee, therefore, recommend that the Government should re-examine the excise duty imposition on Branded edible preparations and some of the agro-processing items such as spices and rubberised coir mattresses in order to help these industries to sustain and flourish.

Demand No. 38

DEPTT. OF REVENUE

Indirect Taxes

Restriction of MODVAT credit by 5 per cent

34. In the Union Budget 1998-99, the Government has proposed to restrict the availability of MODVAT credit by 5% of the duty paid in the case of inputs used in manufacturing excisable goods.

35. The Secretary (Deptt. of Revenue), Ministry of Finance while responding to the observation made by the Committee that when the Government's ultimate objective of tax rationalisation is to move towards a Central VAT which could be merged with a generalised VAT, this 5% MODVAT disallowance is likely to go in other direction having cascading effect, has submitted as follows:—

"You had mentioned about the movement towards VAT and have encouraged us to move in that direction. In that context, you had mentioned the rational for our curtailing the MODVAT by 5 per cent, of making it 15 per cent. I would only like to bring one particular element to the notice of the

hon. Members. We had a look at the revenue realisation scheme from excise and if you look at the percentage of MODVAT to the gross revenue which has been realised in 1987-88, it begun from the modest 14.71 per cent, and it kept rising to 26 per cent in 1992-93. It rose to 27 per cent, in 1993-94. And as of now, it has sharply increased to 43.45 per cent in 1997-98. So, there is a rise from 14 per cent to 43.45 per cent. Marry this with the figure which I had mentioned earlier of the pattern in the excise—GDP ratio crumbling from 4.56 per cent of GDP to 3.3 per cent of GDP. The conclusion clearly is that the extension of the MODVAT scheme has brought this to 43 per cent to 44 per cent. That is the total percentage of MODVAT. That is the total gross excise revenue. The reason why I am explaining is that the extension on the availment of MODVAT and the liberal use of MODVAT are one of the major factors which had led to the decline in the excise-GDP ratio. That was the conclusion. This is because we know that in the last five or six years, the MODVAT credit has been liberalised to a large extent.

First of all, we have extended it to the capital goods sector even though there should have been a normal gestation period in the capital goods and the entire MODVAT credit could be availed in one single year.

The second important step which we took was, we broke the symbiotic relationship which existed between input and output. So, you can now float around with the MODVAT. Now for an item which is totally unconnected with the production, again we had to produce something else and that has really led to a very very large increase in the utilisation of MODVAT. And considering normal weightage in production, we felt that capping it by the modest 5 per cent was perhaps a much better proposition than putting other kinds of things. We could have got rid of the first dealer invoice, we could have got rid of the second dealer invoice, we could have got rid of the MODVAT from the capital goods sector, and we could have re-introduced the symbiotic relationship between input and output. But looking at the overall trends, we felt that the balance of advantage really led in to the modest restriction on this."

36. The Committee are informed that percentage of MODVAT to gross revenue rose from 14.71% in 1987-88 to 43.45% in 1997-98. They are further informed that with the liberal use of MODVAT credit schemes excise—GDP ratio crumbled from 4.56% of GDP to 3.3% of GDP. To curb this declining trend in excise-GDP ratio, the Government have curtailed the MODVAT credit by 5%.

The Committee would like to point out that the industries which do not produce the products from the beginning to the end and who have their subsidiary/intermediate companies to produce the semifinished product for them will have to pay excess amount of tax than normally paid and also bear the brunt of the restriction of MODVAT credit by 5%.

The Committee are, however, of the view that instead of imposing restrictions on MODVAT credit, the Government should take concrete steps for plugging the various loopholes which presently exist in the scheme and due to which misuse takes place. They also desire that the process of computerisation of excise operations should be accelerated so that stringent control can be exercised for cross-checking modvatable invoices.

Demand No. 38

INDIRECT TAXES

Service Tax

37. Goods are normally tangible and traded as commodities. A tax on goods, therefore, easily meets the perception of the tax payer. In contrast, service is intangible. As an economy develops the service sector expands relatively to the commodity sector. Multifarious services are produced for the benefit of consumers as well as producers. In fact, many services have high income elasticity of demand. Tax on services induces progressivity in the tax system. Thus taxation of services acquires far greater significance when the economy increases. A tax levied solely on goods becomes increasingly narrowly based and must be levied at steadily higher rates to yield a constant proportion of GDP as revenue.

38. Tax on services is a new concept in India though many other countries levy value added tax on goods and services alike. In the case of services, the point of production and sale coincide. Thus,

conceptually, tax on services is an indirect tax. When levied by Parliament, it can be considered as an excise.

In this year Budget the Government has imposed service tax on the following services:

- Architects
- Interior decorators
- Management consultants
- Chartered Accountants
- Cost Accountants
- Company Secretaries
- Private security services
- Real estate agents and real estate consultants
- Market research agencies
- Credit Rating Agencies
- Underwriting agencies
- Slaughter houses using mechanised means for large animals

39. Responding to a suggestion that the Ministry of Finance can broaden the service tax net to include professionals like doctors and lawyers alongwith chartered accountants, the Revenue Secretary *inter-alia* has stated as follows:—

“You have mentioned about the service tax on Chartered Accountants. Further suggestions are useful suggestions. We had a long alphabetical list of segments and sectors which should come under the ambit of the service taxes. I think, we have made a healthy beginning. Certainly, these are good suggestions to be kept for the future”.

40. The Committee are unable to understand the rationale behind the Government's initiative to impose Service Tax on some Professional services provided by Chartered Accountants, Cost Accountants, and Company Secretaries and at the same time sparing the potential revenue yielding professions like Medicine & Law, from

any tax obligation. The Committee are of the view that though the Government has introduced the service tax in 1994 not much of a commendable progress has been made in bringing additional services within the ambit of taxation to infuse buoyancy in the service tax revenues. In this connection, the Committee wonder whether medical practitioners and lawyers could also be included for the purpose of service tax.

Demand No. 38

INDIRECT TAXES

Post Budget Anomalies in Indirect Taxation

Special Additional Duty of Customs (ADC) imposed on imports

41. The Special Additional Duty of Customs imposed on imports @8%, which was later brought down to 4%, has hit some of the units which import the basic feed stock to manufacture the finished products like polycarbonate by the software units to manufacture CD—ROMS, Plastic and Textile units which import Naphtha as the basic feed stock. It is feared that the import regime along with ADC would make some of the domestic manufacturing units unviable economically to operate because importing the finished product will be cheaper than manufacturing indigenously after the imposition of additional duty. Apprehensions were also expressed that the domestic manufacturing units may face the menace of dumping in the near future. Reacting on the anomalies that arose after the imposition of ADC the Secretary, Revenue *inter-alia* has stated as follows:—

“That is a point which has been raised about computer and software. That is a point which is directly a question of anomalies because clearly the basic input should bear a much lower incidence of duty than making domestic production worthwhile. Wherever there are irrationalities of this kind and anomalies have crept up, we will be very happy to have a list. This particular one I will have a look at.”

42. Responding on the same issue the Revenue Secretary later supplemented as follows:—

“It is true that naphtha had zero import duty. Across the board CVD initially imposed 8% later on reduced to 4% has

now been made applicable to naphtha. What is the rationale of CVD? The rationale of CVD is that wherever domestic producers are not paying sales tax, this disability of the domestic producers must be abetted by the imposition of a CVD which averages out at an overall level. Since we have a heterogeneous tax structure and we do not have a VAT, there is a lack of transparency of what the liability is. It is an abetment for the payment of the domestic sales tax. Naphtha is not liable for payment of any domestic sales tax. The question of giving naphtha the abetment on account of the payment of the CVD would therefore run counter to the basic philosophy which led to the imposition of the CVD.

A question was asked about Paraxylene. As Paraxylene is imported in very large quantum, the domestic production constitutes a very small proportion of the total domestic requirement. Four major large consumptive users of Paraxylene are really importing Paraxylene. Therefore the question of hurting the domestic producers of Paraxylene is a negligible one."

43. He also stated that:

"That general point which the hon. Member has raised is what should be a regime on import duty and countervailing duty in respect of principal feedstocks. I think, that is a generic issues on what the regime for the feedstock should be keeping in view the domestic production, keeping in view the requirements and import. That is an issue which is a general one and I certainly promise that we will examine it in a great depth".

44. The Committee observe that the special additional customs duty which was imposed in this budget has hit some of the manufacturing industries which are engaged in producing Petro-Chemicals, Plastics, Textiles, Pharmaceuticals CD—ROMs etc. and import feed stock like Naphtha, Polycarbonate etc. for producing the finished product. They are of the view that special duty imposition favours the importers who trade in finished products rather than indigenous manufacturers. The Committee fear that

some of the domestic units will be threatened of their existence due to the Additional Duty of Customs (ADC) which will render them grossly uncompetitive. They also feel that the above duty will have significant cascading effects all round and will witness significant cost push on various products that some of the manufacturing units can ill afford at this stage when the growth of industry is stunted both at home and abroad. The Committee, therefore recommend the Government to re-examine the imposition of additional customs duty on principal feedstocks keeping in view particularly the domestic production and bring relief measures to the hard hit industries.

NEW DELHI;
6 July, 1998

15 Asadha, 1920 (Saka)

MURLI DEORA,
Chairman,
Standing Committee on Finance.

STATEMENT OF CONCLUSIONS/RECOMMENDATIONS OF
THE STANDING COMMITTEE ON FINANCE IN
THE FOURTH REPORT (1998-99)

Sl. No.	Para No.	Conclusions/Recommendations
1	2	3
1.	6	<p>The Committee observe that though the computerisation of income tax operations was initiated a decade ago, that Deptt. still reels under some bottlenecks which need to be addressed with greater vigour and acceleration. The Committee note that the Deptt. is yet to receive the concurrence of the Unions to implement the computerisation in all the major centres except Delhi and Mumbai. The Committee recommend that the Deptt. of Revenue should take immediate steps to bring the Unions across the table to arrive at a consensus decision. The Deptt. in their reply have stated that 33 more centres are to be covered so as to allot PAN numbers to the assesses. The Committee are of the opinion that the obligatory filing of returns under 'ONE BY SIX" Scheme and compulsory quoting of PAN is expected to bring an estimated 80 lakh new assesses under the net and the Deptt. should gear up their machinery to meet this daunting task. The Committee, therefore, recommend that the Deptt. of Revenue should constitute a task force that can look into the existing bottlenecks, address them on priority basis and make the comprehensive computerisation of income tax operations a reality. The</p>

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Committee would also like to be apprised of the progress made in this direction.

2. 9 The Committee are constrained to note that the Deptt. has taken the shield of forwarding an assumption that the shortfall under this head might have occurred due to less collection of taxes by carriers than the estimated amount, as one of the main reasons for under-utilisation of budgetary allocations. The Committee deprecate the casual attitude of the Deptt. in knowing the exact reasons for the shortfall in the utilisation of budgetary grants. The ignorance of pointing out the concrete reasons for underutilisation clearly speaks of lack of concern on the part of Deptt. in identifying the main reasons for underutilisation and prior projecting of the fund requirements for this head. The Committee, therefore, recommend that the Deptt. should evince greater attention henceforth in projecting realistic estimates so that B.E. and R.E. would be closer to the actuals.
3. 12 The Committee note that during 1995-96 an amount to the tune of Rs. 58 lakhs was spent in excess of the amount which was allocated while making revised estimates. In support of the reasons advanced for excess of expenditure, the ministry has stated in their written reply that the amount had to be incurred on account of revision of rent of the premises occupied by Bombay Zonal Unit of the Enforcement Directorate

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with effect from 1992. The Committee are constrained to find that no reasons have been advanced by the Ministry as to what had actually necessitated them to revise the rent retrospectively. The Committee are, therefore, unable to appreciate the justification for having incurred the heavy amount in excess of budgetary provisions during the said year. They, therefore, desire that the full details in this regard should be furnished to them without further delay. They also recommend that in future at least efforts should be made to make realistic estimates after having taken into account all the relevant factors/variables.

4.

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The Committee find that the Kar Vivad Samadhan Scheme is proposed to come into force w.e.f. 01.9.1998 to 31.12.1998 for collection of arrears as on 31.3.1998 as well as for reduction of disputes. It aims at declogging of the system which today has lakhs of appeals pending before various authorities both under direct and indirect taxes.

The Committee however, find a basic flaw in clause 91 under which a declarant can make declaration under this Scheme only if tax is in arrears. This creates an unnecessary hardship to those assesses who are contending certain items in appeal which involve dispute of tax levied on such items. However, if the assessee has either in order to cooperate with the Department or due to coercive steps of recovery, paid the disputed tax while the

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dispute of tax is still pending in appeal, he cannot make a SAMADHAN declaration as in his case there would be no tax arrears. Thus, those who have disputed the tax in appeal but not paid the disputed tax have an advantage over those who have disputed the tax in appeals still pending but have paid the tax pending decision.

The Revenue Secretary during his deposition before the Committee also agreed to the suggestion that the definition of eligibility for availing of the Samadhan Scheme needs to be broadened for which the Ministry of Law could be consulted.

The Committee, therefore, desire that the entire matter should be re-examined in consultation with the Ministry of Law without further delay.

5.**19**

The Committee are concerned to note that 'E'—commerce technology, a fast emerging technology to carry out transactions through cyber space, has the potential of affecting adversely the tax revenue collections as the tax payers can swiftly move away from the countries where tax laws are inflexible, rates are high and procedures complicated. They are of the opinion that even through the direct tax rates of corporate and non-corporate tax payers in India are brought down to a reasonable level in comparison to other countries in the world and the procedures are simplified, certain

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unscrupulous tax payers who have access to 'E'—commerce technology will try to exploit the lacunae that exists in both the direct and indirect tax laws.

The Committee also note the fact that the E—commerce transactions are expected to have an exponential growth in the future and there is every possibility that the Ministry of Finance (Deptt. of Revenue) may be caught unawares by the fast changing developments taking place in the cyber space. The Committee, therefore recommend the Government to constitute an expert group to suggest necessary changes for evolving a policy of taxation for dealing with E-commerce without any further delay.

6.**23**

The Committee are concerned to note that despite tax reforms process having been initiated by the Government since 1992-93, the revenue accruing from direct taxes still accounts for 35.9% of gross tax revenue and indirect taxes hover at about 64% of the total revenue collected. The Committee feel that this sort of existing asymmetry between the direct and indirect taxes is undesirable because higher reliance on indirect taxes casts a heavy burden of taxes on the poor. In their view this can be possible only when the nation reaps more revenues from the direct taxes. The Committee note that the Government have initiated certain measures recently to correct this anomaly; however, keeping in view, continuous heavy dependence on indirect taxes; the Committee urge the

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Government to broaden the existing tax net, take punitive action against those potential tax payers who continue to evade taxes, strengthen enforcement machinery and beef up the search and seizure operations. As regards indirect taxes, the long standing need to initiate a comprehensive excise reform policy should also be taken up on priority basis.

7.**27.**

The Committee are of the considered view that instead of lowering the eligibility criteria in the case of Judicial and Accountant Member, the eligibility criteria in the case of Chartered Accountants can suitable be changed by providing 20 years of service instead of 10 years which has presently been provided in order to ensure that only those persons opt for such jobs who have acquired sufficiently long experience in their respective fields and the prestige of the office is also maintained. Similarly, the Committee have apprehensions that Section 48 of Income Tax Act could be misused particularly due to the different standards/parameters adopted by the State Governments while calculating the valuation of the capital assets. Likewise, the withdrawal of income tax exemptions in the case of hospitals, philanthropic and educational institutions which are not engaged in any profit making activities does not seem to be justified. The Committee, therefore, desire that the Ministry of

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		<p>Finance should consider reviewing all these proposed amendments as already conceded by the Secretary, Revenue and Chairman, CBDT.</p>
8.	30	<p>The Committee observe that despite the reduction in Revised Estimates during 1995-96 and 1996-97, the actual expenditure incurred under this head fell far below the budgetary allocations. The Committee are of the opinion that the Ministry have not been making realistic estimates and desire that the estimates henceforth be made with greater scrutiny so that the Budgetary Estimates are fixed at realistic levels closer to the actuals.</p>
9.	33	<p>The Committee are of the opinion that the sweetmeat making is a traditional labour intensive business which provides employment to thousands of unorganised labour wherein the manufacturers sustain their business operations on meagre profits that accrue from the stiff domestic competition. An excise duty of 8% on sweetmeat industry and on agro-processing items such as spices and 5% duty on rubberised coir mattresses put undue pressure on the sustenance of these indigenous industries in the long run and calls for an immediate review. Moreover, the Committee feel that collection of the such duties will be cumbersome and cause undue harassment and hardship to small traders. The Committee, therefore, recommend that the Government should re-examine the excise duty imposition on Branded edible preparations and some of</p>

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the agro-processing items such as spices and rubberised coir mattresses in order to help these industries to sustain and flourish.

10. 36. The Committee are informed that percentage of MODVAT to gross revenue rose from 14.71% in 1987-88 to 43.45% in 1997-98. They are further informed that with the liberal use of MODVAT credit schemes excise-GDP ratio crumbled from 4.56% of GDP to 3.3% of GDP. To curb this declining trend in excise-GDP ratio, the Government have curtailed the MODVAT credit by 5%.

The Committee would like to point out that the industries which do not produce the products from the beginning to the end and who have their subsidiary/intermediate companies to produce the semifinished product for them will have to pay excess amount of tax than normally paid and also bear the brunt of the restriction of MODVAT credit by 5%.

The Committee are, however, of the view that instead of imposing restrictions on MODVAT credit, the Govt. should take concrete steps for plugging the various loopholes which presently exist in the scheme and due to which misuse takes place. They also desire that the process of computerisation of excise operations should be accelerated so that stringent control can be exercised for cross-checking modvatable invoices.

1	2	3
11.	40	<p>The Committee are unable to understand the rationale behind the Government's initiative to impose Service Tax on some professional services provided by Chartered Accountants, Cost Accountants, and Company Secretaries and at the same time sparing the potential revenue yielding professions like Medicine & Law, from any tax obligation. The Committee are of the view that though the Government has introduced the service tax in 1994 not much of a commendable progress has been made in bringing additional services within the ambit of taxation to infuse buoyancy in the service tax revenues. In this connection, the Committee wonder whether medical practitioners and lawyers could also be included for the purpose of service tax.</p>
12.	44	<p>The Committee observe that the special additional customs duty which was imposed in this budget has hit some of the manufacturing industries which are engaged in producing Petro Chemicals, Plastics, Textiles, Pharmaceuticals CD—ROMs etc. and import feed stock like Naphtha, Polycarbonate etc. for producing the finished product. They are of the view that special duty imposition favours the importers who trade in finished products rather than indigenous manufacturers. The Committee fear that some of the domestic units will be threatened of their existence due to the Additional Duty of Customs</p>

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(ADC) which will render them grossly uncompetitive. They also feel that the above duty will have significant cascading effects all round and will witness significant cost push on various products that some of the manufacturing units can ill afford at this stage when the growth of industry is stunted both at home and abroad. The Committee, therefore recommend the Government to re-examine the imposition of additional customs duty on principal feedstocks keeping in view particularly the domestic production and bring relief measures to the hard hit industries.

APPENDIX I

MINUTES OF THE FIRST SITTING OF THE STANDING COMMITTEE ON FINANCE (1998-99)

The Committee sat on Wednesday, 10 June, 1998 from 10.00 hrs. to 10.40 hrs.

PRESENT

Shri Murli Deora — *Chairman*

MEMBERS

Lok Sabha

2. Shri Dhirendra Agarwal
3. Shri Haribhai Parathibhai Chaudhary
4. Shri Uttam Singh Pawar
5. Shri Girdhari Lal Bhargava
6. Shri Chetan Chauhan
7. Shri Bhagwan Shanker Rawat
8. Shri Rayapati Sambasiva Rao
9. Shri Kavuru Sambasiva Rao
10. Shri Sandipan Bhagwan Thorat
11. Shri Praful Manoharbhair Patel
12. Shri Prithviraj D. Chavan
13. Shri R.L. Jalappa
14. Shri Magunta Sreenivasulu Reddy
15. Shri Rupchand Pal
16. Shri Varkala Radhakrishnan
17. Shri S. Murugesan
18. Shri Tathagata Satpathy
19. Dr. Bikram Sarkar
20. Shri Joachim Baxla

Rajya Sabha

21. Dr. Manmohan Singh
22. Shri Krishna Kumar Birla
23. Shri M. Rajsekara Murthy
24. Shri Narendra Mohan
25. Shri O.P. Kohli
26. Shri Raghavji
27. Dr. Biplab Dasgupta
28. Shri C. Ramachandraiah
29. Shri Prem Chand Gupta
30. Shri Gurudas Das Gupta
31. Shri Satish Pradhan
32. Shri Suresh A. Keswani

SECRETARIAT

1. Dr. Ashok Kumar Pandey — *Additional Secretary*
2. Smt. P.K. Sandhu — *Director*
3. Shri S.B. Arora — *Under Secretary*
4. Shri N.S. Hooda — *Asstt. Director*

2. At the outset, the Chairman congratulated the Members on their nomination to the Committee and welcomed them to the first sitting of the newly constituted Committee.

3. The Chairman then informed the Members that the Committee would be examining the Demands for Grants (1998-99) of Ministries of (i) Finance and (ii) Planning and Programme Implementation at their subsequent sittings.

4. After deliberations, the Committee finalised the following programme for consideration of demands for grants and adoption of reports thereon:—

16.6.1998 (Tuesday)	Evidence of the representatives of Ministry of Finance
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17.6.1998 (Wednesday)	—do—
19.6.1998 (Friday)	Evidence of the representatives of Ministry of Planning and Programme Implementation
29.6.1998 (Monday)	Adoption of Reports

5. Thereafter, the Chairman apprised the Members that Hon'ble Speaker has referred the Finance (Amendment) Bill, 1998 to the Standing Committee on Finance for examination and report by 3rd July, 1998. It was decided to examine the Bill on 29th June, 1998 alongwith other agenda.

6. The Committee then deliberated on the probable subjects that could be taken up by the Committee for in-depth examination during 1998-99. It was decided to examine the subject 'Possible Impact of Economic Sanctions on Indian Economy'. It was also decided to take oral evidence of official and non-official witnesses on 30th June, 1998. Selection of other subjects was however, deferred for the time being due to paucity of time.

7. The Members then raised the issue relating to the examination of the Companies Bill, 1997 which was referred to the Committee. Since the Department of Company Affairs stands transferred to the Ministry of Law and Justice, the Bill is also in the Process of transfer to the Standing Committee on Home Affairs under whose jurisdiction the Ministry of Law, Justice and Company Affairs comes. However, the Members were of the view that since the Bill relates primarily to general financial management of the companies, the Bill be considered by the Standing Committee on Finance. The Chairman assured the Members that he would take up the matter with Hon'ble Speaker.

The Committee then adjourned.

APPENDIX II

MINUTES OF THE THIRD SITTING OF THE STANDING COMMITTEE ON FINANCE (1998-99)

The Committee sat on Tuesday, 16 June, 1998 from 1100 hrs. to 1300 hrs. and again from 1430 to 1800 hrs.

PRESENT

Shri Murli Deora — *Chairman*

MEMBERS

Lok Sabha

2. Shri Dhirendra Agarwal
3. Shri Haribhai Parathibhai Chaudhary
4. Shri Girdhari Lal Bhargava
5. Shri Chetan Chauhan
6. Shri Bhagwan Shanker Rawat
7. Shri Rayapati Sambasiva Rao
8. Shri Kavuru Sambasiva Rao
9. Shri Sandipan Bhagwan Thorat
10. Shri Praful Manoharbhair Patel
11. Shri Prithviraj D. Chavan
12. Shri Magunta Sreenivasulu Reddy
13. Shri Rupchand Pal
14. Shri Varkala Radhakrishnan
15. Dr. S. Venugopalachary
16. Dr. Bikram Sarkar
17. Shri S. Jaipal Reddy
18. Shri Ch. Vidyasagar Rao

Rajya Sabha

19. Dr. Manmohan Singh
20. Shri M. Rajsekara Murthy
21. Shri Narendra Mohan
22. Shri O.P. Kohli
23. Shri C. Ramachandraiah
24. Shri Gurudas Das Gupta
25. Shri Suresh A. Keswani

SECRETARIAT

1. Smt. P.K. Sandhu — *Director*
2. Sh. S.B. Arora — *Under Secretary*
3. Sh. N.S. Hooda — *Assistant Director*

WITNESSES

Representatives of Departments of Economic Affairs and Expenditure

1. Dr. M.S. Ahluwalia — *Finance Secretary*
2. Shri C. Ramachandran — *Secretary (Exp.)*
3. Smt. Nirmala Dhume — *G.G.A.*
4. Shri C.M. Vasudev — *Spl. Secy. (Bkg.)*
5. Shri Ravi Kant — *Chairman, CBDT*
6. Shri D.S. Solanki — *Chairman, CBEC*
7. Shri B.K. Chaturvedi — *Spl. Secy. (Ins.)*
8. Shri S.S. Dawra — *Additional Secretary*
9. Shri K.B.S. Chopra — *Additional C.G.A.*
10. Shri V. Govinrajan — *Addl. Secy.*
11. Smt. Asha Mehra — *Member (CBDT)*
12. Shri V.B. Srinivasan — *Member (CBDT)*

13. Shri V.M. Muthuramalingam — Member (CBDT)
14. Shri A. Balasubramanian — Member (CBDT)
15. Shri Sukumar Shankar — Member (CBEC)
16. Shri A.M. Prasad — Member (CBEC)
17. Shri P.N. Malhotra — Member (CBEC)
18. Shri D. Chakraborty — Member (CBEC)
19. Dr. Arvind Virmani — Sr. Eco. Adviser
20. Shri Sundareshan — J.S.
21. Dr. U. Sarat Chandran — J.S.
22. Shri A.K. Jain — J.S.
23. Shri N.R. Rayalu — F.A.
24. Dr. Urjit R. Patel — Consultant
25. Shri S.N. Kaul — Economic Adviser
26. Shri R. Tripathi — Economic Adviser
27. Dr. Tarun Das — Economic Adviser
28. Shri N.M. Nampoorthy — Economic Adviser
29. Shri D. Swarup — J.S.
30. Shri Suresh Kumar — Prof. (Finance) NIFM
31. Shri K. Shankar — C.A., A. & A.
32. Shri A.K. Singh — J.S.
33. Shri S.P. Talwar — Dy. Governor, RBI
34. Shri A.N. Prasad — J.S. (CBDT)
35. Shri T.R. Rustagi — J.S. (CBEC)
36. Shri Someshwar — J.S. (CBEC)
37. Shri S. Kak — J.S. (CEIB)
38. Shri Somnath Pal — J.S. (CEIB)

2. At the outset, the Chairman welcomed the Secretaries of Ministry of Finance (Departments of Economic Affairs and Expenditure) and their colleagues to the sitting of the Committee and invited their attention to the provisions of Direction 55 of the Directions by the Speaker.

3. The Committee then took oral evidence of representatives of Ministry of Finance on Demands for Grants (1998-99) of Ministry of Finance and other matters relating to the Budget.

4. The evidence was not concluded.

5. A verbatim record of proceedings has been kept.

*(The Committee then adjourned to meet again
on 17 June, 1998)*

Appendix III

MINUTES OF THE THIRD SITTING OF THE STANDING COMMITTEE ON FINANCE (1998-99)

The Committee sat on Wednesday, 17 June, 1998 from 1100 hrs. to 1315 hrs. again from 1430 hrs. to 1910 hrs.

PRESENT

Shri Murli Deora — *Chairman*

MEMBERS

Lok Sabha

2. Shri Dharendra Agarwal
3. Shri Haribhai Parathibhai Chaudhary
4. Shri Girdhari Lal Bhargava
5. Shri Chetan Chauhan
6. Shri Bhagwan Shanker Rawat
7. Shri Rayapati Sambasiva Rao
8. Shri Kavuru Sambasiva Rao
9. Shri Sandipan Bhagwan Thorat
10. Shri Praful Manoharbhair Patel
11. Shri Prithviraj D. Chavan
12. Shri Magunta Sreenivasulu Reddy
13. Shri Rupchand Pal
14. Shri Varkala Radhakrishnan
15. Shri S. Murugesan
16. Dr. S. Venugopalachary
17. Dr. Bikram Sarkar
18. Shri S. Jaipal Reddy
19. Shri Ch. Vidyasagar Rao

Rajya Sabha

20. Dr. Manmohan Singh
21. Shri M. Rajsekara Murthy
22. Shri Narendra Mohan
23. Shri O.P. Kohli
24. Dr. Biplab Dasgupta
25. Shri C. Ramachandraiah
26. Shri R.K. Kumar
27. Shri Gurudas Das Gupta
28. Shri Suresh A. Keswani

SECRETARIAT

- | | | |
|---------------------|---|---------------------------|
| 1. Smt. P.K. Sandhu | — | <i>Director</i> |
| 2. Shri S.B. Arora | — | <i>Under Secretary</i> |
| 3. Shri N.S. Hooda | — | <i>Assistant Director</i> |

WITNESSES

*Ministry of Finance (Departments of Economic Affairs,
Expenditure and Revenue)*

- | | | |
|------------------------------|---|---------------------|
| 1. Dr. M.S. Ahluwalia | — | Finance Secretary |
| 2. Shri C. Ramachandran | — | Secretary (Exp.) |
| 3. Shri N.K. Singh | — | Secretary (Revenue) |
| 4. Shri C.M. Vasudev | — | Spl, Secy. (Bkg.) |
| 5. Shri B.K. Chaturvedi | — | Spl. Secy. (Ins.) |
| 6. Shri Ravi Kant | — | Chairman (CBDT) |
| 7. Smt. Asha Mehra | — | Member (CBDT) |
| 8. Shri V.B. Srinivasan | — | Member (CBDT) |
| 9. Shri V.M. Muthuramalingam | — | Member (CBDT) |
| 10. Shri A. Balasubramanian | — | Member (CBDT) |

11.	Shri B.P. Verma	—	Member (CBEC)
12.	Shri Sukumar Shankar	—	Member (CBEC)
13.	Shri P.N. Malhotra	—	Member (CBEC)
14.	Shri D. Chakraborty	—	Member (CBEC)
15.	Shri V. Govinrajan	—	Addl. Secy.
16.	Shri J.S. Mathur	—	Addl. Secy.
17.	Shri D.S. Solanki	—	Chairman (CBEC)
18.	Dr. Arvind Virmani	—	Sr. Eco. Adviser
19.	Shri Sundareshan	—	J.S.
20.	Dr. U. Sarat Chandran	—	J.S.
21.	Shri A.K. Jain	—	J.S.
22.	Shri N.R. Rayalu	—	F.A.
23.	Dr. Urjit R. Patel	—	Consultant
24.	Shri S.N. Kaul	—	Economic Adviser
25.	Shri R. Tripathi	—	Economic Adviser
26.	Dr. Tarun Das	—	Economic Adviser
27.	Shri N.M. Nampoorthy	—	Economic Adviser
28.	Shri K. Shankar	—	CA., A. & A.
29.	Shri D. Swarup	—	J.S.
30.	Shri A.K. Singh	—	J.S.
31.	Shri S.P. Talwar	—	Dy. Governor, RBI
32.	Shri A.N. Prasad	—	J.S. (CBDT)
33.	Shri Vijay Mathur	—	J.S. (CBDT)
34.	Shri G.C. Srivastava	—	J.S. (CBDT)
35.	Shri T.R. Rustagi	—	J.S. (CBEC)
36.	Shri Someshwar	—	J.S. (CBEC)
37.	Shri S. Kak	—	J.S. (CEIB)

38.	Shri S.K. Mishra	—	F.A.
39.	Smt. Reva Nayyar	—	J.S. (NC)
40.	Ms. Somit Tandon	—	Addl. F.A. (Min. of Defence)
41.	Shri. B.S. Meena	—	J.S. (Admn-DT)
42.	Shri S.P. Srivastava	—	Commr. (DB/C)
43.	Shri Somnath Pal	—	J.S. (CEIB)

PART I

2. The Committee resumed the inconclusive evidence of the representatives of Ministry of Finance (Department of Economic Affairs and Expenditure) on Demands for Grants (1998-99) of Ministry of Finance and other matters relating to the Budget.

The evidence was concluded.

A verbatim record of the proceedings has been kept.

*The Committee then adjourned to meet
again at 1430 hrs.*

PART II

2. The Committee resumed the meeting at 1430 hrs. to take the oral evidence of the representatives of Ministry of Finance (Department of Revenue) on Demands for Grants (1998-99) of Ministry of Finance.

3. The Chairman welcomed the representatives of Ministry of Finance (Department of Revenue) and invited their attentions to Direction 55 of the Directions by the Speaker.

4. The Committee then took oral evidence of the representatives of Ministry of Finance (Department of Revenue) on Demands for Grants (1998-99) of Ministry of Finance and other matters relating to the Budget.

5. The evidence was concluded.

A verbatim record of the proceedings has been kept.

(The witnesses then withdrew)

*The Committee then adjourned to meet again on 19 June,
1998 at 1100 hrs.*

APPENDIX IV

MINUTES OF THE FIFTH SITTING OF THE STANDING COMMITTEE ON FINANCE HELD ON 29 JUNE, 1998

The Committee sat on Monday, 29 June, 1998 from 1100 hrs. to 1415 hrs. in Committee Room 53, Parliament House, New Delhi.

PRESENT

Shri Murli Deora — *Chairman*

MEMBERS

Lok Sabha

2. Shri Dharendra Agarwal
3. Shri Uttam Singh Pawar
4. Shri Girdhari Lal Bhargava
5. Shri Chetan Chauhan
6. Shri Bhagwan Shanker Rawat
7. Shri Rayapati Sambasiva Rao
8. Shri T. Subbarami Reddy
9. Shri Kavuru Sambasiva Rao
10. Shri Sandipan Bhagwan Thorat
11. Shri Praful Manoharbhai Patel
12. Shri Magunta Sreenivasulu Reddy
13. Shri Rupchand Pal
14. Shri Varkala Radhakrishnan
15. Shri Beni Prasad Verma
16. Shri S. Murugesan
17. Dr. Bikram Sarkar
18. Shri Joachim Baxla
19. Shri Buta Singh

Rajya Sabha

20. Dr. Manmohan Singh
21. Shri N.K.P. Salve
22. Shri M. Rajsekhar Murthy
23. Shri Narendra Mohan
24. Shri O.P. Kohli
25. Shri Raghavji
26. Shri Biplab Dasgupta
27. Shri C. Ramachandrai
28. Shri Prem Chand Gupta
29. Shri R.K. Kumar
30. Shri Gurudas Das Gupta
31. Shri Satish Pradhan

SECRETARIAT

1. Smt. P.K. Sandhu — *Director*
2. Shri S.B. Arora — *Under Secretary*

PART I

2. The Committee took up for consideration the draft reports on Demands for Grants for 1998-99 relating to the following Ministries/ Departments:—

- (i) * * * * *
- (ii) The Ministry of Finance (Department of Revenue)
- (iii) * * * * *

3. The Committee after deliberations considered the Draft Report on Demands for Grants (1998-99) of Ministry of Finance (Department

of Revenue) and adopted it with certain modifications as shown in Annexure-I.

4. The Committee then authorised the Chairman to finalise the Draft Report in the light of modifications suggested and incorporate the consequential changes in the Report after factual verification and present it to the Parliament.

The Committee then adjourned to meet again at 1500 hrs.

Modifications/Amendments made by the Standing Committee on Finance in their Draft Report on Demands for Grants (1998-99) of Ministry of Finance (Department of Revenue) at their sitting held on 29 June, 1998

Page 4 Para 6 Line 11

Delete 'with'

Page 18 Line 4

Add 'and other agro processing items'

Page 18 Para 22 Line 3

Add at the end 'and some of the agro-processing items such as spices and 5% on rubberised coir mattresses'.

Page 19 Para 24 Line 5

For An excise duty of 8% on these units'

Substitute

"An excise duty of 8% on sweet meat industry and on agro processing items such as spices and 5% duty on rubberised coir mattresses"

Page 19 Para 24 Line 7

After 'immediate review'

Add 'Moreover the Committee feel that collection of such duties will be cumbersome and cause undue harassment and hardship to small traders'

Page 19 Para 24 Line 9

After 'Branded edible preparations'

Add 'and some of the agro-processing items such as spices and rubberised coir mattresses in order to help these industries'.

Page 25 Para 31 Lines 10 & 11

For 'The Committee, therefore, desire that feasibility of including medical practitioners, lawyers and professors engaged by private coaching institutes should also be explored without any further delay.'

Substitute 'In this connection, the Committee wonder whether medical practitioners and lawyers could also be included for the purpose of Service Tax'.

After Para 31

Add the following and re-number the remaining paras:

Demand No. 36

DEPARTMENT OF REVENUE

24. During the course of evidence, the following items were also discussed:—

- (i) Eligibility criteria in the case of judicial Member of the Income Tax Tribunal has been downgraded from Grade I to Grade II in the case of Central Legal Service and in the case of Accountant Member from that of Commissioner to Additional Commissioner of Income Tax Service.
- (ii) Section 48 of Income Tax Act which relates to the mode of computation of capital gains tax in the case of Capital Assets.
- (iii) Withdrawal of income tax exemptions in the case of Educational institutions, hospitals or other institutions which are being run for the reception and treatment of persons suffering from illness or mental defectiveness and are being run purely for philanthropic purposes.
- (iv) As regards item No. 1, it has been explained that Members of Central Legal Service as well as Income Tax Service join

the Appellate Tribunal at a very late age whereas the Chartered Accountant can become Member of the Tribunal at a younger age as they are required to put in only 10 years of service.

In reply to a query as regards new provisions under Section 48 of the Income Tax Act, the Revenue Secretary stated as follows:—

“You have also made certain specific observations about the manner of evaluation of property in respect of stamp duties, evaluation given by Registrar. You have made a point about 269 UC. These are all suggestions which we will definite like to consider.”

Deposing in response to a query regarding the withdrawal of income tax exemption to educational and medical institutions, the Chairman, Central Board of Direct Taxes has stated as follows:—

“This proposal to withdraw the blanket exemption to institution giving educational service by academic surveys arose out of repeated misuse by some institutions, of these provisions. We do not deny that there is a very large number of institutions which are rendering genuine service in these two years. Since, this proposal was introduced through the Budget documents in Parliament, number of representations were received pointed out that this would hit those institutions which are rendering genuine service. Although, our proposal was not meant to hit those genuine institutions, we should gives them a chance. However, it has been pointed out that the number of applicants covered under those sections will be very large. It has also been pointed out that a proposal be made that they can perhaps be given time to change the institution pattern, etc. Certain alternate modalities also have been suggested which distinguish between genuine and non-genuine institutions. All these points are receiving our attention and I think some mechanism will be worked out.”

The Committee are of the considered view that instead of lowering the eligibility criteria in the case of Judicial and Accountant Member, the eligibility criteria in the case of Chartered Accountants can suitably be changed by providing 20 years of service instead of 10 years which has presently been provided in order to ensure that only those persons

opt for such jobs who have acquired sufficiently long experience in their respective fields and the prestige of the office is also maintained. Similarly, the Committee have apprehensions that Section 48 of Income Tax Act could be misused particularly due to the different standards/parameters adopted by the State Governments while calculating the valuation of the capital assets. Likewise, the withdrawal of income tax exemptions in the case of hospitals, philanthropic and educational institutions which are not engaged in any profit making activities does not seem to be justified. The Committee, therefore, desire that the Ministry of Finance should consider reviewing all these proposed amendments as already conceded by the Secretary, Revenue and Chairman, CBDT.

Page 31 Para 37 Line 8

Delete : 'This regressive tax policy has to be done away with'.

The Demand No. 37 appearing at para Nos. 7, 8 and 9 of draft Report has been moved to para Nos. 28, 29 and 30 . The Demand No. 36 at para Nos. 34 to 37 have been brought forward to para Nos. 20 to 23 so that the Demand numbers may appear in ascending order. The new addition made to Demand No. 36 has been inserted and has been given para Nos. 24 to 27. Consequent upon this rearrangement the remaining paragraphs have been renumbered as per sequence.
